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Bank of Russia

Bank of Russia Annual Report for 2019

Approved by the Bank of Russia Board of Directors on 13 May 2020

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Opening remarks by the Governor of the Bank of Russia

The Bank of Russia's Annual Report for 2019 covers the policy priorities and decisions approved by the Bank of Russia to promote price stability, financial sustainability, and financial market health and development. This Report provides a comprehensive view of the standing of the Russian financial system as of the beginning of 2020. Unfortunately, this year has turned out to be full of severe challenges.

The Bank of Russia was to implement rapid response measures to ensure proper functioning of the economy in a situation when Russia and most countries worldwide were imposing anti-coronavirus restrictions and oil prices were plummeting. The Bank of Russia was taking prompt measures related to monetary policy, the regulation of the financial sector, the support of lending, and the protection of borrowers.

The resilience of Russia's financial system to shocks achieved over recent years was the key prerequisite making it possible to implement all these measures and to ensure their efficiency.

As of the end of last year, inflation equalled 3%. This has enabled us to switch to accommodative monetary policy in order to mitigate the adverse consequences of the pandemic and pave the way for restoring economic activity in Russia.

Significant gold and foreign currency reserves accumulated by our country secure our financial stability in the periods of low oil prices and enable the Government to expand its fiscal rule-based programmes supporting the economy.

Russia's financial system in general and banking sector in particular remain sustainable owing to the capital and liquidity cushions formed by financial institutions over the course of relatively quiet periods. These resources have enabled banks to make decisions on loan restructuring and the postponement of repayments for borrowers facing hardships. To a certain extent, banks are bearing the brunt of the coronavirus pandemic in the economy. Furthermore, the accumulated safety cushion secures the sustainability of the banking system, the potential for lending to the economy, and the protection of depositors' interests. This is also supported by the regulatory easing implemented by the Bank of Russia and the preferential refinancing instruments launched to ensure lending to the most affected industries and small businesses.

The advancement of financial technologies has been a strategic objective of the Bank of Russia for several years already. The Russian financial sector has been extensively rolling out remote services, and the portion of cashless payments has been increasing steadily in Russia. This groundwork turned out to be crucial in the period of the pandemic, since it helped maintain both accessibility and convenience of settlements for individuals and legal entities. In 2019, the Bank of Russia launched its Faster Payments System. The major part of money transfers via the FPS became fee-free already this year. As a result, individuals do not have to pay extra charges. Moreover, the Bank of Russia limited acquiring fees for online purchases, thus reducing costs for both businesses and individuals.

The key result of the development of Russia's financial system by the moment is that Russian financial institutions are now capable not only to address the current challenges, but also to support the economy with their resources during the recovery period, which will help the economy resume its upward trend as soon as possible.



Elvira S. Nabiullina

Governor of the Bank of Russia

Summary

The Bank of Russia Annual Report for 2019 was prepared in accordance with Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)'. The report reflects performance in the key areas and includes a review of the internal and external environment, the annual financial statements of the Bank of Russia, the auditor's report and the statement by the Accounts Chamber of the Russian Federation.

In the medium-term strategic areas, the Bank of Russia's activities provide for the implementation of functions assigned to it by law and make a significant contribution to ensuring sustainable economic growth and raising the prosperity of Russian nationals in accordance with Decree of the President of the Russian Federation No. 204, dated 7 May 2018, 'On National Goals and Strategic Objectives of the Russian Federation through to 2024'.

Within its competence, the Bank of Russia takes part in implementing national projects and programmes. Together with the Government of the Russian Federation and the Federal Assembly, the Bank of Russia participates in developing the legal environment to ensure the establishment of a highly developed financial sector that aligns with the current realities of the Russian economy.

To create stable **macroeconomic conditions for economic growth**, the Bank of Russia pursued a monetary policy to maintain annual inflation near 4%. In 2019, consumer price growth was 3%. The growth of the Russian economy slowed down to 1.3% (after 2.5% in 2018). Real disposable household income

increased at a moderate pace (1.0%). Consumer activity remained restrained, which, along with weak external demand, made an impact on the slowdown in the economy. GDP growth was supported by higher domestic investment activity, and gross fixed capital formation grew by 1.5%. The situation in the labour market remained generally stable, with unemployment continuing to decline and reaching a new historic low of 4.6% on average for 2019.

Starting in the middle of the year, the Bank of Russia began to ease its monetary policy, and in June–December the key rate was cut by a total of 1.5 pp to 6.25%. The rate cut was in line with signals on future monetary policy stance provided by the Bank of Russia in its press releases and monetary policy reports along with explanations of the adopted decisions. This increased the predictability of BoR decisions and contributed to lower inflationary expectations.

The monetary conditions have been gradually easing, influenced by the decisions and signals of the Bank of Russia and amid declining yields in global financial markets. Short-term interbank rates formed near the Bank of Russia key rate. Since the beginning of the year, the OFZ yield curve was gradually shifting downwards. Bank rates on deposits began to decline in April, and those on loans, since May–June. By the end of the year, the weighted average rate on ruble-denominated loans to non-financial organisations with a maturity of over one year was 8.3% per annum (9.6% a year earlier), and the rate on mortgages was 9.0% per annum (9.7% a year earlier). The banking sector's claims on the economy¹ increased by 8.6% (or 10.1% adjusted for foreign currency revaluation). As in 2018, lending to such sectors as agriculture, transport and communications, and mining and quarrying continued to grow at the highest pace. A smooth slowdown caused by the measures taken by the Bank of Russia to limit high debt burden risks, among other things, was observed simultaneously in the mortgage and consumer segments of the retail lending market.

Over the year, ruble-denominated money supply (M2) increased by 9.7% (by 11.0% in 2018). These dynamics of lending and money supply in 2019 were in line with the moderate demand of the economy for money to maintain production, investment and consumer activity.

Confidence in the ruble was rising. With a slowdown in inflation, real interest rates were positive, which, along with the growing confidence of companies and households in the national currency, kept ruble-denominated investment attractive. The volume of ruble-denominated household deposits increased by

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

10.4%. In 2019, the share of foreign currency-denominated deposits continued to decline, reaching its minimum level since 2013 (23.4%), which, among other things, was due to the ruble appreciating against foreign currencies. The share of foreign currency-denominated loans in total corporate loans decreased by 3.9 pp¹ in 2019. Net demand for foreign currency cash dropped by 34%. The decrease of exchange rate volatility to the lowest levels since early 2014 also contributed to confidence in the Russian ruble. The dependence of the ruble exchange rate on oil prices remained low, which, among other things, was due to the effect of the fiscal rule.

Amid the slowdown in the global economy and worsening external conditions for emerging markets, the Russian financial sector remained stable in 2019. To maintain financial stability, the Bank of Russia evaluated the probability and scale of financial stability risks and adopted measures in the area of macroprudential regulation.

In 2019, an important contribution to ensuring financial resilience and readiness to withstand external risks was made by the **accumulation and diversification of the international reserves of the Russian Federation**. With the fiscal rule in place, international reserves in 2019 increased from \$468.5 billion to \$554.4 billion, and the share of monetary gold in their composition rose as well (19.9% as of 1 January 2020). The volume of international reserves was sufficient to finance imports for 19 months.

2019 saw an **increase in the resilience of the financial sector**. The Bank of Russia continued to develop its risk-oriented and proportional approaches to regulation and supervision of all financial market participants. At the same time, supervisory activities are increasingly focused on preventing negative phenomena and trends in the activities of supervised entities.

Most credit institutions in the banking sector were profitable (84% of credit institutions operating as of 1 January 2020 compared to 79% a year earlier). Net profit of banks² rose from ₹1.0 trillion to ₹1.7 trillion, which expanded the capacity of banks to increase their capital. The banking sector built a sufficient capital reserve of ₹1.8 trillion, which increased by 7.2% over the year. Capital adequacy was 12.3% (12.2% as of 1 January 2019). Return on equity³ declined from 16.6% in 2018 to 13.1% in 2019.

Other segments in the financial market continued to develop. Non-bank financial institutions (NFIs) increased their equity while improving the quality of assets and profitability.

¹ For a more complete analysis of corporate lending, the indicator includes loans to non-financial organisations and financial institutions (excluding credit institutions).

² The net profit, disregarding the newly introduced credit risk management standard IFRS 9 and net of the results of banks undergoing financial rehabilitation procedures managed by the Banking Sector Consolidation Fund (BSCF), amounted to ₹1.3 trillion (₹1.5 trillion in 2018).

³ Return on equity (ROE) was calculated based on the average balance sheet capital; the calculation also excluded past negative profit adjustments related to IFRS 9.

In 2019, the investment portfolio held by non-governmental pension funds (NPFs) grew by 10.8% (4.9% in 2018) and amounted to ₹4.3 trillion at the end of the year. The pension savings portfolio of NPFs increased by 10.1% over the year (5.2% in 2018), and the pension reserves portfolio grew by 12.1% (4.2% in 2018). The return of NPFs was 10.7% for the pension savings portfolio and 8.1% for the pension reserves portfolio.¹

Total assets of insurers increased by 15.2% to ₹3.2 trillion, while profit (after tax) rose by 10.2%.

Core assets² of microfinance organisations (MFOs) increased by 29% (45% in 2018) and amounted to ₹0.2 trillion (just over 1% of the household loan portfolio held by banks). The slowdown of microfinance market dynamics in 2019 was primarily related to the measures taken by the Bank of Russia to reduce the household debt burden and limit the credit risks of MFOs.

The measures taken by the Bank of Russia to develop the Russian securities market as the basis for equity and debt financing for the economy are showing positive results. In 2019, the total amount of outstanding ruble-denominated securities at their par value was nearly ₹10.9 trillion, including shares in the amount of ₹1.8 trillion and bonds in the amount of ₹9.1 trillion.

The Bank of Russia and the Russian financial sector are involved in a number of national projects helping achieve national goals.

2019 saw further implementation of the Bank of Russia's roadmap for the development of SME financing as part of the Bank of Russia's participation in the **national project 'Small and Medium-sized Enterprises and Support for Individual Entrepreneurship'**. The measures adopted by the Bank of Russia in 2019 include a whole range of regulatory changes aimed at supporting bank lending to SMEs and making credit more affordable for small and medium businesses. The measures taken made a positive impact on lending to SMEs. In 2019, credit institutions provided ₹7.8 trillion in loans to SMEs, which is 14.8% more than a year earlier (the growth amounted to 11.4% in 2018). Outstanding bank loans to SMEs increased by 12.4%³ and amounted to ₹4.7 trillion as of 1 January 2020. The expansion of bank lending to SMEs was accompanied by the development of instruments designed for enabling SMEs to attract financing from the stock market. Along with government support to subsidise leasing and crowdfunding instruments for SMEs, this increased the availability of funding to small and medium businesses.

Participation in the **national project 'Housing and Urban Environment'** became an important area for the Bank of Russia's activities in 2019 as BoR introduced a new scheme for the financing of equity construction under this

¹ This represents the weighted average return of the pension savings portfolio and pension reserves portfolio of NPFs before the payment of fees to the fund, management companies and specialised depository.

² The amount of principal debt under issued microloans.

³ The portfolio of loans to SMEs, excluding those issued by VEB.RF, increased by 12.8%.

project to minimise risks and protect the rights of consumers. To finance the housing construction, a special procedure was established to build the reserves for loans issued to developers. Expanded opportunities for securitisation through loans issued under co-investment agreements created additional incentives to further develop the mortgage lending and the market for mortgage bonds. In 2019, housing mortgage lending (HML) grew at a fairly high rate of 17.2% (23.1% in 2018).¹ As of 1 January 2020, the HML portfolio amounted to ₹7.7 trillion.

The Bank of Russia actively participated in implementing the **national programme 'Digital Economy of the Russian Federation'**, including in the area of creating a legal framework for the development of the digital economy, improving the efficiency of public administration through the introduction of digital technologies and ensuring information security.

The Bank of Russia was involved in implementing measures under **the national project 'International Cooperation and Exports'** aimed at liberalising the foreign exchange legislation of the Russian Federation. In particular, this included the introduction of a mechanism for the phased abolishment (from 1 January 2020 to 1 January 2024) of the requirement for residents to transfer their foreign currency proceeds under foreign trade contracts to an account opened in the currency of the Russian Federation with an authorised bank.

A number of notable decisions have been implemented in the area of financial consumer protection. This included adoption of a federal law providing for **mortgage holidays to consumers**² as well as a law that allows **individual borrowers to receive a refund for insurance services** and a refund of a part of the insurance premium they have paid in the event of early termination of the insurance agreement due to early performance of obligations under a consumer loan (borrowing) agreement. To ensure the further **development of the deposit insurance system**, the Bank of Russia has been involved in preparing legislative measures aimed at expanding the range of entities whose funds are subject to insurance (including SMEs) and increasing insurance coverage limits in special cases.

Active promotion of CMTPLI reform has reduced uncertainty about the situation in this market. This included a transition to a flexible, fairer system for setting CMTPLI rates and a preparation of the legislative and regulatory framework for a reform of the rate-setting procedure. In 2019, CMTPLI rates

¹ The figure is adjusted for foreign currency revaluation (the recalculation of the foreign currency component into rubles at the exchange rate effective at the beginning of the period under review) and covers credit institutions operating as of 1 January 2020 (including previously reorganised banks). The decrease in dynamics was partly of a technical nature due to securitisation transactions carried out by banks (adjusted for this factor, the growth was around 20%).

² Mortgage holidays mean a grace period during which the borrower may reduce or suspend, for up to six months, the payments under a loan agreement (borrowing agreement) secured by a pledge of housing facilities. The borrower is fully protected during this period as the lender can neither terminate the contract early nor foreclose on the mortgage. In this case, the term for repayment for such loan (borrowing) is extended by the period of the mortgage holidays.

in Russia declined by 3.7%, and in some regions they dropped by more than 10%. Compared to 2018, the average cost of a CMTPLI policy decreased by 4.8%. The number of CMTPLI-related complaints received by the Bank of Russia was down by 36.7%, which indicates the effectiveness of such measures as a single agent for CMTPLI, electronic insurance policies, in-kind compensation and a 'rate corridor'.

In 2019, for the first time ever, the Bank of Russia fully applied conduct supervision tools, including in the banking sector. The **decrease in the number of complaints from financial consumers** for the second year in a row demonstrates the effectiveness of monitoring conducted by the Bank of Russia of the interactions between financial institutions and consumers of their services.

The Bank of Russia has implemented a number of regulatory measures in the area of AML/CFT and set up a system to prevent illegal activities, is systematically combating any abuses in exchange trading and has established requirements to combat the illegal use of insider information and market manipulation.

As a result of focused efforts by the Bank of Russia, **2019 saw fewer cases of various illegal activities in the financial sector**. The volume of cash out transactions in the banking sector has decreased. The withdrawal of funds abroad on doubtful grounds fell to a record low. Compared to the previous year, fewer participants in illegal activities in the financial market were identified (2,600, including 1,800 illegal lenders). 237 financial pyramid schemes were successfully identified. Another 80 online projects that had begun to build financial pyramid schemes were detected at an early stage.

Development of remote channels to access financial services is gaining the utmost importance. The Bank of Russia's measurements of financial inclusion indicators showed that more consumers were using remote access to their bank accounts (from 45.1% to 55.2% of Russia's adult population). Remote access channels developed along with the substantial penetration of the internet in Russia. A **remote identification mechanism has been introduced** as part of the development of financial technologies. This enabled the **remote opening of accounts and provision of loans and transfers** through the most popular remote service channels, including Android and iOS mobile applications. At the end of 2019, biometric data were being collected at more than 11,000 banking service points in 228 banks in all regions of the Russian Federation.

In 2019, a number of major credit institutions with wide regional coverage participated in the Bank of Russia's initiatives to expand financial inclusion in remote, sparsely populated or hard-to-reach areas. For example, as part of the relevant working group under the Bank of Russia, the banks approved and

implemented plans to develop their networks and various formats of presence in rural areas. As a result, despite the overall reduction in the number of units operated by credit institutions in Russia, the rapid development of remote financial services made it possible to **expand the presence of financial institutions across Russia**. The number of rural population centres with facilities to carry out certain banking operations at post offices increased by more than 35%. In 2019, a pilot project was implemented with the support of the Bank of Russia to dispense cash to cardholders at retail and service outlets. Such operations are particularly relevant for residents of rural population centres. To improve the quality of financial services, the Bank of Russia continued to monitor the compliance of credit institutions with its recommendations to create a barrier-free environment for people with disabilities, the elderly and other low-mobility groups.

To enable the general public and entrepreneurs to navigate more confidently through the variety of financial instruments and services and allow them to better protect their rights and find optimal solutions, the Bank of Russia together with the Government of the Russian Federation is making efforts to promote financial education and financial literacy as part of its [Strategy for the Improvement of Financial Literacy in the Russian Federation for 2017–2023](#). In 2019, the Bank of Russia held a large number of both face-to-face and online events for various target audiences, including small businesses and media. The Bank of Russia continued to participate in the development and implementation of educational programmes for schools and universities, study guides and methodological materials on financial literacy.

A three-year Strategy for the Development of the National Payment Card System was approved in 2019. The priority area in the development of the National Payment Card System in 2019 was **promotion of Mir cards**. About 73 million Mir cards were issued (a 1.4-fold increase compared to the previous year), which amounted to 25.2% of all payment cards issued in Russia (19.2% in 2018). The share of Russian domestic transactions with Mir cards in the total volume of transactions increased from 14.5% in 2018 to 19.3% in 2019. Several projects were implemented to enable the use of Mir cards for non-financial services, such as paying for public transportation in a number of regions, and loyalty programmes were further developed. Mir Pay, a mobile contactless application, has been put into operation and connected to Samsung Pay. Mir cards are accepted in 12 countries, including popular tourist destinations (Turkey, Vietnam, Cyprus).

The Bank of Russia continued to **develop its Faster Payments System**, a critical national infrastructure project aimed at promoting competition, improving the quality of payment services, expanding financial inclusion and reducing the cost of payments for the public. After its commercial launch

in January 2019, the Faster Payments System (FPS), which enables instant money transfers between the bank accounts of individuals using their telephone numbers, added a new feature in August 2019 enabling payments to legal entities, for example, for the purchase of goods and services, including transactions involving the use of QR codes.

As part of developing its **Financial Messaging System (FMS)** in 2019, the Bank of Russia ensured the 24/7 operation of the system and implemented a new FMS connection scheme enabling the forwarding of third-party messages (service bureau scheme).

During 2019, the Bank of Russia expanded functionality of **interactions through personal cabinets** and included National Payment System participants in the perimeter of such interactions. More than 18,000 new accounts for information exchange participants were created in 2019. A pre-project was started to enable the transition of credit institutions, bank holding companies and NPS participants to submission of reporting through personal cabinets.

In the area of **information security and cyber resilience**, new regulatory requirements for information protection were adopted for credit institutions to prevent money transfers without customer consent.

Communication with the general public, businesses and the professional community is becoming an important tool for achieving the goals of the Bank of Russia. Using various communication channels, the Bank of Russia has taken a number of additional steps to raise awareness among various groups of the public, including the professional community, about the current processes in the Russian financial system and monetary policy. Clarifications provided with regard to the expediency and content of adopted decisions were aimed at cultivating an attitude of trust among the public toward the Bank of Russia and at preventing potential risks in the area of finance. The results of 2019 included a number of influential information campaigns accompanying the adoption of socially important bills, expansion of media communications at the regional level and a 57% increase in the reach of the Financial Culture website (fincult.info)¹ and the Bank of Russia's social media.

The Bank of Russia's Single Communication Centre for processing the inquiries and requests of financial consumers began its operation on 1 January 2019. It brought together call processing centres, the Public Reception Office and the call centre. The call centre, with Russian and English lines, accepts calls 24/7. More than 242,000 calls were received during the year.

The Bank of Russia **actively developed international cooperation**. The priorities for such cooperation continued to be establishment of a common financial market with EAEU member states, activities in international orga-

¹ Financial Culture (fincult.info) is an informational and educational website of the Bank of Russia.

nisations and participation in other formats of multilateral cooperation as well as bilateral cooperation. The Bank of Russia worked on international standards in collaboration with the G20, the Financial Stability Board (FSB), the Bank for International Settlements (BIS) (including its specialised units, such as the Basel Committee on Banking Supervision (BCBS)), the Organisation for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF), the International Association of Insurance Supervisors (IAIS) and the International Organisation of Securities Commissions (IOSCO) and actively shared its experience. The Bank of Russia participated in the development of a methodology – within the framework of the FSB – for identifying risks to global financial stability, the development and clarification of BCBS standards, the development of new IAIS documents on insurance supervision and the development of a systemic approach to risk limits on the insurance market. The Bank of Russia also actively conducted international activities in the area of financial education; in particular, it organised World Investor Week aimed at explaining to investors their rights and the opportunities and risks of investing. The elaboration of the [EAEU Common Financial Market Concept](#), which included the development of financial technologies, was completed. In 2019, the Bank of Russia participated in the conclusion of bilateral intergovernmental agreements on payments and settlements in national currencies with China and Turkey. The Bank of Russia is developing information exchange with foreign financial market regulators.

In 2019, the Bank of Russia continued to streamline its business processes and organisational structure by completing the stage of transformations at the regional level and the development of units with interregional functions. As a result, the maximum number of employees was reduced by 2.4% to 49,400.

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

1

The state of the economy of the Russian Federation

The Bank of Russia implements its functions with due regard for the domestic and external conditions for the development of Russian economy, including the development of the financial sector. At the same time, the domestic economic conditions are also affected by the economic policy measures of the Government of the Russian Federation and decisions adopted by the Bank of Russia in various areas of its activities. Chapter 1 presents a review of key trends in the Russian economy during 2019 and the factors that shaped them.

Significant factors in terms of external conditions included, on the one hand, a slowdown in global economic growth, inflation and the easing of monetary policy by major central banks and, on the other hand, increased risk appetite and capital inflows to emerging market economies (EMEs).

The consistent deterioration of prospects for global economic growth was largely driven by international trade disagreements and uncertainty over the terms of the UK's exit from the EU. Weakening global demand was reflected in the decline of oil prices; this, however, was constrained by production cuts under the OPEC+ agreement.¹ Together, these factors led to a decrease in Russia's current account balance and net exports compared to 2018.² As a result, foreign trade made a negative contribution to Russia's GDP growth

¹ In 2019, the price of Urals oil decreased on average by 9% year-on-year (to \$64 per barrel).

² The current account balance in 2019 declined to \$65 billion from \$114 billion in 2018.

in 2019. However, the external inflationary pressures remained weak, given the persistence of low inflation in the world.

At the same time, the easing of monetary policy (both realised and expected) by leading central banks resulted in a significant inflow of capital into EMEs, the strengthening of their currencies and the reduction of country risk premiums. These trends were also evident in Russia. The strengthening of the ruble made a significant contribution to lower inflation. The demand of foreign investors for Russian assets contributed to the growth of stock indices. There was a significant inflow of foreign capital into the OFZ market, which contributed to a decrease in their yields as well as in yields in other financial market segments.

Besides the external conditions, factors significantly affecting the change in domestic financial conditions included the monetary policy of the Bank of Russia. After annual inflation peaked at 5.3% in March 2019, disinflationary factors intensified throughout the year, and inflation was declining faster than expected. In these conditions, the Bank of Russia, while maintaining its key rate unchanged, mentioned as early as in March–April the possibility of shifting to a decrease. Later, in June–December, the Bank of Russia cut the key rate at each meeting (in aggregate from 7.75% to 6.25% p.a.) while signalling the possibility of its further reduction. The Bank of Russia's decisions and signals on the key rate were reflected in the lowering of interest rates across all segments of the financial market. At the same time, a downward trend in interest rates on the debt market emerged as early as at the beginning of the year, caused, among other things, by external conditions. Starting in April, banks began to cut their interest rates on deposits and, from May to June, on loans.

Lower interest rates supported growth in lending and money supply, while the slowdown of economic activity had a restraining effect on it. Real interest rates adjusted for lower inflation remained positive and kept ruble-denominated savings attractive. In 2019, the amount of ruble-denominated household deposits rose by 10.4%, while the share of foreign currency deposits declined. The growth of ruble-denominated household and corporate deposits made a major contribution to the expansion of broad money, which increased by 5.1% in 2019 (7.6% adjusted for foreign currency revaluation). Lending to the economy rose by 8.6%. Claims of the banking system on organisations grew by 8.9%, which is comparable to the figure for a year earlier. Retail lending continued to expand rapidly, but at a slower pace compared to 2018, given the Bank of Russia's macroprudential measures aimed at limiting risks in this market segment.

The financial sector remained stable. The volume of services provided within the sector expanded. The regulatory measures taken by the Bank of

Russia as well as the growth of profit and equity observed in most financial institutions contributed to the increased resilience of the financial sector and improved its capital adequacy. At the same time, the number of banking institutions and non-bank financial organisations declined due to measures taken by the Bank of Russia to clear the market of weak and unscrupulous players. In 2019, credit institutions continued to dominate the Russian financial sector (by volume of assets). At the same time, the use of many services offered by non-bank financial organisations has increased, which, among other things, was associated with broader financial inclusion and the better financial literacy of those who use financial services.

Cashless payments have become more common across Russia, which was driven by the growth of cashless payment card transactions and the development of remote services amid improving regional payment infrastructure. The active use of remote channels for financial services and the steps taken by the Bank of Russia to establish the required market infrastructure (including the Faster Payments System and electronic platforms) help reduce barriers in the financial market and build a unified competitive environment.

Annual inflation in 2019 was 3%. It reached 5.3% during the first quarter (in March), with a subsequent decline over the rest of the year.

The surge of inflation in early 2019 was caused by a number of factors, including the planned VAT rate hike effective 1 January, effects produced by the weakening of the ruble in the second half of 2018 and reduced supply in the markets of some food products due to lower profitability of their production. Inflation expectations remained heightened after they rose in the second half of 2018. The timely and proactive response of monetary policy to inflationary factors in the form of key rate increases in the third and fourth quarters made it possible to curb inflationary pressures in early 2019. No substantial secondary effects of the VAT increase were observed. With the strengthening of the ruble since early 2019 and constrained demand, the peak of inflation in March was lower than projected. Subsequently, inflation declined steadily over the course of the year. The effect of disinflationary factors from both external and domestic conditions prevailed. Along with the dynamics of the ruble exchange rate and demand, a good harvest and an increased supply of livestock products contributed to lower inflation. In these conditions, a trend emerged toward lower inflationary expectations. All these factors were considered by the Bank of Russia in its decision to cut the key rate in June–December 2019.

The growth of the Russian economy slowed down to 1.3% in 2019 from 2.5% in 2018 mainly due to weaker external demand for Russian exports as well as restrained growth in consumer activity following the VAT rate hike. At the same time, higher investment activity contributed significantly to

the growth of domestic demand, including through larger budget expenditures on national projects. In these conditions, the growth of production of capital goods accelerated, while that of consumer and intermediate goods and raw materials slowed down. The situation in the labour market remained stable; unemployment continued to decline and reached another record low of 4.6% on average for 2019, which was mainly due to demographic trends. Real wages increased at a slower pace than a year earlier while remaining a key factor that supported the growth of real disposable household income.

The impact of fiscal policy on economic dynamics in 2019 was mixed. In the first half of the year, the fiscal policy was of a restraining nature, given the growth of non-oil and gas budget revenues following the increase of VAT amid slow execution of expenditures, including those on national projects. The second half of the year saw a marked acceleration in the financing of national projects and other public expenditures, which had a positive impact on the dynamics of domestic demand. With expenditures on national projects, the federal and consolidated budgets had a lower surplus in 2019 than in the previous year. At the same time, the National Wealth Fund continued to accumulate resources under the fiscal rule. This improved the resilience of public finances and reduced the impact of energy price fluctuations on domestic economic conditions.

1.1. The macroeconomic situation

1.1.1. EXTERNAL ECONOMIC CONDITIONS

In 2019, the external conditions for the Russian economy were better than expected. The ruble strengthened following a noticeable inflow of foreign capital both into Russian government bonds and in general into the assets of emerging market economies (EMEs) amid the softening monetary policy of developed countries and increasing volumes of debt securities with zero and negative yields. Furthermore, continued low inflation in a number of countries, including Russia's leading trade partners, kept the growth of import prices at a lower level for most of 2019.



Restrained inflation and slower economic growth led to almost synchronised easing of monetary policies in G20 countries

With low inflation and slower economic growth, there was almost synchronised easing of monetary policies in a number of G20 economies, including three interest rate cuts in the United States, a lower deposit rate in the euro area and liquidity provision by the US Federal

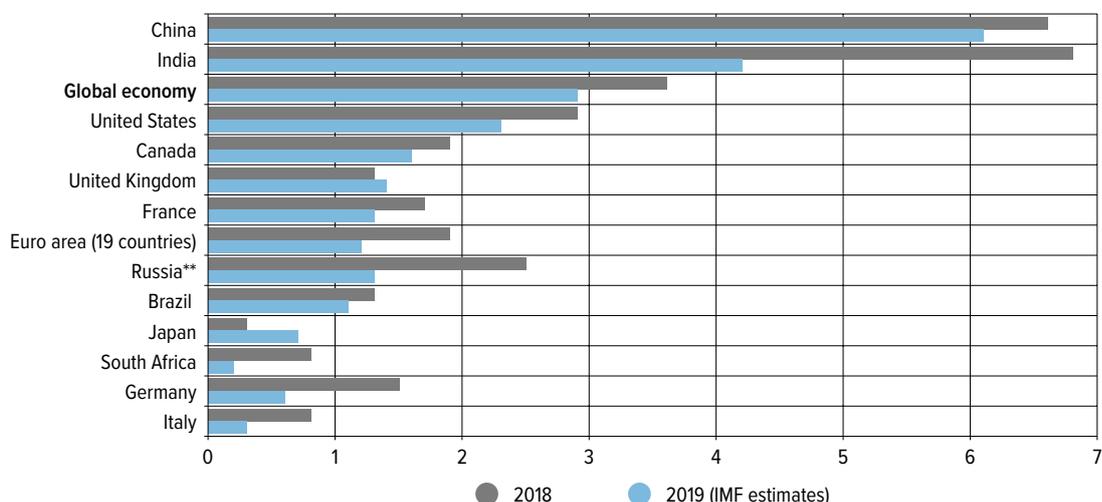
Reserve System (US Fed) and the European Central Bank (ECB).

However, in some respects, the external conditions were unfavourable. The continuing downward trend in global economic growth and forecasts of its further slowdown had a negative impact on the price of oil and external demand for Russia's exports. This, in turn, led to lower volumes of Russian exports and, consequently, reduced the foreign trade surplus. Heightened international trade tensions gave further rise to negative expectations about the prospects of the world economy.

Global economic growth. According to preliminary IMF estimates, the growth of the world economy in 2019 declined substantially to 2.9% (3.6% in 2018) amid trade tensions and the imposition of new tariffs in mutual trade between the US and China. At the same time, at the end of 2019, these countries agreed on the terms for 'phase one' of their new trade agreement, which, among other things, provided for a rollback of new tariffs and expanded Chinese purchases of American goods to smooth out trade imbalances.

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

Chart 1

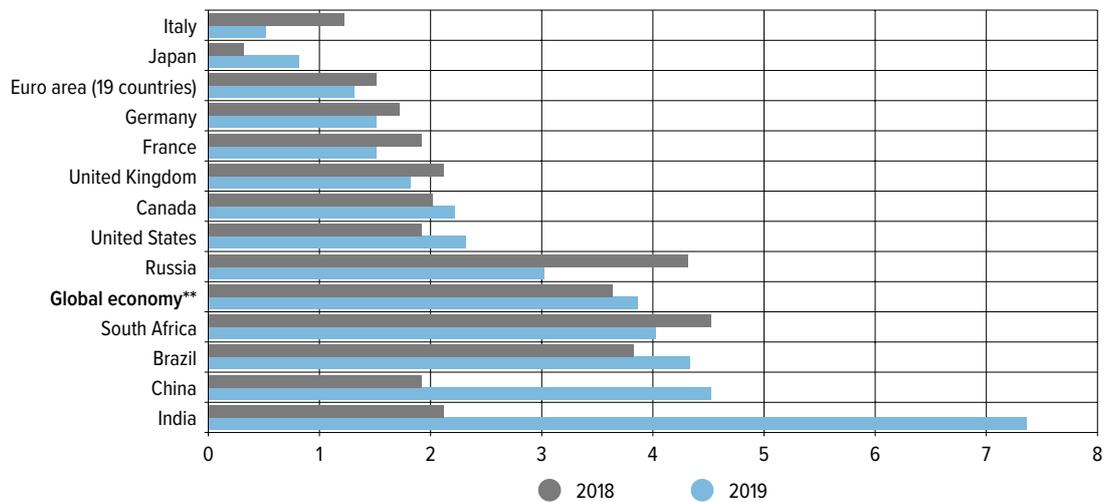


* Based on official statistics published by the corresponding countries, Eurostat and the IMF.

** For Russia, Rosstat estimates.

INFLATION IN CERTAIN COUNTRIES*
(DECEMBER AS A PERCENTAGE OF PREVIOUS DECEMBER)

Chart 2



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

** IMF estimates (WEO Database, April 2020).

Inflation target (average): US, UK, Euro area, Canada, Japan — 2%; Russia, India — 4%; Brazil, South Africa — 4.5%.

2019 saw a slowdown in economic growth in advanced economies (from 2.2% to 1.7%) and in EMEs (from 4.5% to 3.7%). Among advanced countries, the US continued to have the highest growth rate (2.3% vs 2.9% in 2018).

The growth rate in the euro area declined from 1.9% to 1.2%. A particularly substantial slowdown was observed in Germany (from 1.5% to 0.6%) as changes in tariff agreements, risks of new tariffs and worsening of economic expectations affect primarily export-oriented economies.

EMEs also experienced a substantial slowdown in growth, including in the largest economies. China's economic growth fell from 6.6% to 6.1%. The growth of India's economy slowed from 6.8% to 4.2%, and in South Africa it decelerated from 0.8% to 0.2%. The growth of the Turkish economy continued to slacken (from 2.8% to 0.9%). Brazil's GDP growth declined slightly (from 1.3% to 1.1%), while Mexico's economy decelerated sharply (a 2.1% growth was followed by a decline of 0.1%).

International trade. According to the IMF, in 2019, the growth of global trade fell to 0.9%, its lowest rate since the 2009 crisis (3.7% in 2018). This was related to the higher import

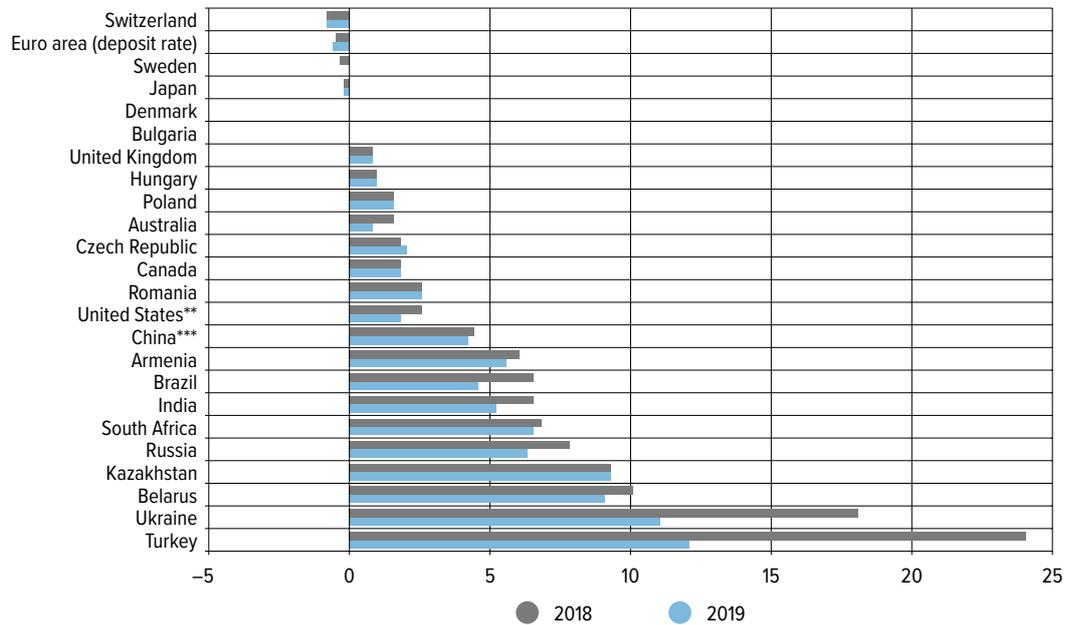
duties imposed by the US and China as well as weak investment dynamics amid the uncertainty in foreign trade policy. The growth of exports and imports slowed down in both advanced economies and EMEs. The growth of imports by EMEs experienced a particularly substantial slowdown reflecting lower growth rates of demand in leading emerging economies (first of all, in China). A more significant deceleration in the growth of foreign trade of EMEs compared to advanced economies was also caused by negative dynamics in global prices for raw materials, which dominate exports in a number of EMEs.

Global commodity markets. Oil prices declined in 2019 amid slower global economic growth and a continued supply surplus during some quarters of the year. At the same time, prices were supported by production cuts under the OPEC+ agreement. The price of Urals oil slid to an average of \$64 a barrel in 2019, a 9% drop compared to the previous year (in 2018, it soared by more than 30%). At the same time, the price of oil rose at the end of 2019 amid improved trade relations between China and the US and the decision of OPEC+ on steeper production cuts in the first quarter of 2020.¹

¹ The OPEC+ agreement signed in December 2018 provided for oil production cuts of 1.2 million barrels a day in the first half of 2019 compared to October 2018 levels. In July 2019, these limits were extended on the same terms until the end of March 2020. A meeting held on 6 December 2019 reached an agreement on additional output cuts by another 0.5 million barrels a day to the level of 1.7 million barrels a day in the first quarter of 2020. Following unsuccessful negotiations in March, the OPEC+ countries were able to agree, at a meeting in April 2020, on a more significant reduction of output for a period of two years.

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

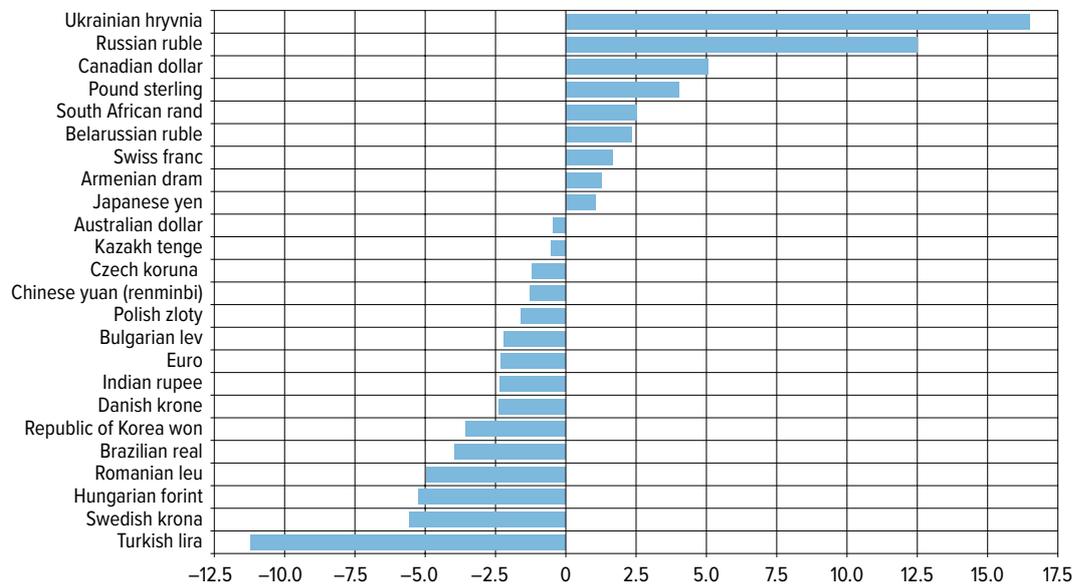
Chart 3



* Based on data provided by central banks and the IMF.
** Upper bound of the key rate corridor.
*** Loan Prime Rate.

GROWTH IN EXCHANGE RATES OF CERTAIN CURRENCIES AGAINST THE US DOLLAR IN 2019*
(DECEMBER AS A PERCENTAGE OF PREVIOUS DECEMBER)

Chart 4



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

At the same time, the dynamics of global prices for agricultural products were inflationary in nature. In December 2019, the average level of food prices (FAO Food Price Index¹) rose by

12% compared to December of the previous year (in December 2018, it declined by 4%). This included a substantial surge in global prices for vegetable oils, dairy products and meat amid

¹ Index calculated by the UN Food and Agriculture Organisation (FAO).

significant demand and constrained supply. However, in 2019, the FAO Food Price Index grew on average by only 2% compared to 2018, while the global prices for cereal crops declined by 1% due to a record harvest.

World inflation. With slowing demand and negative dynamics in prices for raw materials, global inflation remained low. At the same time, after a period of low price pressure during the first three quarters of 2019, inflation accelerated in the fourth quarter. However, this acceleration was driven by domestic factors.

In the US, inflation¹ (CPI) amounted to 2.3% in December 2019 (1.9% in December 2018); in the euro area, it was 1.3% (1.5%). Inflation in China rose from 1.9% in December 2018 to 4.5% in December 2019. This sharp rise in prices was largely due to the dynamics of food inflation following the outbreak of African swine fever. However, core inflation in China remained low (1.4%). Among major EMEs, an upsurge of inflation was observed only in India (due to food inflation), Brazil and Argentina (due to sharp currency depreciation).

Monetary policy in other countries. With increased volatility in financial markets in late 2018 – early 2019, expectations of economic slowdown (including as a result of trade tensions with China) and relatively low inflation, the US Fed switched from the tightening of monetary policy, which had started in December 2015, to its easing. The key rate was cut three times (in July, September and October), each time by 0.25 pp, resulting in a decrease of its level from 2.25–2.50% at the end of 2018 to 1.50–1.75% at the end of 2019. At its meeting in December, the Fed announced a pause in the easing of monetary policy. The

macro forecast presented by the Fed assumed that the rate would remain unchanged in 2020. On 15 October 2019, the Fed launched a programme to purchase short-term Treasury bills at a pace of \$60 billion per month to stabilise the repo market.²

The official ECB interest rate was maintained at the minimum level set in 2016 (0.0%); the rate on deposits was cut from –0.40% to –0.50%. It was confirmed that rates would remain at this level for as long as necessary to keep inflation on a trajectory consistent with the medium-term objective of below but close to 2%.

In December 2018, ECB completed its asset purchase programme under quantitative easing (it only continued to reinvest the principal payments received from holding these assets). However, starting 1 November 2019, ECB resumed its asset purchase programme in the amount of €20 billion per month. The ECB Governing Council intends to continue the programme until inflation approaches the target level and to complete it shortly before starting to raise interest rates. In addition, it introduced a two-tier system for applying the deposit rate³ and launched a new round of quarterly targeted long-term refinancing operations (TLTRO-III⁴).

A downward trend in key rates was also observed in some other advanced and emerging economies.

China cut the rate for new one-year loans to prime borrowers (LPR,⁵ by 5 bp to 4.15% in September and November), the medium-term lending facility rate (MLF,⁶ by 5 bp to 3.25% in November) and the 7-day repo rate (also in November, by 5 bp to 2.5%). In addition, man-

¹ Headline inflation data (consumer price index for all urban consumers, CPI-U).

² In March 2020, the key rate was cut twice by a total of 150 bp to 0.00–0.25% to address the economic impact of the Coronavirus pandemic. In addition, the US Fed resumed the purchase of Treasury bills and mortgage bonds and announced the purchase of corporate securities.

³ For Tier 1 reserves (the maximum amount of which may be six times higher than the minimum reserve requirements), the rate was set at 0%, and the ECB deposit rate was to be applied for those above that level.

⁴ Targeted Long-Term Repo Operation. A new asset purchase programme was announced in March 2020 to address the economic impact of the coronavirus pandemic.

⁵ Loan Prime Rate. In August 2019, the People's Bank of China (PBoC) introduced a new benchmark for the rate on commercial bank loans. Instead of the one-year lending rate (set at 4.35% and not changed since October 2015), it began to use the rate on new one-year loans for prime borrowers (Loan Prime Rate 1 year, LPR), which has been calculated since 2013. The calculation procedure was updated before using LPR as a key rate benchmark. Currently, it is calculated monthly by the National Interbank Funding Centre (a specialised institution of PBoC that organises activities in the interbank market) based on data about lending to prime borrowers by 18 major banks (previously, it used data from 10 banks). LPR is published in the form of basis points added to PBoC's medium-term lending rate.

⁶ Medium-Term Lending Facility.

datory reserve requirements for banks were reduced by 50 bp to 13%.

In 2019, key rates were also cut by the central banks of Australia (by 75 bp to 0.75%), New Zealand (by 75 bp to 1.0%), South Korea (by 50 bp to 1.25%), India (by 135 bp to 5.15%), Brazil (by 200 bp to 4.5%), Indonesia (by 100 bp to 5%), Mexico (by 100 bp to 7.25%), South Africa (by 25 bp to 6.5%) and Chile (by 100 bp to 1.75%). After tightening its monetary policy following the 2018 crisis, the Central Bank of the Republic of Turkey aggressively cut its key rate over the course of the year (by a total of 1,200 bp to 12.0%) as inflation returned to its average levels for several previous years.

At the same time, the central banks of certain countries increased their rates in 2019. This included Norway (by 75 bp to 1.5%) and Sweden (by 25 bp to 0%). The decision of Sweden's central bank (Riksbank) was driven by expectations that, despite the economic slowdown, inflation may come close to the 2% target. Riksbank was the first central bank in the world to set a negative key rate in 2009, and now it was also the first to end an almost five-year period of negative rate policy.

Currency exchange rates and capital flows.

The shift of expectations toward easing of the US Fed's monetary policy, combined with relatively higher yields on securities and moderate inflation in EMEs, contributed to currency appreciation and capital inflows to EMEs in early

2019. However, from the second quarter to the end of the year, fears of a global economic slowdown and heightened international trade tensions led to the significant weakening of currencies in most emerging economies.¹ In this environment, the Russian ruble appreciated in real terms against the US dollar from January to April, supported by rising oil prices and the inflow of funds from non-residents to OFZs; in May, there was a slight correction, after which the exchange rate continued to rise in June–July along with the inflow of foreign capital to the public sector, despite the decline of oil prices. In August, the aggravation of international trade tensions and new US sanctions led to a steep decline in the ruble exchange rate. However, in the remaining months of the year, the Russian currency resumed its appreciation amid the progress in trade negotiations between the US and China and in the absence of serious implications for the Russian economy from expanded US sanctions. As a result, in 2019, the average real effective exchange rate for the ruble was 2.5% higher than in the previous year. Moreover, in December 2019, the real effective exchange rate of the ruble against foreign currencies rose by 8.1% compared to December 2018.

According to the Institute of International Finance, capital inflows to EMEs in 2019 increased by 60% compared to 2018 and reached more than \$310 billion.

¹ Over the year, the index of emerging market currencies (FXJPEMCS) declined from 62.2 to 61.4. The FXJPEMCS index (J.P. Morgan Emerging Market Currency Spot Index) is calculated by J.P. Morgan for 10 major EME currencies (Brazilian real, Chilean peso, Chinese yuan, Hungarian forint, Indian rupee, Mexican peso, Russian ruble, Singapore dollar, Turkish lira and South African rand) relative to the US dollar.

1.1.2. INFLATION AND ECONOMIC ACTIVITY

The growth of the Russian economy slowed down to 1.3% in 2019 from 2.5% in 2018 mainly due to weaker external demand for Russian exports as well as restrained growth in consumer activity following the VAT rate hike effective 1 January 2019. At the same time, domestic demand continued to expand, largely reflecting increased investment activity and, in particular, higher budget expenditures on national projects. The situation in the labour market remained sta-

ble; unemployment continued to decline, largely as a result of demographic trends. Real wages increased at a slower pace than a year earlier while remaining a key factor that supported the growth of real disposable household income. The dynamics of inflation were mixed. In the first quarter, it was primarily influenced by inflationary factors, but from the second quarter the balance of factors shifted to disinflationary ones. As a result, inflation fell to 3.0% in 2019.

1.1.2.1. PRODUCTION ACTIVITY

In 2019, GDP growth declined to 1.3% after reaching 2.5% a year earlier. Most of the slowdown occurred in the first quarter. It was affected by both external and domestic factors. On the one hand, economic activity was constrained by weak external demand for Russian goods and services amid a slowdown in global economic growth and oil production cuts under the OPEC+ agreements. On the other hand, the weakening of consumer and investment activity was affected by domestic factors, such as the VAT rate hike effective 1 January 2019 and the associated temporary acceleration of price growth as well as the tightening of monetary conditions in the second half of 2018 caused by external factors. As noted earlier by the Bank of Russia,¹ the slowdown of GDP growth in the first quarter of 2019 was largely temporary. In the second through fourth quarters, the annual GDP growth rate increased steadily.

Broken down by industry, the slowdown in GDP growth was largely due to lower gross value added in real estate operations, which

declined by 0.2% after demonstrating a 2.6% growth a year earlier.

Such dynamics were to a large extent generated by weak demand for housing from consumers amid restrained income dynamics and persistently high housing prices. According to Bank of Russia monitoring data, in 2019, the expectations of changes in housing demand remained relatively low.²

The dynamics of gross value added in construction and trade also put a downward pressure on output growth rates in the economy. In construction, they did not change after a surge of 2.5% in 2018 following the completion of several major projects. At the same time, indirect indicators of output in construction, such as production of construction materials and the dynamics of their transportation, showed mainly positive dynamics in 2019.

In trade, the slowdown of value added growth occurred primarily in the car wholesale segment. This was largely related to demand factors, such as restrained consumer sentiment amid moderate income growth. According to the Association of European Businesses, lower demand led to a decline in car sales by an average of 2.3% in 2019. In addition to the demand factor, the drop in car output was influenced by the high base effect of 2018 when a temporary rise in sales was observed, caused, among oth-



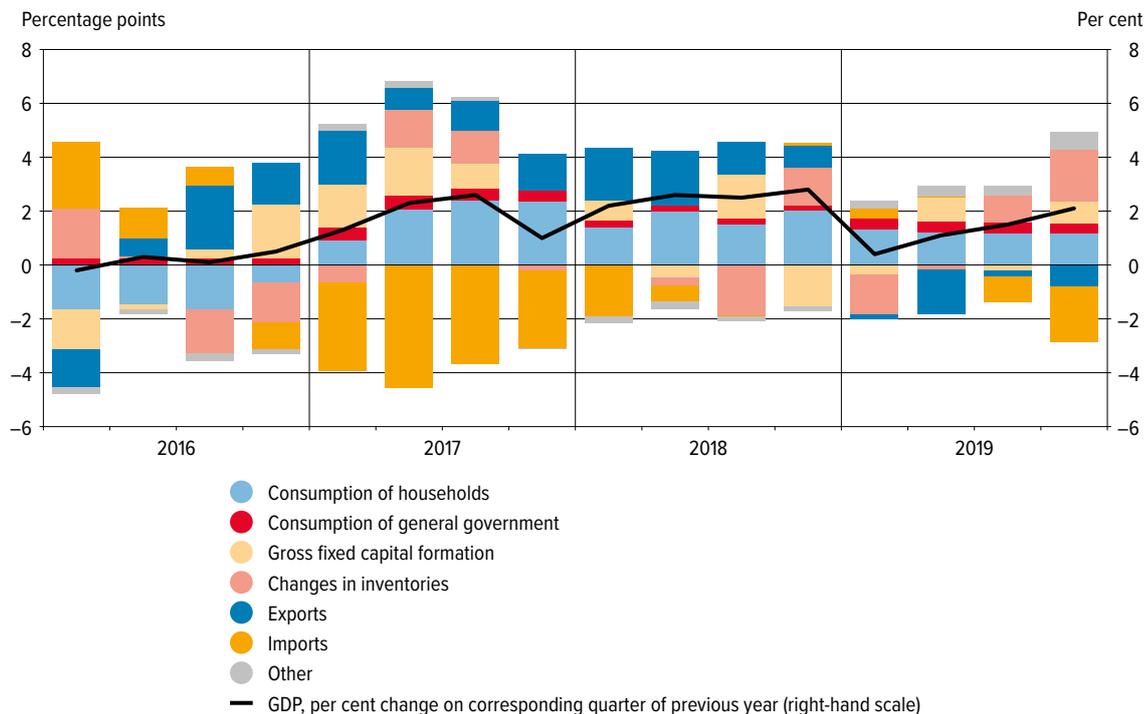
GDP growth slowed down mostly due to the dynamics of gross value added in real estate operations, construction and trade

¹ [Monetary Policy Report No. 2 \(26\), June 2019.](#)

² For more details on the situation in housing construction, see the analytical note '[Housing Construction](#)' (October 2019) posted on the official website of the Bank of Russia.

GDP GROWTH BY EXPENDITURE (PERCENTAGE POINTS)

Chart 5



er things, by deferred demand of consumers in anticipation of the VAT rate hike.

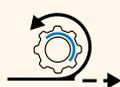
Industrial output continued to grow and contribute positively to GDP growth. However, the growth rate of industrial production slid to 2.3% in 2019 (3.5% in 2018).

Due to conservative expectations of businesses with regard to demand, which had emerged at the beginning of the year in connection, among other things, with the VAT rate hike effective 1 January 2019, the growth in the output of non-food consumer goods slowed, according to the Bank of Russia estimates, to 4.2% after reaching 5.9% in 2018. Weak dynamics were observed in the production of most durable goods (household appliances, cars, etc.) as well as clothes and leather goods. The growth rate of food production remained close to its 2018 level. Output of dairy and tobacco products declined. At the same time, significant growth was observed in production of vegeta-

ble and animal oils as well as animal feed, which partly reflected the overall favourable situation for the agricultural sector in 2019.

Agricultural output made a near-zero contribution to GDP growth in 2019, despite a good harvest of major crops. Growth in livestock production was accelerated by a substantial rise in pork production, which was facilitated by the expansion of existing pig farms and the commissioning of new ones.

The slowdown observed in the output of investment goods was due to lower production of major engineering products. Production of motor vehicles (buses, trailers, etc.) had a significant constraining effect on output. Weak dynamics persisted in the manufacturing of aircraft, including space vehicles. In 2019, this was demonstrated, in particular, by a noticeable underperformance in the implementation of the state program 'Development of the Aviation Industry in 2013–2025'. Production of computers and electronics made a positive contribution to the dynamics in the output of engineering products (and investment goods in general). Production of construction materials demonstrated the same growth rate as in 2018.



A slowdown in production growth was observed across all major categories of goods

According to Bank of Russia estimates, output of intermediate goods grew at a slower pace compared to 2018. Amid the tightening of market regulation in 2019, there was a substantial slowdown in the production of paper and paper products. Production of intermediate goods was supported by the output of fertilizers, which was supported by favourable dynamics in crop production. Overall, manufacturing output in 2019 grew at a rate of 2.6%, which was lower than in 2018 (3.6%).

Output in mining and quarrying demonstrated a more substantial slowdown, with the

growth rate declining from 3.8% in 2018 to 2.5% in 2019. Such dynamics largely reflected weak external demand in 2019, formed amid warm weather and high gas reserves in Europe, the main consumer region for Russian gas.

Overall, exports declined in real terms by 2.3% in 2019, which was the key driver of the slowdown of GDP growth. Net exports made a negative contribution to GDP growth (–1.4 pp). Amid the accelerating growth of investment demand, imports in 2019 grew at a higher rate than in 2018 (3.4% and 2.6%, respectively).

1.1.2.2. DOMESTIC DEMAND AND LABOUR MARKET

The growth of domestic demand¹ accelerated in 2019 compared to 2018 mainly due to the dynamics in gross savings. Its increase by 3.8% (after a drop by 0.6% in 2018) was the result of both more active fixed capital accumulation and higher inventories. Gross fixed capital formation grew at a rate of 1.5% (0.2% in 2018).

Higher investment demand was reflected both in the expanded production of investment goods and in the growth of investment imports, which was observed amid the strengthening of the ruble. An important factor for the growth of gross savings in 2019 was also higher growth in budget capital expenditures, including those under national projects, which supported the investment activity. As a result, increased gross savings contributed 0.8 pp to GDP growth in 2019 following a negative contribution in 2018.

Final consumption contributed less to GDP growth in 2019 than in 2018, but its components had mixed dynamics. Consumer activity was more restrained than in 2018. In annual terms, the retail trade turnover was growing at a slower pace during most of the year. An important factor in these dynamics was the weakening of demand due to the VAT hike effective 1 January 2019. Consumer sentiment remained conservative in 2019. This was confirmed by both inFOM surveys and the dynamics of the savings rate, which, according to Bank of Russia estimates, averaged 10.0% in 2019 compared to 8.0% a year earlier. These dynamics emerged as a result of a slowdown in the growth of consumer lending and an increased inflow of household funds into deposits.

Higher consumer demand was driven by the dynamics of labour income. After a significant rise in 2018 (by 11.6%) related primarily to the faster growth of wages in the public sector

following the implementation of Decree of the President of the Russian Federation No. 597, dated 7 May 2012 'On Measures for the Implementation of the State Social Policy', the growth of nominal wages in 2019 declined to 7.5%. This was the main factor slowing down real wage growth to 2.9% in 2019 compared to 8.5% in 2018. In the first quarter of 2019, accelerating inflation put additional downward pressure on real wages. However, during the rest of the year, disinflationary processes supported the dynamics of labour compensation in real terms.

Overall, the situation in the labour market remained stable. Unemployment continued to decline. It reached 4.6% on average for 2019, a new record low in the history of observations. There was a simultaneous reduction in the number of both unemployed and employed persons. These dynamics were driven, on the one hand, by declining labour supply shaped by demographic factors and, on the other hand, by restrained demand for labour on the part of businesses. According to a survey conducted by IHS Markit, employment has been steadily declining in manufacturing, while employment in the service sector has shown an upward trend since the second half of 2019.

In general, the growth rate of real disposable income remained positive (1.0% in 2019 and 0.1% in 2018). It was higher than in 2018 mainly due to a slower decline in other monetary earnings, including hidden income. Nevertheless, the growth rate of household expenditures on final consumption declined from 3.3% in 2018 to 2.5% in 2019. At the same time, amid growing expenditures in the budget system, consumption by government agencies has significantly accelerated from 1.3% in 2018 to



A key factor in the slowdown of GDP growth was weakened external demand. GDP growth was supported by higher domestic investment activity

¹ Domestic demand refers to final consumption expenditures and gross savings.



Overall, final consumption expenditure was the main driver of GDP growth

2.2% in 2019. Overall, final consumption expenditure remained the main driver of GDP growth in 2019 as it contributed 1.6 pp in aggregate.

Domestic demand continued to grow at a moderate pace in 2019. According to Bank of Russia estimates, output growth rates were close to the potential rates (neutral in terms of their impact on inflation) but remained slightly below them. From the second quarter, this contributed to a shift in the balance of inflation dynamics risks from inflationary to disinflationary.

1.1.2.3. INFLATION

In 2019, **inflation** amounted to 3.0%, which was 1.3 pp lower than in 2018. During the year, the inflation dynamics were mixed. In the first quarter, the balance of price dynamics factors shifted toward inflationary ones. This accelerated the annual growth rate of consumer prices. Since the second quarter, restraining factors began to exercise a dominating influence on the growth of prices, which led to sustained disinflation throughout the remainder of 2019.



Annual inflation slowed to 3.0%

In January–March 2019, inflation rose by 1.0 pp to 5.3%. This was due to the VAT rate hike effective 1 January and the impact of certain supply-side factors, mostly in the food market, as well as the weakening of the ruble in the second half of 2018. Annual food inflation accelerated the most, reaching 5.9% in March. It was significantly influenced by measures of producers aimed at curbing the dynamics of supply and reducing the negative

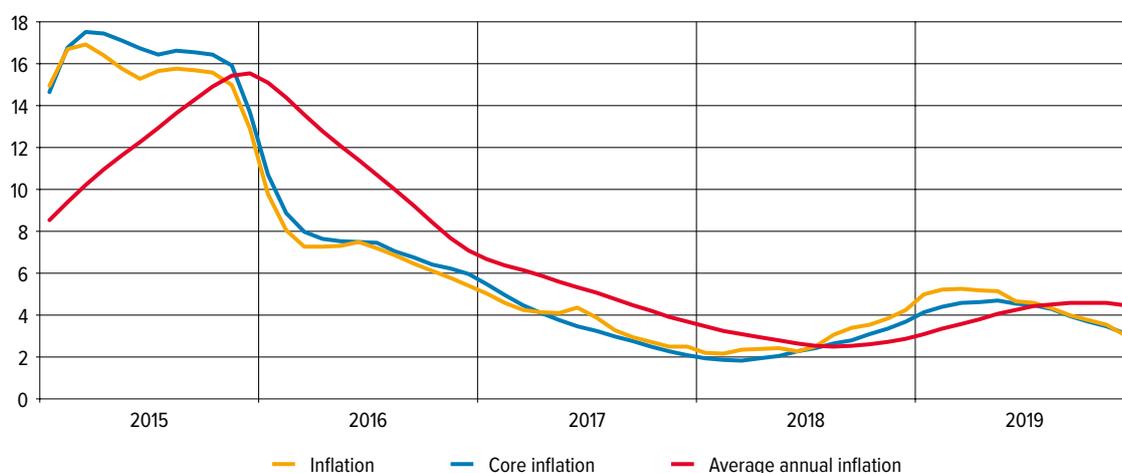
pressure of excessive market saturation on profitability. Prices for animal products (meat, dairy products, eggs) and some processed crop products (sugar) were rising at a higher pace. The increased cost of feed supplies in livestock breeding caused by the weakening of the ruble and higher global and domestic prices of grains put additional pressure on expenditures and prices. The direct impact of the VAT rate hike on food inflation is estimated to be small as food products are mostly taxed at a preferential rate.¹

Tax changes in the first quarter of 2019 were the main factor behind the accelerated growth of prices for non-food goods (by 0.6 pp to 4.7%) and services (by 1.2 pp to 5.1%). In general, the impact of the VAT rate hike on inflation was moderate. There was no increased inflationary pressure associated with potential secondary effects, including, for example, higher inflation expectations of economic agents.² This, among other things, laid the foundation for sustainable disinflation in the future.

Since the second quarter of 2019, price dynamics were dominated by restraining factors. These include, first of all, a favourable

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

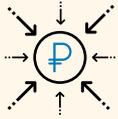
Chart 6



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

¹ There was no substantial change in VAT preferences established by the Tax Code of the Russian Federation.

² For more details on potential secondary effects, see the report '[On the Estimated Impact of the Increase of the Standard VAT Rate on Inflation](http://www.cbr.ru/Content/Document/File/47495/2018_01_nds.pdf)' at www.cbr.ru/Content/Document/File/47495/2018_01_nds.pdf.



From the second quarter, disinflationary factors, such as high supply of many food products, conservative demand and strengthening of the ruble, dominated the market

situation on the food markets and conservative consumer behaviour. Additional factors limiting price increases included the strengthening of ruble as well as slower growth of expenditures in the budget system compared to traditional seasonality.

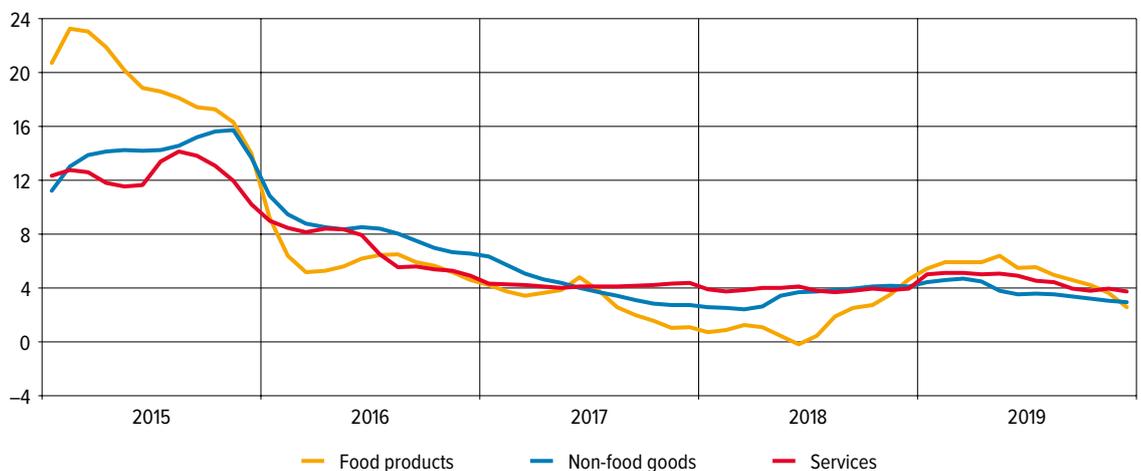
Food goods. In the second through fourth quarters, the growth rate of food prices decelerated the most and at the end of 2019 stood at 2.6%. Food inflation developed in the context of a good harvest for a number of crops (cereals, oilseeds, sugar beets, ground and greenhouse vegetables) as well as the steady expansion of livestock production, which outpaced the dynamics of demand. The main contribution to reducing inflation was made by a slower growth of prices for meat, fruit and vegetable products. In the last months of the year, the slowdown in the growth of prices for meat products was additionally influenced by the statistical effects of a high comparison base.

Non-food goods. The annual growth rate of prices for non-food goods declined after rising in the first quarter and amounted to 3.0% at

the end of 2019 (4.1% in 2018). The key role was played by the dynamics of prices for oil products. In 2019, the growth of these prices slowed to 1.8% compared to 10.0% in 2018. In the first half of the year, the growth of motor fuel prices was limited by agreements (which were in effect from mid-2018) between the Government of the Russian Federation and major vertically integrated companies. Since 1 July 2019, price stabilisation in the market for petroleum products was largely achieved through the effective application of the excise tax deduction mechanism for crude oil sent for processing (reverse excise duty with a damping component).¹ In addition to motor fuel, a significant role in slowing down the annual growth of non-food goods prices was played by the dynamics of prices for durable goods, which was shaped by the cautious approach of households to major purchases during most of the year. Prices for household appliances and electronics continued to decline, and the dynamics of prices for cars and construction materials slowed down.

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

Chart 7



¹ For more details on the tax manoeuvre in the oil industry, see the report '[Assessment of the Effect of Oil Tax Manoeuvre on Headline Inflation](http://www.cbr.ru/Content/Document/File/59793/20181227.pdf)' at www.cbr.ru/Content/Document/File/59793/20181227.pdf.

Services. In 2019, the prices for services grew by 3.8%, which was 0.1 pp less than in 2018. An important contribution to the slowdown was made by the dynamics of prices for tourist services, especially for foreign travel, which was affected by the strengthening of the ruble and restrained demand. Tariffs for housing utility services, which were indexed in January and July, rose by 4.3% over the year. The acceleration in the growth of tariffs (by 0.6 pp compared to 2018) was mainly due to a substantial rise in tariffs for solid waste management services at the beginning of the year following the start of reforms in the sector.



Inflation expectations
in the economy on the whole
were on a downward trend

Inflation expectations. In the first half of 2019, the inflation expectations of households were broadly in line with those in the second half of 2018, which had been influenced mainly by the accelerated growth of motor fuel prices in April–June and the planned VAT rate hike in early 2019. The exhaustion of the effects generated by tax decisions and the slowdown in

inflation that resumed in the second quarter of 2019 led to a slight decrease in the estimates of annual inflation observed and expected by households in the second half of the year. Overall, in 2019, inflation expectations of the households remained volatile and sensitive to one-off events.

After peaking in January due to the VAT rate increase, short-term price expectations of businesses mostly decreased during 2019. As in previous years, respondents built their expectations by generally focusing on the current price dynamics. In terms of sectors, the dynamics of expectations were mixed and depended on the impact of specific factors, such as the situation in the global commodity markets.

Inflation forecasts for 2019–2020 published by professional analysts were adjusted downward slightly during the year to take into account a faster-than-expected slowdown in inflation. Longer-term (1 year and more) forecasts of analysts remained near the Bank of Russia's target of 4%.

In the Russian regions, price dynamics during 2019 were mostly influenced by nationwide factors, first of all, the VAT rate hike, expansion of food supply and restrained dynamics of demand.

1.1.3. FISCAL POLICY, GOVERNMENT FINANCE AND DOMESTIC GOVERNMENT DEBT

In 2019, fiscal policy continued to be restraining in nature as evidenced by the reduction of the non-oil and gas deficit of the federal budget from 6.0% of GDP in 2018 to 5.4% of GDP in 2019. The impact of fiscal policy on economic dynamics during the year can be divided into two periods. In the first half of 2019, fiscal policy made a negative contribution to domestic demand due to higher non-oil revenues and slow execution of expenditures. The second half of the year saw an acceleration in the growth of government expenditures, including those on national projects, which had a positive impact on economic dynamics.



The non-oil and gas deficit of the federal budget shrank to 5.4% of GDP in 2019 from 6.0% of GDP in 2018

Fiscal policy in 2019 was influenced by a number of significant legislative and regulatory changes that affected budget plans and budget execution, household incomes, economic activity and inflation.

Effective 1 January 2019, the standard VAT rate was increased from 18% to 20%. The Bank of Russia estimates that this measure added about 0.55–0.7 pp to annual inflation in 2019.¹ In addition, the VAT rate on palm oil was raised to 20% effective 1 October 2019.

2019 also saw the start of reform in the pension system, which included raising the retirement age by six months annually up to the age of 65 for men and 60 for women, with individual preferential adjustments for demographic situation and work conditions.² At the same time, it was decided to temporarily keep

some social benefits that were funded by the federal budget and budgets of the subjects of the Russian Federation and linked to the retirement age within the age limits effective until the end of 2018. For the budget system, raising the retirement age contributed to additional growth of revenues generated by government extra-budgetary funds (through the additional increase of receipts in the form of social insurance contributions). Furthermore, the growth of expenditures of government extra-budgetary funds was more restrained due to the decline in the number of pensioners.

In April 2019, a number of regulatory and legislative changes were adopted in the social sphere and pension system, which led to an additional increase in pension provision beyond the indexation parameters established previously for basic, insurance and social pensions and the rise of regional subsistence minimums. These measures not only offset the negative contribution made by the reform of the pension system to the dynamics in social expenditures of the budget but also made it possible to further accelerate their growth. Also in 2019, a package of socio-demographic measures was adopted to increase disposable household income, improve living standards for the least protected segments of the population and raise the birth rate in the Russian Federation. For example, a number of regulatory and legislative acts³ established tax and social benefits for families with many children, additional benefits for families with one or two children, expanded benefits under the family mortgage programme and other measures. They contributed not only to increasing planned expenditures and accelerating the disbursement of allocations in

¹ G.S. Kurovskiy. [‘Assessing the contribution of the VAT increase to annual inflation’](#) / Analytical Note, Bank of Russia, December 2019.

² Federal Law No. 350-FZ, dated 3 October 2018, ‘On Amending Certain Legislative Acts of the Russian Federation on Issues Related to the Granting and Payment of Pensions’.

³ Federal Laws No. 305-FZ, dated 2 August 2019, ‘On Amending the Federal Law ‘On Monthly Payments to Families with Children’; No. 63-FZ, dated 15 April 2019, ‘On Amending Part Two of the Tax Code of the Russian Federation and Article 9 of the Federal Law ‘On Amending Part One and Two of the Tax Code of the Russian Federation and Certain Legislative Acts of the Russian Federation on Taxes and Duties’; No. 157-FZ, dated 3 July 2019, ‘On Measures of Government Support to Families with Children to Repay Obligations under Housing Mortgage Loans (Credits) and On Amending Article 13.2 of the Federal Law ‘On Acts of Civil Status’; Decree of the Government of the Russian Federation No. 339, dated 28 March 2019, ‘On Amending the Rules for Providing Subsidies from the Federal Budget to Russian Credit Institutions and the Joint-stock Company DOM.RF to Reimburse the Unearned Income from Extended (Acquired) Housing (Mortgage) Loans to Russian Nationals who Have Children’.

the second half of 2019 but also to the more successful implementation of the national 'Demographics' project compared to other national projects.

According to the Federal Treasury, the surplus of the consolidated budget of the Russian Federation in 2019 amounted to 1.9% of GDP (2.9% of GDP in 2018), and the surplus of the federal budget was 1.8% of GDP (2.6% of GDP in 2018). The budget system balance declined due to the faster growth of expenditures compared to revenues. In 2019, expenditure commitments of the budget system increased by 7.9% mainly as a result of measures stipulated by Decree of the President of the Russian Federation No. 204, dated 7 May 2018, 'On National Goals and Strategic Objectives of the Russian Federation through to 2024'.

Budget system revenues increased by 4.8% compared to 2018. Non-oil and gas revenues

of the budget system increased by 10.2% compared to 2018 mainly due to the standard VAT rate hike from 18% to 20%. At the same time, contribution of the oil and gas component to revenue dynamics was negative as the decline in global oil prices and introduction of a price stabilisation mechanism for fuel prices through a reverse excise duty and damping component¹ reduced oil and gas revenues by 12.1%. A restraining factor for inflation was reduction of the VAT rate on fruits and berries to 10% effective 1 October 2019.

2019 saw a continued use of the mechanism for sterilisation of budget revenues received from oil and gas and generated when the oil prices exceeded their basic level. This contributed to the savings accumulated in the National Wealth Fund and ensured the resilience of public finances to foreign economic shocks.

¹ Included with a negative sign in oil and gas revenues of the budget. This mechanism made it possible to contain the rise in gasoline and diesel fuel prices in 2019. For more details on parameters of the tax manoeuvre in the oil industry, see the report of the Bank of Russia '[Assessment of the Effect of Oil Tax Manoeuvre on Headline Inflation](http://www.cbr.ru/Content/Document/File/59793/20181227.pdf)' at www.cbr.ru/Content/Document/File/59793/20181227.pdf.

1.1.3.1. FEDERAL BUDGET

Federal budget revenues in 2019 amounted to ₹20,187 billion (18.3% of GDP), which is 3.8% higher than in 2018, while their execution exceeded the planned amount established by Federal Law of No. 459-FZ, dated 29 November 2018, 'On the Federal Budget for 2019 and the Plan Period of 2020 and 2021' (as amended on 2 December 2019)¹ (the 'Law') by 1.0%. The dynamics of the oil and gas component and the non-oil and gas component were mixed. Non-oil and gas revenues of the federal budget rose by 17.5% compared to the previous year. A significant contribution to their growth was made by the increase of VAT revenues by 17.9%, or ₹1.1 trillion year-on-year. This was due to the increase of the standard tax rate from 18% to 20% on 1 January 2019, an expanded tax base (growth of imports and nominal GDP) and better collection of taxes. Oil and gas revenues declined by 12.1% to ₹7,924 billion (7.2% of GDP) following the drop in the average annual global price of Urals oil (from \$70.0 in 2018 to \$63.6 in 2019) as well as the introduction of a reverse excise duty mechanism for crude oil (–₹142 billion) and a damping component (–₹282 billion). Federal budget expenditures rose by 9.0% in annual terms and amounted to ₹18,213 billion (16.6% of GDP). As a result,

the federal budget surplus fell to ₹1,974 billion (1.8% of GDP; ₹2,741 billion in 2018). When adjusted for seasonality, the execution of federal budget expenditures in the first half of 2019 was below the average for the previous several years. Despite the acceleration in the second half of 2019, the underperformance in the execution of expenditures compared to the amount planned by the Law was ₹276 billion (1.5%), including ₹150 billion on national projects.

2019 saw intensified implementation of national projects under Decree of the President of the Russian Federation No. 204, dated 7 May 2018, 'On National Goals and Strategic Objectives of the Russian Federation through to 2024' aimed at easing existing structural constraints for the development of the Russian economy. Execution of expenditures on national projects in 2019 was 8.6% below the plan and amounted to ₹1,600 billion. A relatively high execution of expenditures² was observed in socially oriented national projects, such as 'Demographics', 'Culture', 'Healthcare' and 'Housing and Urban Environment'. Relatively low execution of expenditures was reported for the national projects 'Environment' and 'Digital Economy'.



Federal budget expenditures on national projects in 2019 amounted to ₹1.6 trillion compared to planned expenditures of ₹1.75 trillion

¹ The projected revenues and planned expenditures of the federal budget in 2019 amounted to ₹19,970.3 billion and ₹18,489.5 billion, respectively.

² Approved by Federal Law No. 459-FZ, dated 29 November 2018, 'On the Federal Budget for 2019 and the Plan Period of 2020 and 2021' (as amended on 2 December 2019).

1.1.3.2. BUDGET SYSTEM

According to the Federal Treasury, in 2019, revenues of the budget system of the Russian Federation totalled $\text{₽}39,110$ billion (35.5% of GDP), which was 4.8% more than in 2018 ([Table 5, Section 5.4 'Statistical Tables'](#)). The amount of non-oil and gas revenues in the budget system rose by 10.2% compared to the previous year and amounted to $\text{₽}31,186$ billion (28.3% of GDP). There was a significant growth of receipts from the profit tax (+10.8%) and the personal income tax (+8.3%) amid better financial results of large and medium-sized companies (+17.5%) and higher nominal wages (+7.5%), respectively. Budget system expenditures in 2019 amounted to $\text{₽}36,995$ billion (33.6% of GDP), which was 7.9% more than in the previous year. The main expenditure items were 'Social policy' and 'National economy'. The most substantial growth was reported in such items as 'Healthcare', 'Housing and utility services' and 'Environmental

protection', which was related to spending the allocations under national projects. As a result, the surplus of the budget system of the Russian Federation in 2019 declined to $\text{₽}2,115$ billion ($\text{₽}3,036$ billion in 2018).

Revenues of the consolidated budgets of the Russian Federation constituents rose by 9.5% and totalled $\text{₽}13,572$ billion (12.3% of GDP); expenditures grew by 14.2% and reached $\text{₽}13,568$ billion (12.3% of GDP). As a result, the consolidated budgets of the Russian Federation constituents had a slight surplus of $\text{₽}5$ billion (a surplus of $\text{₽}510$ billion in 2018).

Revenues of government extra-budgetary funds increased by 4.7% to $\text{₽}13,583$ billion (12.3% of GDP); expenditures rose by 2.0% to $\text{₽}13,447$ billion (12.2% of GDP). Thus, the budget of government extra-budgetary funds was executed with a surplus of $\text{₽}136$ billion (0.1% of GDP).



In 2019, the consolidated budgets of the Russian Federation constituents were executed with a near-zero balance

1.1.3.3. NATIONAL WEALTH FUND

In 2019, the National Wealth Fund increased by ₺3,737 billion (1.9 times) and amounted to ₺7,773 billion (7.1% of GDP) as of 1 January 2020. Its growth was due to additional oil and gas revenues received for 2018 in the amount of ₺4,122 billion and transferred in July 2019. A restraining impact on the growth of the ruble-denominated amount of the NWF was produced by the allocation of ₺4.7 billion to co-finance voluntary pension savings of individuals as well as by the strengthening of the ruble. The NWF was not used to finance the deficit of the federal budget and the budget of the Pension Fund of the Russian Federation (PFR) in 2019.

In 2019, the Ministry of Finance of Russia continued its operations for the purchase of foreign currency in the amount of additional oil and gas revenues to further replenish the

National Wealth Fund under the fiscal rule. In addition, effective 1 February 2019, the Bank of Russia began deferred purchases of foreign currency,¹ which increased the daily volume of its purchase by ₺2.8 billion. As a result, the amount of foreign currency purchased by the Bank of Russia (₺3,529 billion) exceeded the additional oil and gas revenues of 2019 which, in a situation where the actual price of Urals oil consistently exceeded the base price (\$41.6 per barrel), reached ₺2,957 billion. Once this amount is transferred to the NWF, the liquid part of the fund adjusted for exchange rate revaluation will exceed 7% of GDP. In accordance with Article 96.11 of the Budget Code of the Russian Federation, this will allow the use of the NWF for investment in self-supporting infrastructure projects and other permitted financial assets governed by regulatory acts.²



At the end of 2019, the dollar-denominated equivalent of liquid assets held in the NWF totalled \$99 billion

¹ In accordance with [the Bank of Russia's comments on operations under the fiscal rule dated 23 August 2018](#) and the Bank of Russia's press release dated 25 January 2019, '[On Deferred Purchases of Foreign Currency under the Fiscal Rule](#)'.

² Decrees of the Government of the Russian Federation No. 18, dated 19 January 2008, 'On the Procedure for Managing the National Wealth Fund'; No. 990, dated 5 November 2013, 'On the Procedure for Investing Funds of the National Wealth Fund in the Securities of Russian Issuers Related to the Implementation of Self-Supporting Infrastructure Projects'.

1.1.3.4. PUBLIC DEBT

According to the Ministry of Finance of Russia, as of 1 January 2020, the aggregate public and municipal debt of the Russian Federation totalled ₹16,061 billion (14.6% of GDP), which, in nominal terms, was 5.9% higher than at the end of 2018 and 0.1 pp higher in terms of GDP. The share of domestic debt in the total public and municipal debt amounted to 78.7%, which was 1.2 pp more than on 1 January 2019. As of 1 January 2020, federal domestic debt was ₹10,172 billion (9.2% of GDP). The largest part (87.1%) of federal domestic debt was in the form of government securities, which amounted to ₹9,331 billion, and the rest was in the form of government guarantees in the amount of ₹841 billion ([Table 6, Section 5.4 'Statistical Tables'](#)). In 2019, net placements of OFZs soared almost threefold compared to 2018 (to ₹1,378 billion). This was due to the increase in spending ceilings under the fiscal rule and the 'base deficit'¹ for 2019–2024² as well as the temporary abandonment of limits on OFZ auctions in February–May 2019. Another factor was easing of geopolitical ten-

sions, which helped restore demand of foreign market participants for Russian government securities. Non-residents' portfolio in the OFZ market surged more than 1.5-fold in 2019 to ₹2,870 billion (32.2% of the OFZ market) from ₹1,790 billion (24.4% of the OFZ market) in 2018.

As of 1 January 2020, federal external debt amounted to ₹3,395 billion (3.1% of GDP). Government securities and government loan liabilities (₹2,575 billion) accounted for nearly 75.8% of federal external debt. The portfolio of non-residents in the market of government eurobonds increased by 33.9% in 2019 to \$22.3 billion (55.0% of the market) from \$16.7 billion (45.6% of the market) in 2018.

As of 1 January 2020, total debt of the Government of the Russian Federation to the Bank of Russia in the form of government securities was ₹304 billion, including ruble-denominated liabilities in the amount of ₹213 billion (70.0% of the total debt) and foreign currency-denominated liabilities in the amount of ₹91 billion (30.0% of the total debt).



The share of non-residents in the OFZ market grew to 32.2% in 2019 from 24.4% in 2018

¹ 'Base deficit' is defined as the difference between the part of federal budget revenues (representing the amount of oil and gas revenues calculated at the base price of oil, the base export price of natural gas and the base price of oil products as well as non-oil and gas revenues) and federal budget expenditures calculated in accordance with Clause 3 of Article 199 of the Budget Code of the Russian Federation – that is, including the resources of the Development Fund.

² In accordance with Article 179.5 of the Budget Code of the Russian Federation 'Development Fund'.

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

BALANCE OF PAYMENTS

In 2019, the current account surplus declined compared to 2018 due to unfavorable market conditions in the international commodity markets. Net lending to the rest of the world was in the form of accumulation of international reserves while maintaining the balance of other flows reflected in the financial account of the balance of payments. A positive balance of financial transactions in the private sector was achieved following the reduction of obligations by banks with a neutral contribution of other sectors to the formation of cross-border capital flows.

In 2019, the **current account** surplus dropped to \$64.6 billion (\$113.7 billion in 2018) due to contraction of the trade balance and a higher aggregate deficit of other components.

The decline in the value of exports of goods was a key factor in changing the surplus of the

foreign trade in goods from \$194.4 billion in 2018 to \$164.3 billion in the reporting period.

Exports of goods decreased to \$418.7 billion, or by \$24.4 billion compared to 2018. The dynamics of exports were driven by the drop in the value of exported energy goods under the impact of worsening international price conditions for the main goods of Russian exports. The export deflator was 0.95, while the prices of the main fuel and energy goods¹ fell by 10.4%. In physical terms, total exports of goods remained stable, while the physical volumes of hydrocarbon supplies rose by 1.3%.

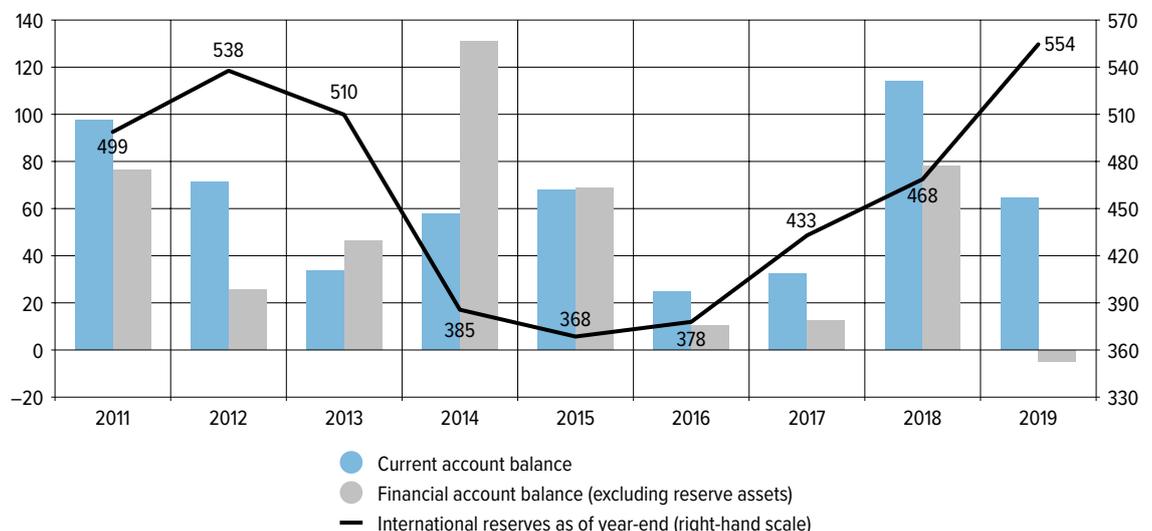
For most major groups of goods, the value of exports has been declining. Exports of fuel and energy products slumped by 8.5% to \$262.5 billion, and their share in the structure of exports decreased to 62.1% (63.8% a year earlier). Supplies of ferrous and non-ferrous metals, including products made from them,



Exports of goods declined by 5.5%, and imports rose by 2.3%. Hydrocarbon exports fell in value but increased in terms of their physical volume

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

Chart 8



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

amounted to \$37.5 billion, which was 14.1% less than in 2018, and the share of this group of goods was 8.9% (9.7%). Exports of chemicals stood at \$27.0 billion, a 1.7% decline year-on-year, and the share of this group of goods rose to 6.4% compared to 6.1% in 2018. Exports of engineering products declined to \$27.7 billion or by 5.0%, and the share of this group of goods remained stable at 6.5%. Exports of food stuff and raw materials for their production amounted to \$24.8 billion, with almost no change compared to 2018, while the share of this group of goods increased to 5.9% (5.5% in 2018).

In the geographical structure of exports, the share of the EU, the main partner, fell by 0.8 pp to 44.8%, mostly as a result of a decline in the value of energy exports. On the contrary, the share of exports to APEC countries increased to 26.3% (25.9% in 2018). The share of exports to EAEU countries rose to 8.9% (8.5%). In terms of country-specific breakdown, supplies to China accounted for 13.4% of exports of goods (12.5%); the share of exports to the Netherlands was 10.6% (9.7%); to Germany, 6.6% (7.6%); to Turkey, 5.0% (4.7%); to Belarus, 4.9% (4.9%).

In 2019, **imports of goods** rose to \$254.4 billion, or by 2.3% compared to 2018, mostly as a result of higher imports of goods in physical terms.

Imports of machinery, equipment and vehicles remained almost unchanged, and their value was \$112.5 billion, while the share of this group of goods declined to 46.2% (47.3% in 2018). Imports of chemicals and goods produced by related industries expanded by 9.6%, with their value reaching \$47.8 billion, while the share of this group of goods was 19.6% (18.3% a year earlier). Imports of metals amounted to \$17.8 billion, which was 4.3% more than in 2018, and the share of this group of goods remained stable at 7.3% (7.2%). Supplies of food stuff, including raw materials for their production, stood at \$29.8 billion, which corresponded to the level of 2018, and the share of this group of goods declined from 12.5% to 12.3%.

Compared to 2018, in terms of its geographical structure, imports of goods continued to shift in favour of the Asia-Pacific region as the share of APEC countries rose to 41.4%

(40.7%); the share of EU countries fell by 1.1 pp to 36.3%, and the share of EAEU countries amounted to 8.0% (7.8%). Among the key trade partners of Russia, China strengthened its position with 22.2% in the imports of goods (21.9% in 2018); Germany accounted for 10.3% of imports (10.7%); the US, for 5.4% (5.3%); Belarus, for 5.3% (5.2%); Italy, for 4.5% (4.4%).

The deficit in the **foreign trade of services** expanded by 20.7% to \$36.2 billion mainly due to higher imports.

Exports of services declined to \$62.8 billion (\$64.7 billion in 2018). The cost of transport services provided to foreign counterparties was \$21.6 billion compared to \$22.1 billion in 2018. The decrease by \$0.6 billion in the value of services provided under the travel services to \$11.0 billion was explained by the contraction from the high level in 2018 achieved during the FIFA World Cup. The exports of other services to non-residents fell to \$30.3 billion (\$31.0 billion in 2018) mostly due to construction services.

Imports of services grew to \$99.0 billion, or by 4.5%. The volume of services provided by foreign transport companies did not change substantially and amounted to \$15.4 billion. Imports of travel services grew by 5.5% and totalled \$36.2 billion. Other services provided by non-residents increased to \$47.4 billion compared to \$45.2 billion in 2018 mostly due to higher consumption of construction services as well as legal and management consulting services.

The negative **balance on compensation of employees** increased to \$3.6 billion (3.3 billion in 2018). Compensation of employees payable to non-residents changed from \$7.4 billion to \$7.6 billion. Compensation of employees receivable by Russia's citizens working abroad remained at the level of \$4.0 billion.

The deficit in the **balance of investment income** increased to \$49.8 billion in 2019 from \$38.6 billion a year earlier. The dynamics of this indicator were driven by the growth of the negative balance of investment income of other sectors by \$12.0 billion to \$50.3 billion due to a higher amount of payments to non-residents. The negative balance of investment income of the banking sector fell to \$0.4 billion compared

to \$1.1 billion in 2018 as a result of a decline in income payable. As in 2018, the total balance of investment income of the general government and the central bank showed a surplus of \$0.9 billion.

The negative **balance of secondary income** increased to \$10.2 billion compared to \$8.9 billion in 2018, which was due, among other things, to a significant increase in payments abroad under other current transfers.

The **capital account** deficit in the amount of \$0.7 billion (\$1.1 billion a year earlier) was created mostly as a result of debt forgiveness on government loans provided by the Russian Federation to non-residents.

In 2019, **net lending to other countries (cumulative current account balance and capital account balance)** declined to \$63.9 billion (\$112.6 billion in 2018). The net lending to GDP ratio fell from 6.8% in 2018 to 3.8% in 2019.

The **financial account balance (excluding reserve assets)** was negative and amounted to \$4.6 billion (a positive balance of \$77.9 billion in 2018). Net borrowing from other countries was due to the resumed raising of foreign capital amid a reduction in the placement of external assets.

External liabilities increased by \$28.3 billion (in 2018, they had decreased by \$36.3 billion).

Foreign liabilities of general government expanded by \$22.0 billion (in 2018, they declined by \$5.6 billion) following purchases of sovereign securities by non-residents.

Growth of central bank's external liabilities to nonresidents by \$1.4 billion (reduction by \$1.7 billion in 2018) was caused by reserve assets management transactions.

In 2019, external liabilities of the private sector from non-residents totalled \$4.8 billion (in 2018, these obligations declined by \$29.1 billion).

Liabilities of the banking sector to non-residents fell by \$19.8 billion (\$25.0 billion in 2018).

External liabilities of other sectors expanded by \$24.7 billion (in 2018, they dropped by \$4.1 billion). Direct investments rose by

\$28.7 billion, which is substantially more than in 2018. This included both increased foreign contributions to the capital of Russian companies and other forms of financial receipts from related foreign entities. External loan debt of other sectors declined by \$6.2 billion (\$10.7 billion in 2018). Portfolio investment decreased by \$4.3 billion (\$0.7 billion in 2018).

Financial assets (excluding reserve assets) grew by \$23.7 billion in 2019 (\$41.5 billion in 2018).

Combined foreign claims of the general government and the central bank increased by \$0.5 billion (\$1.4 billion a year earlier).

In 2019, financial assets of the private sector¹ increased by \$24.7 billion (by \$37.9 billion in 2018).

Foreign assets of banks declined by \$2.0 billion compared to an increase by \$7.6 billion in 2018.

Net acquisition of financial assets by other sectors¹ totalled \$26.7 billion (\$30.3 billion in 2018). Direct investment abroad amounted to \$23.2 billion (\$29.6 billion in 2018). The amount of granted trade credits and advances was \$8.3 billion (net redemption in the amount of \$4.0 billion a year earlier). As a result of transactions with non-residents, the amount of foreign currency cash dropped by \$7.7 billion (by \$7.0 billion in 2018). The extent of non-classified transactions² was insignificant.

Reserve assets grew by \$66.5 billion (by \$38.2 billion in 2018), which was primarily due to the purchase of foreign currency in the domestic market under the budget rule as well as the transfer of funds received from placement of eurobonds to the accounts of the Ministry of Finance of Russia.

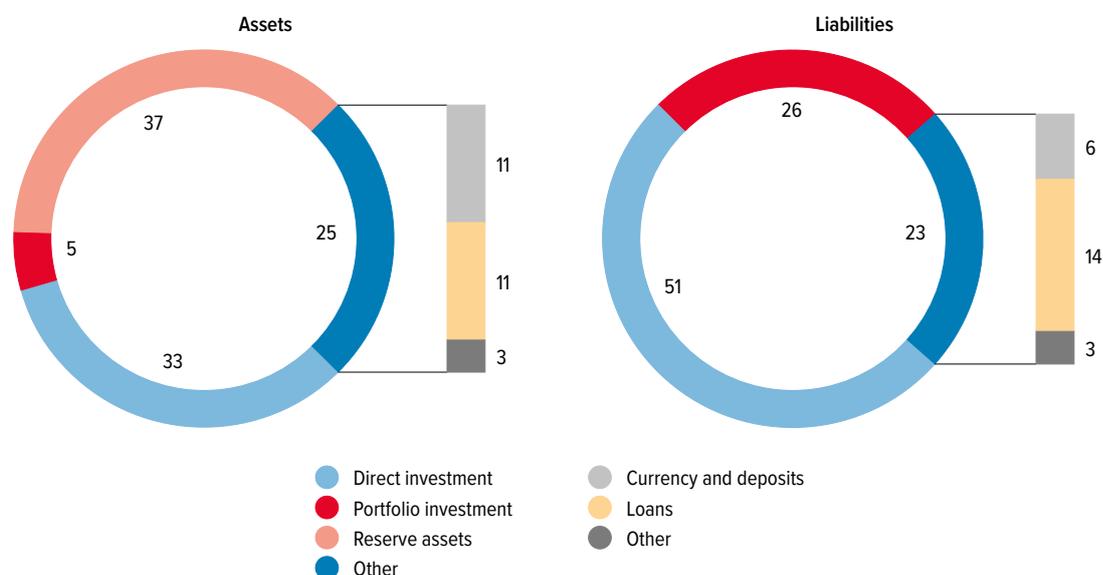
The **balance on financial transactions of the private sector** in 2019 was \$21.9 billion (\$63.6 billion in 2018). The dynamics of this indicator were driven by transactions conducted by the banks to reduce their foreign debt. The growth in external assets and liabilities of other sectors was equal and had a neutral impact on the overall capital flows in the private sector.

¹ Excluding amounts payable for supplies under intergovernmental agreements.

² Non-classified transactions include dubious transactions related to trade in goods and services, purchase/sale of securities, provision of loans and transfer of funds to accounts owned abroad and carried out with the purpose of cross-border movement of funds.

INTERNATIONAL INVESTMENT POSITION AS OF 31 DECEMBER 2019 (PER CENT)

Chart 9



INTERNATIONAL INVESTMENT POSITION

As of 1 January 2020, the amount of foreign assets of the Russian Federation was \$1,510.6 billion; during 2019, it increased by \$167.4 billion, or 12.5%. As a result of transactions reflected in the balance of payments, claims on non-residents rose by \$90.2 billion; positive contribution of exchange rate and market revaluations amounted to \$77.5 billion, while other changes led to the decrease of foreign assets by \$0.3 billion.

Reserve assets grew by \$85.9 billion to \$554.4 billion. Direct investment abroad increased by \$64.7 billion to \$500.6 billion. Foreign portfolio investment of residents rose by \$11.7 billion to reach \$80.3 billion. Other investment in the amount of \$370.0 billion includes increased claims in the form of interbank loans issued to non-residents.

As of 1 January 2020, the Russian Federation had foreign liabilities of \$1,154.1 billion, an increase of \$184.9 billion, or 9.1%, during 2019 due mainly to positive market and exchange rate revaluations in the amount of

\$147.9 billion. Transactions recorded in the balance of payments increased external liabilities by \$28.3 billion; other changes resulted in their increase by \$8.7 billion.

In 2019, liabilities under direct investment grew by \$88.4 billion to \$585.8 billion. Accumulated portfolio investment from abroad increased 1.5 fold, or by \$95.8 billion to reach \$302.7 billion, mostly following the revaluation of Russian securities owned by non-residents. Liabilities on other investment remained virtually unchanged at \$259.8 billion.

In 2019, growth in foreign liabilities, mainly as a result of revaluation gains, exceeded the increase in external assets, which reduced the net international investment position of the Russian Federation by \$17.5 billion to \$356.5 billion.

INTERNATIONAL RESERVES OF THE RUSSIAN FEDERATION

In 2019, the international reserves of the Russian Federation grew from \$468.5 billion to \$554.4 billion.



The international reserves of the Russian Federation increased to \$554.4 billion. The share of gold in the reserves rose to 19.9%

Transactions recorded in the balance of payments increased the international reserves by \$66.5 billion. Exchange rate and market revaluation gains in the amount of \$14.4 billion were related to the appreciation of gold.

As of 1 January 2020, the value of monetary gold was \$110.4 billion. The increase of gold reserves by \$23.5 billion, or 27.0%, was mainly due to revaluation gains of \$16.5 billion; the replenishment of the Bank of Russia's holdings with physical gold accounted for \$7.0 billion. As a result, the share of gold in international reserves rose from 18.5% at the beginning of 2019 to 19.9% on 1 January 2020.

The amount of international reserves as of 1 January 2020 was sufficient to finance imports of goods and services for 19 months.

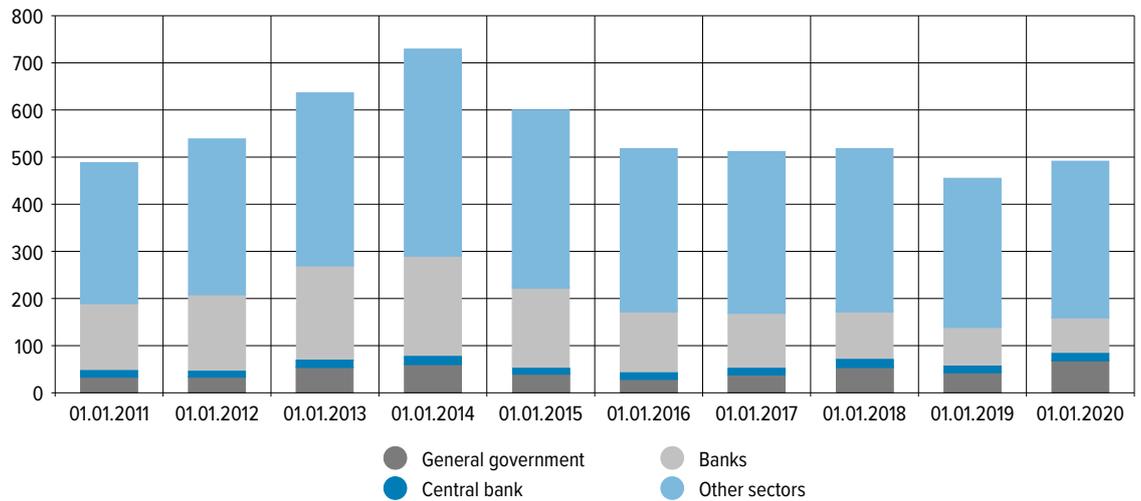
EXTERNAL DEBT

As of 1 January 2020, Russia's external debt amounted to \$490.8 billion, an increase by \$35.8 billion, or 7.9% over the year; debt of the general government accounted for the main part of that increase.

External liabilities of the private sector amounted to 82.9% of the total external debt of the Russian Federation (\$406.9 billion as of 1 January 2020). The share of external debt

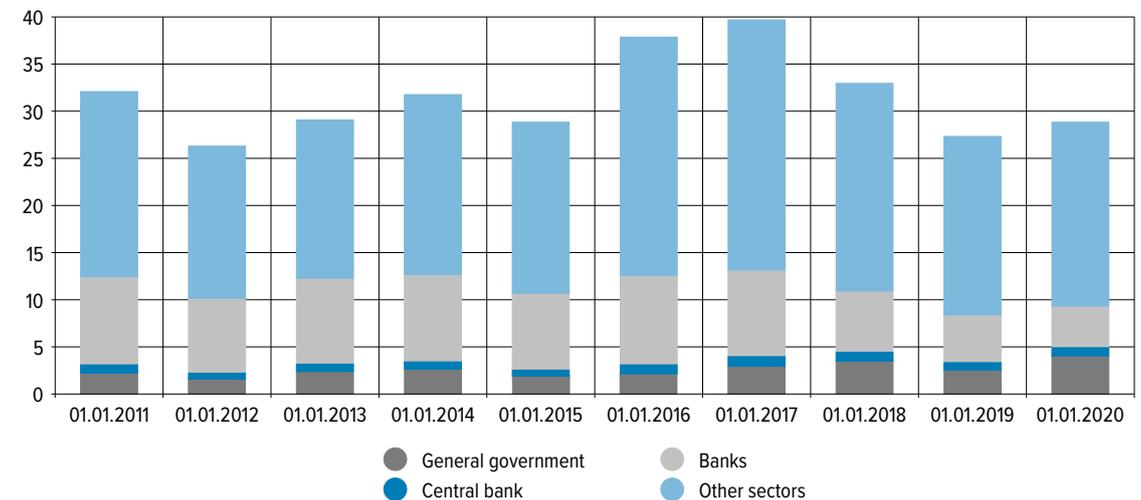
RUSSIA'S EXTERNAL DEBT (BILLIONS OF US DOLLARS)

Chart 10



RUSSIA'S EXTERNAL DEBT (PER CENT OF GDP)

Chart 11



liabilities owed by the general government and the central bank was 17.1% (\$83.9 billion).

The debt of the federal government rose by \$26.0 billion to \$69.8 billion; a significant increase was recorded in the segments of sovereign securities denominated both in Russian rubles (by \$20.6 billion, or 1.8-fold) and in foreign currency (by \$5.7 billion, or one third). The external liabilities of the local government amounted to \$0.1 billion.

External debt of the central bank rose by \$1.8 billion to \$13.9 billion. It included liabilities under repo transactions with non-residents, which increased by \$2.2 billion to \$4.2 billion; debt in the form of Russian ruble-denominated cash currency and deposits held by non-residents, which declined by \$0.3 billion to \$1.9 billion; liabilities to the IMF under special drawing rights (SDRs) distributed to the Russian Federation, which remained at the level of early 2019 in the amount of \$7.9 billion.

In 2019, external debt of banks fell by \$7.7 billion to \$77.0 billion. On the other hand, external debt of other sectors rose by \$15.7 billion to \$330.0 billion.

During 2019, the share of short-term debt in total external debt increased by 2 pp to 13.9% (\$68.0 billion), and the share of long-term liabilities declined to 86.1% (\$422.8 billion). Faster growth of debt on instruments denominated in Russian rubles led to the increase in the share of external indebtedness denominated in the national currency from 24.7% to 30.0% (\$147.4 billion); foreign currency debt accounted for 70.0% of external liabilities (\$343.4 billion).

As of 1 January 2020, according to international criteria, the debt burden on the Russian economy remained moderate, with the external debt to GDP ratio standing at 29% (27% at the beginning of 2019), and the ratio of external debt liabilities of the general government to GDP at 4% (3% at the beginning of 2019).

1.2. The financial sector

1.2.1. MONETARY AGGREGATES AND FINANCIAL AND COMMODITY MARKET CONDITIONS¹

In 2019, lending and money supply demonstrated fairly restrained dynamics reflecting moderate demand of the economy for money to support production, investment and consumer activity.

In 2019, money supply in the national definition (monetary aggregate M2) increased by 9.7% (11.0% in 2018). Broad money supply growth rate was 5.1% in 2019 (12.3% in 2018); growth, adjusted for foreign currency revaluation, was 7.6% (7.9% in 2018).

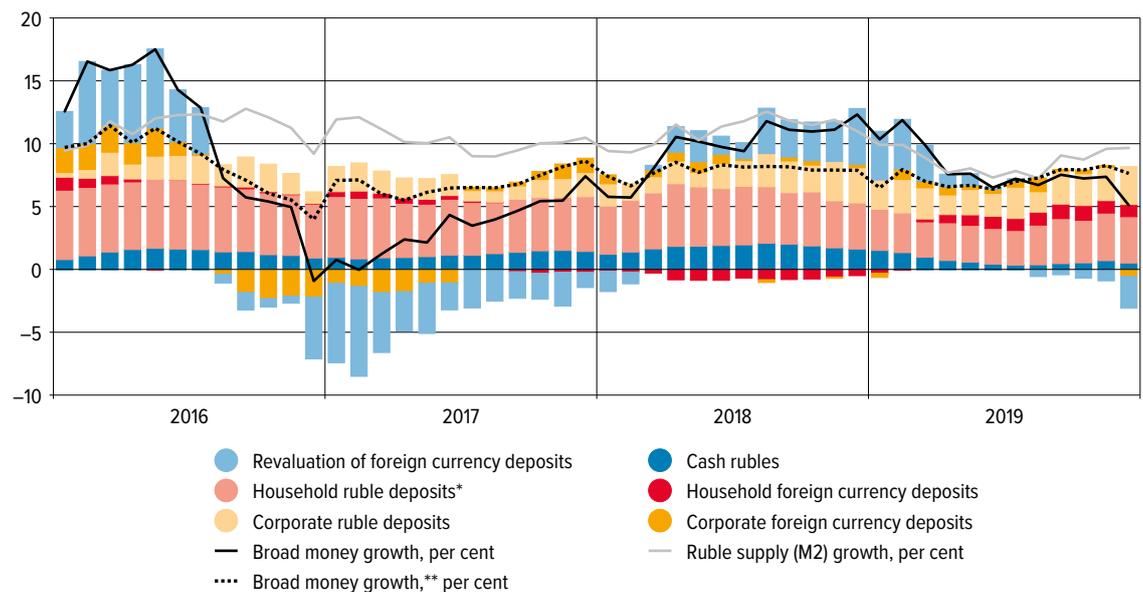
The growth in broad money supply was driven primarily by the ruble-denominated deposits of households and organisations, which indicates continuing confidence of businesses and individuals in the national currency. The attractiveness of ruble-denominated investment was underpinned by real interest rates on ruble-denominated deposits, which remained positive throughout 2019.

In 2019, ruble-denominated household deposits grew by 10.4%, while foreign currency-denominated deposits increased in their US dollar equivalent by 10.6%. In turn, ruble-denominated deposits of organisations grew by 12.4% in 2019, while foreign currency-denominated deposits declined in their US dollar equivalent by 4.3%.

In 2019, the share of foreign currency-denominated deposits continued to decline and hit its minimum since 2013. As of 1 January 2020, it amounted to 23.4%, including 29.6% for corporate deposits and 18.7% for household deposits (27.2%, 35.7% and 20.5% as of 1 January 2019, respectively). The decline in the share of foreign currency-denominated deposits was partly due to the appreciation of the ruble against foreign currencies in the reporting period and the related revaluation of previously made deposits.

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

Chart 12



* Including certificates of deposit and savings certificates.

** Adjusted for foreign currency revaluation.

¹ Monetary and credit aggregates as well as their derivatives, presented in subsection 1.2.1 'Monetary aggregates and financial and commodity market conditions' are calculated based on the data of the 'Banking system survey' (see [Table 1.16 of the Bank of Russia Statistical Bulletin](#) and the 'Statistics' section of the Bank of Russia website).

As in previous years, the growth of broad money supply in 2019 was driven mostly by claims of the banking sector on the economy,¹ which increased by 8.6% (or 10.1%, adjusted for foreign currency revaluation).

This was also facilitated by the expansion of domestic demand (for more details, see [Subsection 1.1.2 'Inflation and economic activity'](#)) and easing of bank lending terms, which was observed primarily as a result of lower interest rates on household and corporate loans.

In 2019, ruble-denominated claims of the Russian banking system on corporates increased by 8.9% (8.5% in 2018). The growth of such ruble-denominated claims on households amounted to 19.3% (22.3% in 2018). Smooth deceleration of activity was observed simultaneously in the mortgage and consumer segments of the retail credit market.

In 2019, total foreign currency-denominated claims on organisations and households decreased in their US dollar equivalent by 1.6%

(10.6% in 2018), indicating the desire of economic agents to avoid excessive accumulation of foreign currency risks in their liabilities.

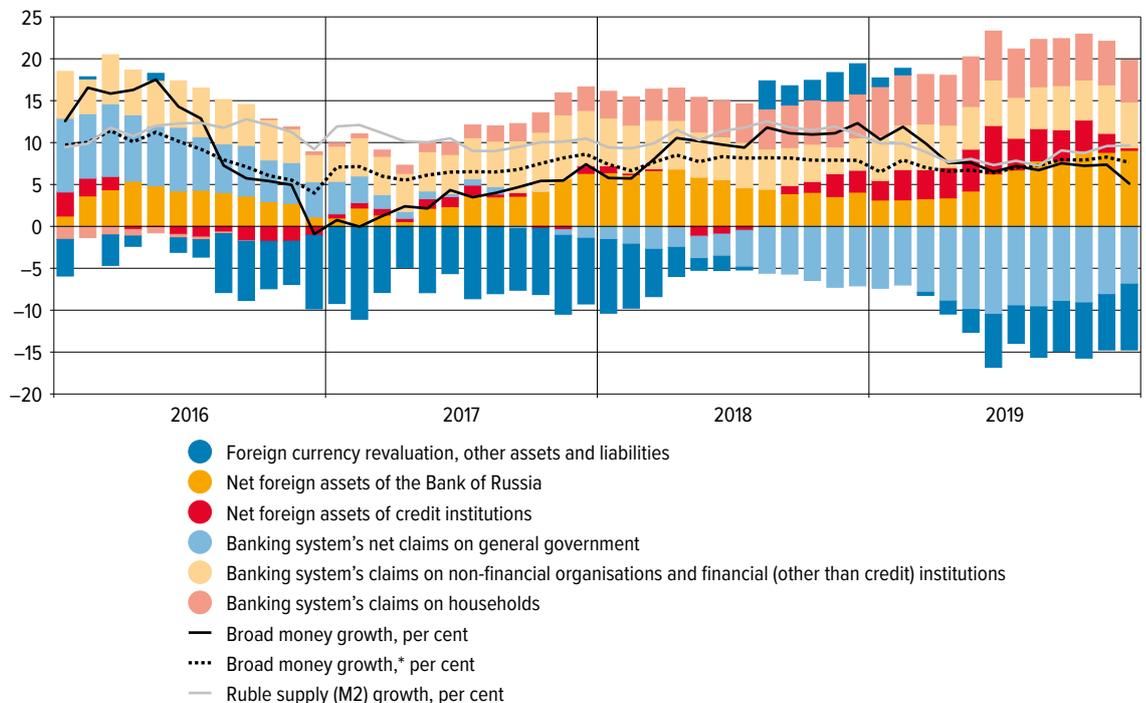
Net foreign assets of the Bank of Russia also made a significant contribution to the growth of broad money supply in 2019 as a result of purchases of foreign currency to replenish the NWF under the fiscal rule, both regular purchases and those deferred in 2018.

At the same time, contribution of the banking system's net claims on general government to the growth of money supply in 2019 was negative and reflected continuing restraint in the budget policy during the period under review (for more details, see [Subsection 1.1.3 'Fiscal policy, government finance and domestic government debt'](#)).

On the money market, the rates on overnight ruble interbank loans (IBLs) formed near the key rate of the Bank of Russia. On average, in 2019, the deviation of the IBL rate from the key rate remained negative at -15 bp; the rate

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

Chart 13



* Adjusted for foreign currency revaluation.

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

spread narrowed compared to 2018 (-28 bp in 2018). The spread ranged from -55 bp to 31 bp (from -87 bp to 49 bp in 2018) (see [Subsection 2.1.2 'Monetary policy instruments'](#)).

The foreign currency liquidity situation also remained stable in 2019. The average spread in the FX swap and IBL segments (the basis) was +10 bp (-61 bp in 2018). The emergence of a positive basis was facilitated by the high foreign currency liquidity reserves accumulated by the banks in the second half of 2018 – beginning of 2019 amid continuing high current account inflows due to high oil prices and seasonality in the first quarter as well as the foreign currency reserves accumulated by banks in the second half of 2018 amid suspension of foreign currency purchases in the domestic market under the fiscal rule. Thus, in the first 6 months of the year, the basis formed at an average of +19 bp. In the second half of the year, there was a slight decline in foreign currency liquidity reserves

amid lower current account inflows, but, in general, reserves continued to be accumulated at a level that was comfortable for the banking sector. In this context, the basis fell to +2 bp.

In the foreign exchange market, during 2019, the ruble strengthened against the US dollar by 10.9% to ₴61.91 per US dollar and against the euro by 12.7% to ₴69.34 per euro (as of 31 December 2019).

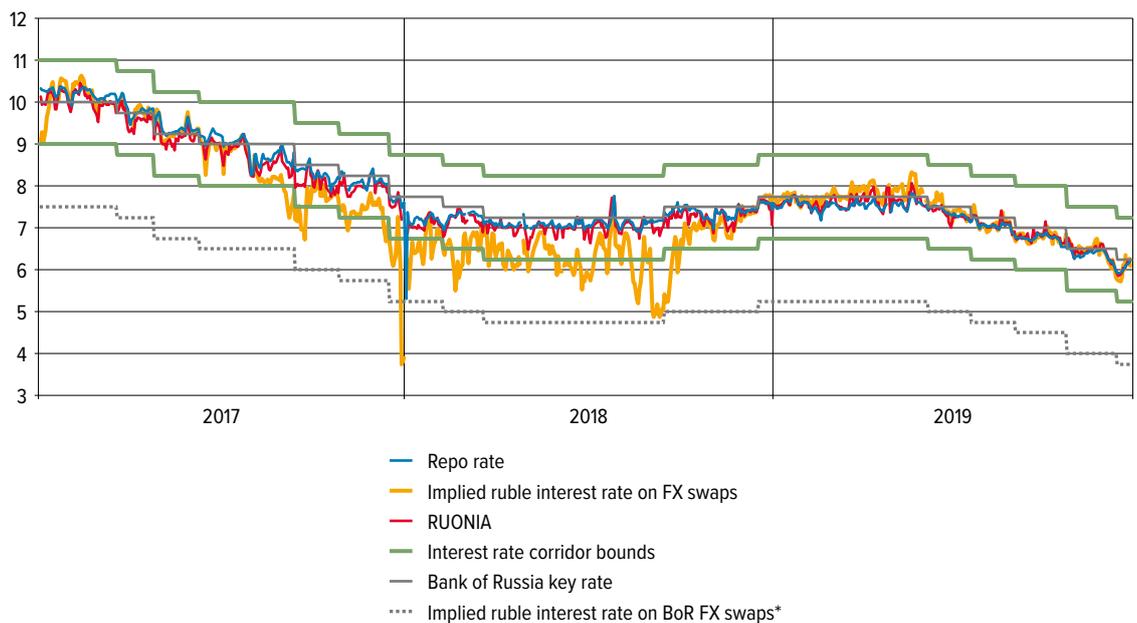
At the beginning of the year, the ruble strengthened from ₴69 to ₴66–67 per US dollar amid the softening of the US Fed’s rhetoric on the future direction of monetary policy. This triggered higher demand for risky assets in global markets and contributed to the appreciation of EME currencies. As a result, in January 2019, the Bank of Russia resumed foreign currency purchases under the fiscal rule, which had been suspended in August 2018 due to increased volatility in the foreign exchange markets. In February–April, the ruble exchange rate continued to rise, outpacing most other EME currencies, which was largely due to a significant inflow of foreign investment in Russian government bonds amid lower sanction risks during most of the year and increased offering of securities by the Ministry of Finance of



The ruble strengthened by 10.9% to ₴61.91 per US dollar

INTEREST RATES IN CERTAIN MONEY MARKET SEGMENTS IN 2019

Chart 14



* Implied rate on BoR reverse FX swap = ruble lending rate – foreign currency borrowing rate + LIBOR (from 19.12.2016: key rate – 1 pp – (LIBOR + 1.5 pp) + LIBOR = key rate – 2.5 pp).
Source: Bank of Russia calculations.

Russia. In June–July, the ruble exchange rate was relatively stable, but escalation of the trade war between the US and China as well as the introduction of sanctions against Russian eurobonds led to a 5.0% decline of the ruble exchange rate in August to the levels reached at the beginning of the year. However, the impact of these factors was short-lived, and as early as in September the exchange rate began to strengthen due to growing demand for Russian assets amid the renewed appetite for risk on the global markets as well as lower inflation and stabilised inflation expectations. At the end of the year, appreciation of the exchange rate accelerated following the progress in trade negotiations between the US and China and the higher likelihood of an agreement on the UK's exit from the EU.

The ruble's oil price elasticity remained low under the effect of fiscal rule and a significant impact of factors unrelated to the commodity market situation on exchange rate dynamics in 2019. Furthermore, exchange rate volatility dropped to its minimum since early 2014.

In 2019, the total average daily trade turnover in the cash segment of the foreign exchange market for the US dollar / ruble and euro/ruble currency pairs remained near its 2018 level at \$5.0 billion.

In 2019, the situation in the stock market was generally favourable. Most segments reported growth in terms of prices and volumes. The market was positively influenced by the easing of monetary policy on the part of the Bank of Russia and a number of foreign monetary regulators, lower risks of sanctions during most of the year, higher demand for EME assets in the global markets and continuing macroeconomic stability. Among negative factors, we can mention new sanctions on Russian eurobonds and heightened uncertainty during certain periods due to the US-China trade deal, the UK's exit from the EU and geopolitical tensions in the Middle East. However, the impact of these factors was short-lived and did not trigger a substantial deterioration in the market.

In 2019, the Ministry of Finance of Russia placed various types of OFZs on the primary government securities market for ₺2,313.0 in par value, which was 2.2 times more than a year earlier. Thus, the annual target for borrowings was fully met. The successful implementation of the plan was facilitated by the transition of the Ministry of Finance of Russia to auctions without a borrowing ceiling as well as high demand for the securities on the part of local and foreign investors. In 2019, non-residents increased their investment in OFZs by a record

RUBLE EXCHANGE RATE AND ITS VOLATILITY

Chart 15



* Indicators as of 29 December 2017 equal 100 per cent.
Source: Bloomberg.

high amount of ₹1,080.0 billion. High demand from foreign investors was explained by lower risks of sanctions and the stable macroeconomic situation in Russia compared to most other emerging market economies.

In 2019, the volume of placed issues of OFZs (including OFZs for individuals) grew by 21.4% to ₹9.0 trillion in par value.

The growth of placement volumes was also observed in the corporate bond market, where the portfolio of outstanding securities rose by 14.1% to ₹13.8 trillion. During the year, there was an increase in demand for this type of securities on the part of local investors due to a significant decline in yields in the government bond market.

The volume of secondary trading in OFZs on the Moscow Exchange increased by 3.7% to ₹6.8 trillion, and for corporate bonds it rose by 11.9% to ₹3.1 trillion.

Yields on government and corporate bonds were going down throughout the year. OFZ yields (RGBEY index) declined by 230 bp to 6.09% p.a., and corporate bond yields (IFX-Cbonds index) fell by 241 bp to 6.73% p.a.

In 2019, the Ministry of Finance of Russia raised \$5.5 billion and €750 million in foreign currency-denominated government bond loans. Redemptions for the same period amounted to \$1.5 billion. As a result, the portfolio of outstanding Russian sovereign eurobonds expanded by 11.2% compared to the end of 2018 to reach \$40.7 billion. In August 2019, the US Treasury Department imposed sanctions on Russian eurobonds, which prohibited American investors from participating in placements of new securities. This may complicate the placement of new issues on the foreign market, but the external borrowing needs of the Ministry of Finance of Russia are relatively small.

In 2019, the MOEX index (calculated on the basis of ruble-denominated stock prices) rose by 28.6%, while the RTS index (calculated on the basis of US dollar-denominated stock prices) increased by 44.9% amid the strengthening of the ruble. Russian stock indices rose due to higher dividend payouts, lower risks of sanctions and overall demand for risky assets on global markets.

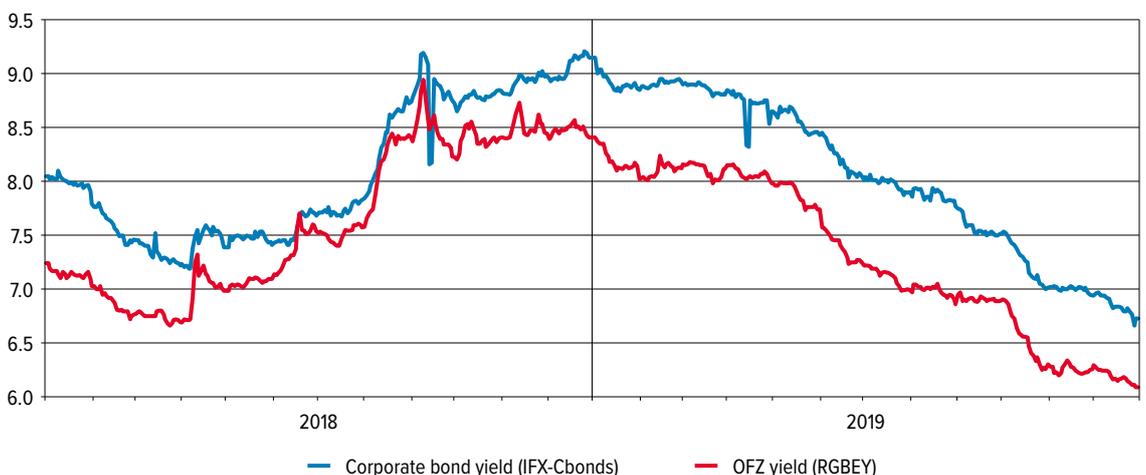
In ruble terms, during 2019, the stock market capitalisation on the Moscow Exchange increased by 22.5% to ₹49.0 trillion. The secondary trading turnover of shares and Russian depository receipts on the Moscow Exchange was up 11.6% in 2019 vs 2018, reaching ₹12.0 trillion.



The MOEX index was up 28.6%, with stock market capitalisation increasing by 22.5%

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

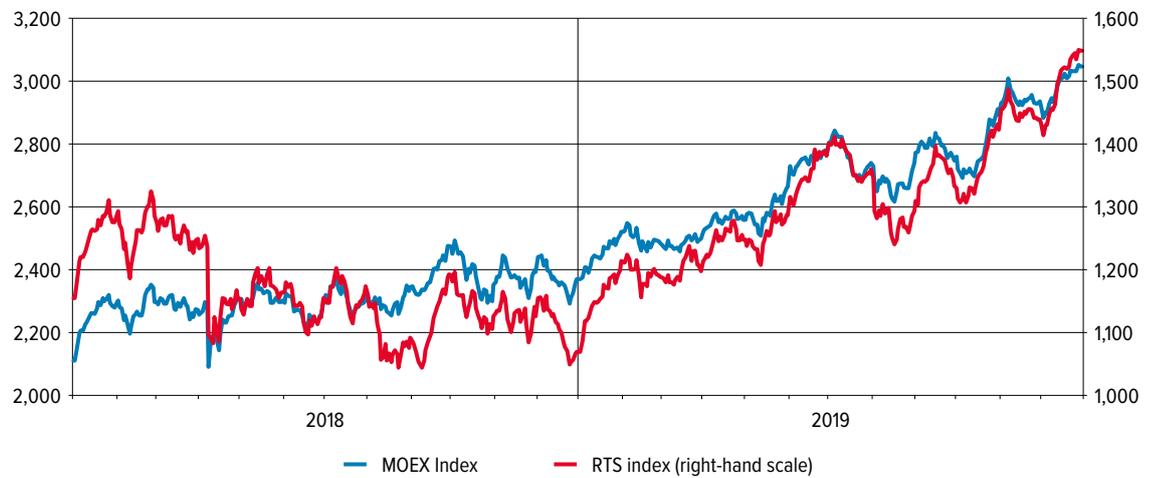
Chart 16



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

**STOCK PRICE INDICES IN SECONDARY MARKET
(POINTS)**

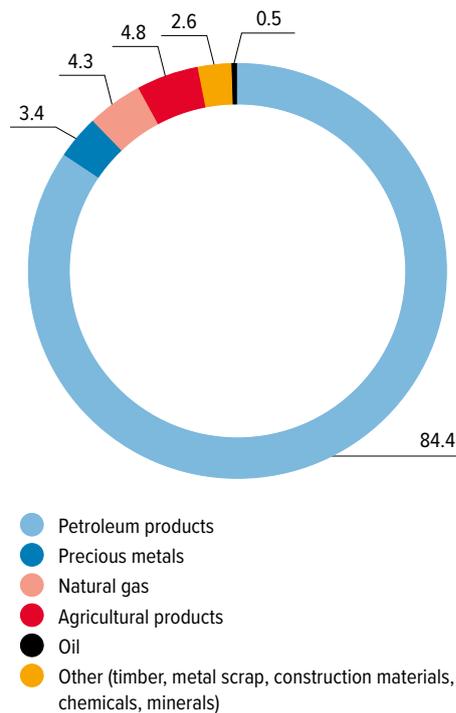
Chart 17



Source: Bloomberg.

**STRUCTURE OF ORGANISED
COMMODITY TRADING IN 2019 (PER CENT)**

Chart 18



In 2019, organised commodity trading was held on five exchanges. The total trading vo-

lume (in monetary terms) declined by about 4% (by more than ₹41 billion) in 2019 compared to 2018 and amounted to ₹1,052.8 billion, which was equal to 0.96% of Russia's annual GDP. The structure of the commodity exchange market has not undergone significant changes and has remained the same for the past five years.

During the reporting period, exchange trading included commodities in such groups as petroleum products, farm produce, natural gas, precious metals, crude oil, minerals, timber, construction materials, ferrous and non-ferrous metals and other goods.

As in the previous period, the bulk of the trading volume in 2019 was in the petroleum product segment, which demonstrated a slight but steady growth of 2% (₹17 billion) and reached ₹889 billion, which accounted for 84% of the total trading volume (79.8% in 2018). At the same time, in physical terms, the trading volume increased by 6% to 21.36 million tonnes of light petroleum products, which indicated a higher supply of petroleum products on the exchange.

1.2.2. FINANCIAL MARKET PARTICIPANTS

1.2.2.1. FINANCIAL INSTITUTIONS

Despite the presence of a significant number of non-bank financial institutions (NFIs), credit institutions (CIs) still dominate the Russian financial sector in terms of assets. In 2019, their number fell from 484 to 442, and the ratio of their assets to GDP declined from 89.9%¹ to 87.8%. Detailed information on the number of credit institutions and non-bank financial institutions in the financial market is provided in [Table 9 of Section 5.4 'Statistical Tables'](#).

CREDIT INSTITUTIONS²

In 2019, assets³ of CIs increased⁴ by 5.2%⁵ (by 6.9% in 2018) to ₹96.6 trillion. Nominal growth of assets lagged behind the growth⁶ of

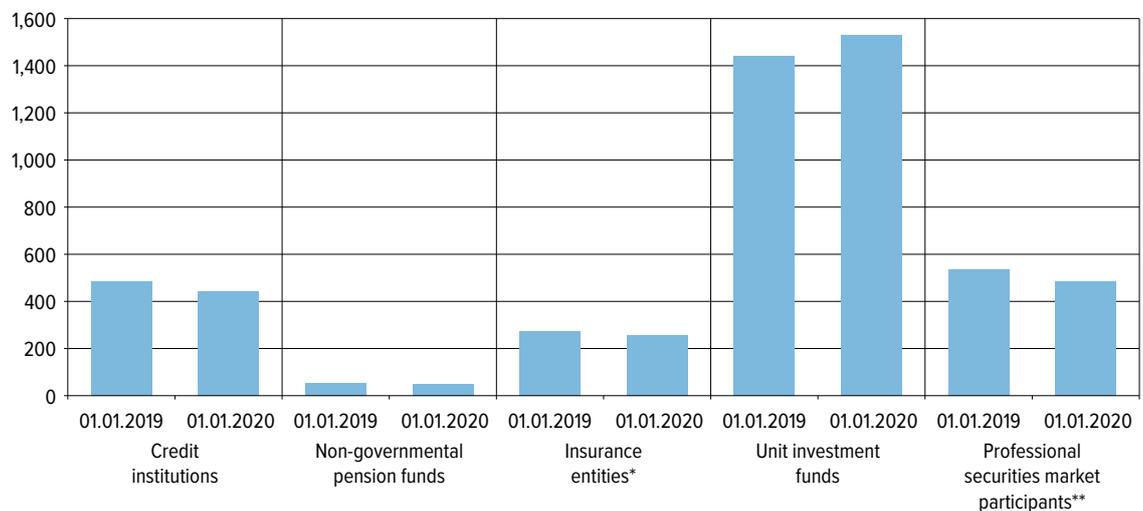
nominal GDP; as a result, the ratio of banking sector assets to GDP declined in 2019 from 89.9% to 87.8%.

In 2019, the number of operating credit institutions with participation of non-residents dropped from 141 to 133. The number of operating credit institutions in which non-residents hold more than a 50% share in the authorised capital decreased from 77 to 74. In 11 out of these 74 credit institutions, non-resident shareholders (participants) were under the control of Russian residents.

As of 1 January 2020, the total authorised capital⁷ of all operating credit institutions amounted to ₹2,884.6 billion and rose by

NUMBER OF MAJOR FINANCIAL MARKET PARTICIPANTS
(UNITS)

Chart 19



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

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

¹ Here and below, the indicator as of the beginning of 2018 differs from the indicator used in the [Bank of Russia Annual Report for 2018](#) due to the updated GDP data.

² For a more complete analysis, the figure for corporate lending in this subsection includes loans to non-financial organisations and financial institutions (other than credit institutions) and is calculated in accordance with the current methodology used in the analytical materials '[On the Development of the Banking Sector](#)'. The portfolio of loans to SMEs includes loans provided by VEB.RF.

³ Hereinafter, in this subsection, bank assets were not decreased by the amount of provisions for possible losses.

⁴ Mainly owing to the growth of assets in systemically important credit institutions (SICIs).

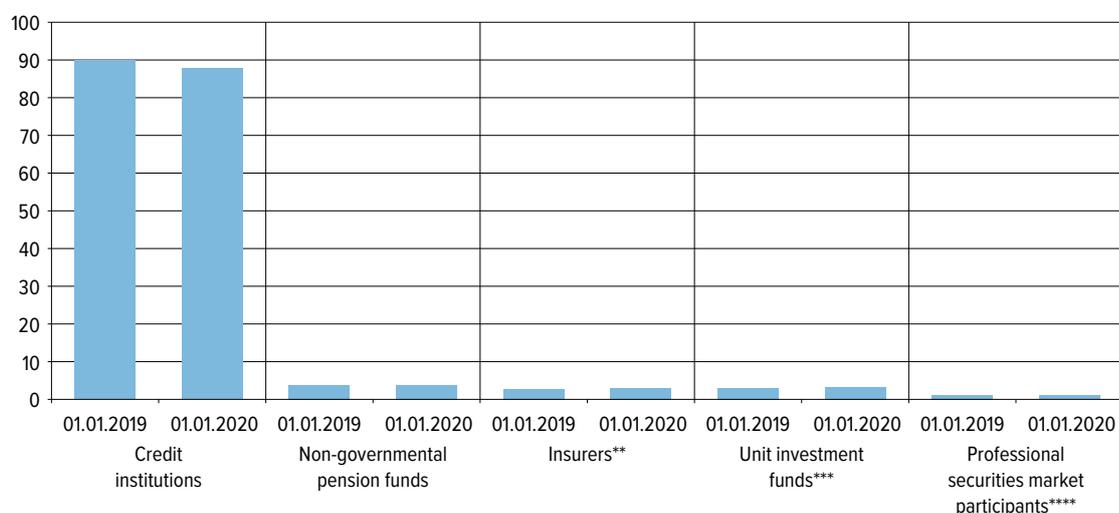
⁵ The figures for growth provided in the subsection on credit institutions are not adjusted for foreign currency revaluation (recalculation of the foreign currency component into rubles at the exchange rate effective at the beginning of the period under review) for credit institutions operating as of 1 January 2020 (including previously reorganised banks).

⁶ According to preliminary estimates of Rosstat, nominal GDP growth for 2019 was near 5%.

⁷ For the purpose of calculation of non-residents' participation in the banking system, total authorised capital means total registered authorised capital and issues of joint-stock credit institutions completed as of 1 January 2020.

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

Chart 20



* Here and below, the indicator for 2018 can differ from the indicator used in *Bank of Russia Annual Report for 2018*, due to the update of GDP data.

** Insurers comprise insurance companies and mutual insurance companies.

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

**** Include non-bank financial institutions engaged in professional activities in the securities market, excluding JSC DOM.RF and FBSC AMC Ltd.

**ASSET STRUCTURE OF CREDIT INSTITUTIONS BY GROUPS OF BANKS
(SHARE IN THE ASSETS OF CREDIT INSTITUTIONS, PER CENT)**

	As of 1 January 2019	As of 1 January 2020
SICs	69.9	71.9
Other banks in the Top 100*	22.0	20.6
Banks outside of the Top 100	3.7	3.1
Non-bank credit institutions	4.4	4.4
Total	100.0	100.0

* Banks in the Top 100 are defined as the 100 largest banks by assets.

₽186.9 billion in 2019 (by 6.9%) mainly due to the increase in the authorised capital of credit institutions.

The total amount of investments by non-residents in the authorised capitals of operating credit institutions grew in 2019 by ₽9.2 billion, or by 2.4%, and amounted to ₽401 billion as of 1 January 2020. The share of non-residents in the cumulative authorised capital of operating credit institutions fell from 14.5% as of 1 January 2019 to 13.9% as of 1 January 2020.¹

The share of foreign capital in the total authorised capital of operating credit institutions, as calculated by the Bank of Russia in accordance with the procedure specified in Article 18 of Federal Law No. 395-1, dated 2 December

1990, 'On Banks and Banking Activities', was 11.8% as of 1 January 2020 (12.4% as of 1 January 2019).

Cost of credit and deposit operations. 2019 saw a decline in interest rates on core banking operations. As the Bank of Russia eased its monetary policy, the OFZ yield curve shifted downwards.

The weighted average interest rate on ruble-denominated loans with a maturity of more than 1 year issued to non-financial organisations was 8.3% p.a. in December 2019, or 1.3 pp less than in January of the same year. The rate on ruble-denominated household loans with the same maturity period fell from 13.1% p.a. in January to 12.1% p.a. in December.

¹ The paragraph contains figures of the stakes of non-residents, net of the adjustments established in Article 18 of Federal Law No. 395-1, dated 2 December 1990, 'On Banks and Banking Activities'.



In December 2019, the weighted average interest rate on ruble-denominated loans with a maturity of more than 1 year issued to non-financial organisations was 8.3%, and for household loans it was 12.1%. The mortgage interest rate declined to 9% p.a.

As the Bank of Russia’s key rate declined, the weighted average mortgage interest rate decreased until the end of 2018, reaching 9.7%. At the beginning of 2019, the rate rose slightly, reaching a local maximum in April 2019 (10.6%), after which it continued to decline, reaching 9.0% p.a. in December 2019.

In non-financial organisations, the average weighted interest rate on ruble-denominated deposits with a maturity over 1 year dropped in 2019 by 0.8 pp to 5.8% p.a. in December 2019. At the beginning of the year, the rate on household ruble-denominated deposits increased from 6.9% to 7.1% p.a. in March 2019,

after which it declined and reached 5.6% p.a. in December 2019.

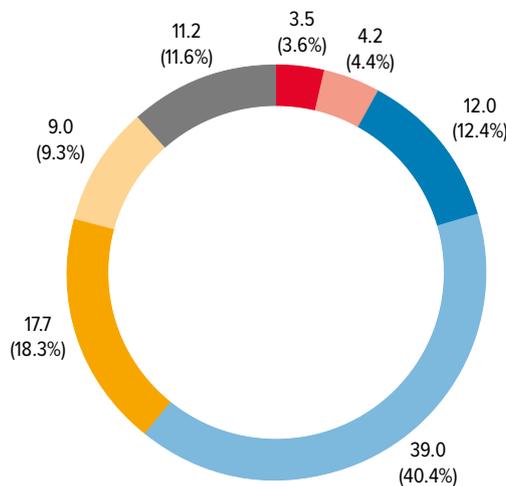
Structure of the assets of credit institutions. In 2019, the total volume of corporate¹ and retail loans increased by 9.4% (11.7% in 2018), to ₴56.7 trillion. For SICIs, the growth of lending was comparable to that in the remaining CIs and amounted to 9.5% or ₴45.0 trillion.

In 2019, lending dynamics, both corporate and retail, were less active than in 2018.

Overall in the banking sector, debt on *corporate loans* rose to ₴39.0 trillion in 2019, or 5.8%, which was less than in 2018 (+7.7%),

ASSETS STRUCTURE
(AS OF 01.01.2020, TRILLIONS OF RUBLES
(AS A PERCENTAGE OF CI ASSETS))

Chart 21



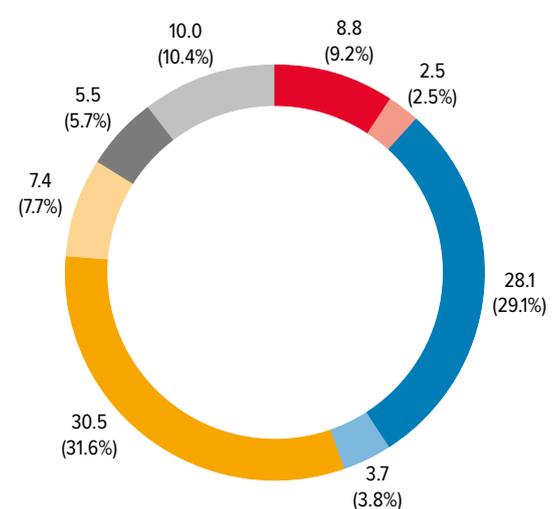
- Cash and cash equivalents
- Claims on the Bank of Russia (excluding Coupon OBRs*)
- Securities
- Corporate loans
- Retail loans
- Interbank loans
- Other

* Coupon OBRs are recognised as part of securities, in particular, repo transactions.

Source: Reporting Form 0409101.

LIABILITIES AND CAPITAL STRUCTURE
(AS OF 01.01.2020, TRILLIONS OF RUBLES
(AS A PERCENTAGE OF CI LIABILITIES))

Chart 22



- Credit institutions' funds
- Bank of Russia loans
- Companies' funds
- State authorities's funds
- Household deposits
- Adjusted reserves
- Other
- Book value

Source: Reporting Form 0409101.

¹ For a more complete analysis of corporate lending, the indicator includes loans to non-financial organisations and financial institutions (excluding credit institutions).



Corporate and retail loans increased by 9.4% in 2019

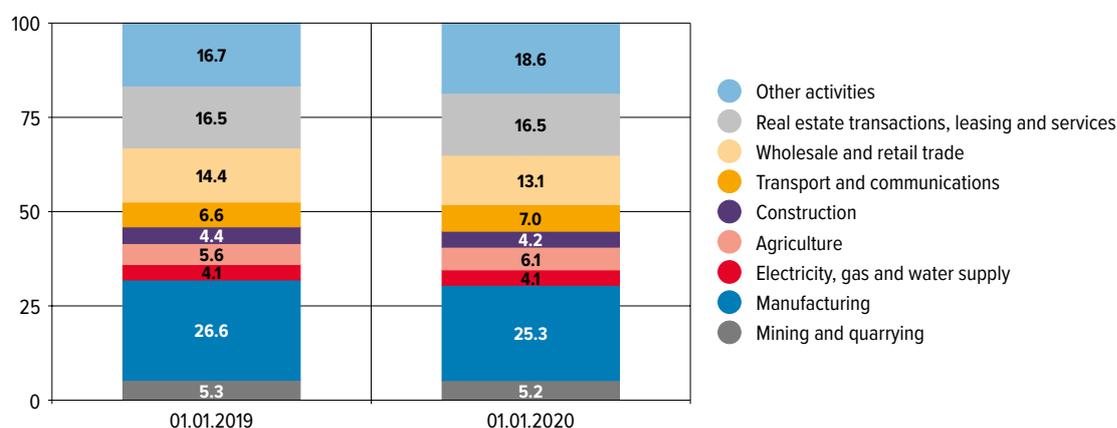
while its share in the assets of the banking sector remained virtually unchanged. Slower growth was due to weak demand on the part of large borrowers, in particular, as a result of their more active bond issuance. Amid favourable conditions, the amount of outstanding

ruble-denominated corporate bonds grew by about ₹1 trillion in 2019¹ (an increase of nearly 15%).

In 2019, credit institutions provided ₹7.8 trillion in *loans to SMEs*, which was 14.8% more than a year earlier (growth amounted to 11.4% in 2018). Outstanding bank loans to SMEs increased by 12.4%² and amounted to ₹4.7 trillion as of 1 January 2020. The number of SMEs with outstanding loans also increased during the year from 233,000 in January to 275,000 in December.

SECTORAL STRUCTURE OF THE BANKING SECTOR'S CORPORATE LOAN PORTFOLIO (EXCLUDING LOANS TO COMPLETE SETTLEMENTS) (PER CENT)

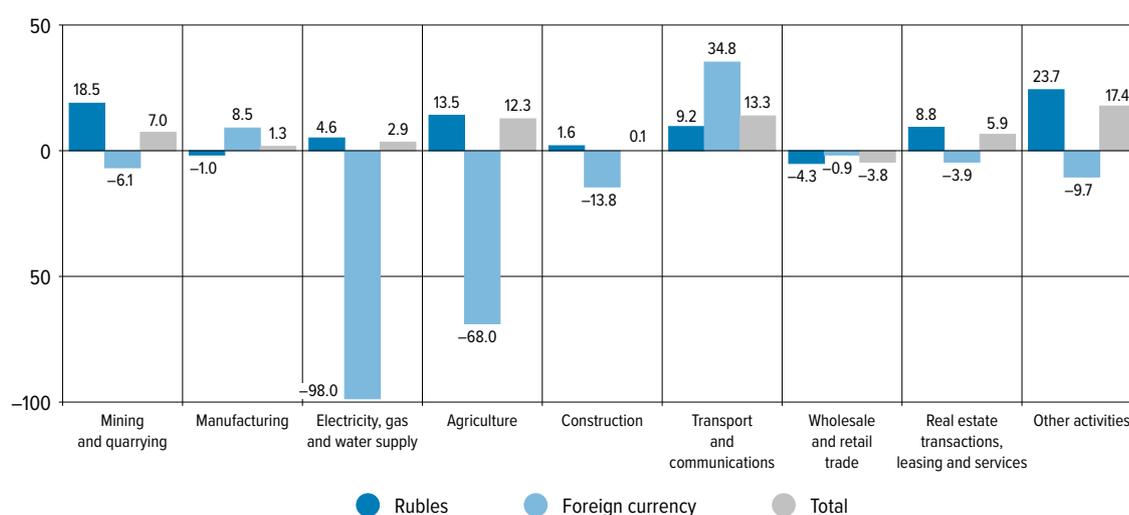
Chart 23



Source: Reporting Form 0409303.

DEBT GROWTH RATES BY ECONOMIC ACTIVITY IN 2019 (PER CENT)

Chart 24



Source: Reporting Form 0409303.

¹ According to data from the information agency Cbonds.ru and Bank of Russia calculations.

² The portfolio of loans to SMEs, excluding those issued by VEB.RF, increased by 12.8%.



Outstanding bank loans to SMEs increased by 12.4% to ₹4.7 trillion

The sectoral structure of corporate loans did not change significantly in 2019.

During the year, the highest growth rates were observed in lending to agriculture, transport and communications and mining.

In 2019, the share of *foreign currency-denominated loans* in the total volume of corporate loans fell by 3.9 pp, which could be related to their refinancing with ruble-denominated loans amid lower ruble-denominated interest rates.

Outstanding household bank loans rose by 18.6% in 2019 (by 22.8% in 2018) to ₹17.7 trillion. As of 1 January 2020, this segment accounted for 18.3% of banking sector assets. The foreign currency component is as usual insignificant (0.5% as of 1 January 2020). Growth in retail lending was driven mainly by both unsecured consumer loans and housing mortgage loans.

At the same time, the growth of *housing mortgage loans* (HMLs) declined from 23.1% in 2018 to 17.2% in 2019 following macroprudential measures taken by the Bank of Russia to limit risks in this market segment (to reduce the share of mortgage loans with a low down payment; see [Subsection 2.2.1.2 'Macropudential regulation measures to ensure financial stability'](#)). As of 1 January 2020, the HML portfolio amounted to ₹7.7 trillion.¹ The current dynamics are generated, among other things, by the increase in rates in late 2018 – early 2019 and are partly of a technical nature due to securitisation transactions carried out by banks (when adjusted for this factor, growth was near 20%). 1,269,000 new loans in the amount of ₹2.8 trillion were issued in 2019, which was less

than in 2018 in terms of both quantity (–13.8%) and amount (–5.5%).

Overall, during 2019, the growth rate of *unsecured consumer loans* declined compared to 2018 (20.9% vs 22.8%). A substantial slowdown was observed in 2019 Q4 (11.6% in annual terms; for comparison, in the first 9 months of 2019, the increase was 23.3%²) after the introduction of additional add-ons to risk weights on loans to borrowers with a high debt burden (with the DBR of more than 50%).

In 2019, the *securities portfolio* increased by 7.4% to ₹12.0 trillion, primarily as a result of investments in debt liabilities (growth by 8.8%), which accounted for 96% of the securities portfolio. However, its share in banking sector assets has declined.

The securities portfolio of SICIs rose by 15.2% to ₹7.5 trillion during the reporting period.

Structure of liabilities of credit institutions.

A positive feature of 2019 was the continued inflow of retail deposits into banks, despite the trend toward lower interest rates on deposits during the year. With the slowdown of inflation, real returns on deposits continued to attract households to ruble-denominated deposits as their main savings instrument.

In 2019, the volume of *household deposits*³ rose by 10.1% (6.5% a year earlier) to ₹30.5 trillion. At the same time, the share of Sberbank in the household deposit market has declined (from 45.1% to 43.8%) but remains sizeable.

In 2019, the share of household deposits in foreign currency fell from 21.5% in January to 19.6% in December. The decline in the share of foreign currency-denominated deposits was facilitated, among other things, by a stronger ruble and lower interest rates on such deposits (the rates on long-term deposits in US dollars decreased from 3.3% in January to 1.1% in December) in the context of both declining yields on foreign exchange assets and measures taken by the Bank of Russia.⁴

¹ This includes data from Section 1 of Reporting Form 0409316 'Information on Loans Granted to Individuals' regarding the amount of debt as well as data from the subsection 'For Reference' of Section 1 of this form regarding acquired rights of claim on housing mortgage loans.

² Annualised quarterly growth rates.

³ This includes savings certificates and funds in accounts.

⁴ Effective 1 July 2019, the required reserves ratios for foreign currency-denominated liabilities to individuals were increased by 1 pp to 8.0%.

The total volume of *corporate deposits and funds in corporate accounts* rose by 4.4% in 2019 (6.0% in 2018) and amounted to ₺28.1 trillion as of 1 January 2020. The share of foreign currency held by companies also declined from 37.0% to 30.5%, respectively.

The volume of household deposits with SICs increased by 11.1% to ₺24.1 trillion in 2019, while the volume of corporate deposits and funds on corporate accounts rose by 4.2% to ₺20.7 trillion.

Borrowings of credit institutions from the Bank of Russia declined by 6.0% in 2019. A significant inflow of funds into the banking system during 2019 occurred through the state channel as a result of higher borrowings from the Ministry of Finance of Russia and financial authorities of the constituent entities of the Russian Federation. The share of state funding in the liabilities of banks reached 8% at its peak, but, in December, due to the seasonality of budget expenditures, there was a substantial outflow of state funds, which was offset by the inflow of household deposits and corporate funds.

Claims and obligations on interbank loans. In 2019, the total portfolio of issued IBLs decreased by 0.3% (by 9.8% in 2018) to ₺9.0 trillion, and over the year their share in the banking sector's assets fell from 9.9% to 9.3%.

Loans to resident banks fell by 4.2%, while loans to non-resident banks were up 16.6%.

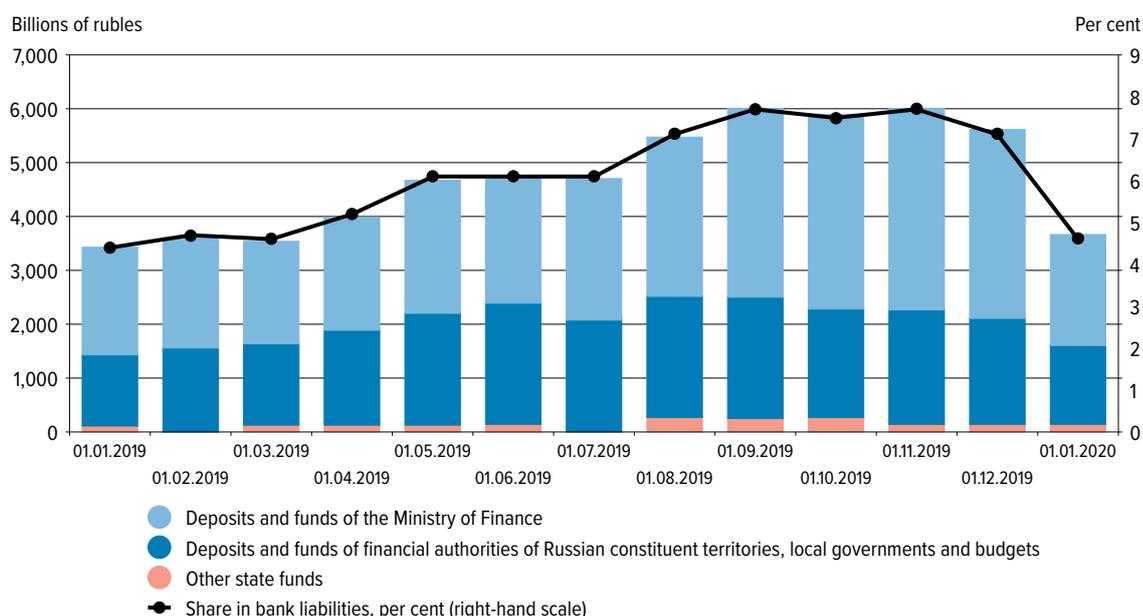
The volume of raised IBLs diminished by 8.6% (by 5.2% in 2018) to ₺8.1 trillion, while their share in banking sector liabilities decreased by 1.4 pp to 8.4%. Over the year, IBLs raised from non-resident banks significantly decreased (by 25.1%).

At the end of 2019, the Russian banking sector remained a net creditor in operations with non-resident banks: net claims to non-residents in the IBL market stood at ₺1.0 trillion (₺0.5 trillion a year earlier).

Financial results. In 2019, operating credit institutions earned a net profit of ₺1.7 trillion (₺1.0 trillion in 2018); however, the dynamics of banking sector profit were influenced by a number of technical and one-time factors. This includes technical income of ₺0.4 trillion from reflecting part of the adjustments related to the introduction of the new credit risk standard under IFRS 9 in the income statement as well as the results of banks administered by the Fund of Banking Sector Consolidation (FBSC), where large one-time additional formations of provisions on old problem assets are possible. Thus, in 2019, the results of banks administered by FBSC were close to zero, while in 2018 these banks reported a significant loss exceeding ₺0.5 trillion.

STATE FUNDING OF BANKS IN 2019

Chart 25



Source: Reporting Form 0409101.



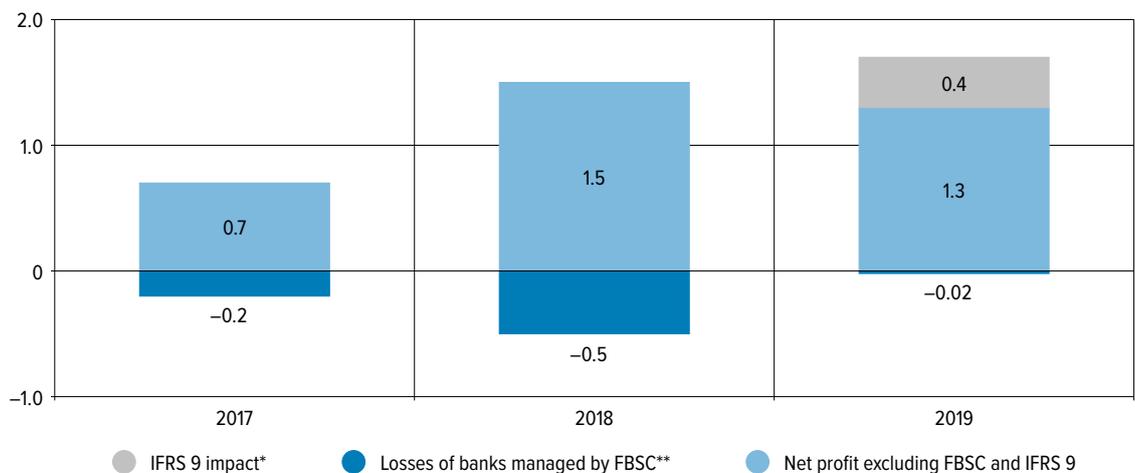
372 credit institutions reported positive financial results for 2019

The net profit of the sector, excluding IFRS 9¹ adjustments and less the results of banks un-

dergoing a financial rehabilitation procedure and administered by FBSC, amounted to ₴1.3 trillion. The return on equity² of the sector calculated based on net profit, excluding the impact of IFRS 9 and the results of banks administered by FBSC, declined from 16.6% in 2018 to 13.1% in 2019, which was due, among other things, to the net additional formation of provisions by banks.

ADJUSTED PROFIT OF THE BANKING SECTOR (TRILLIONS OF RUBLES)

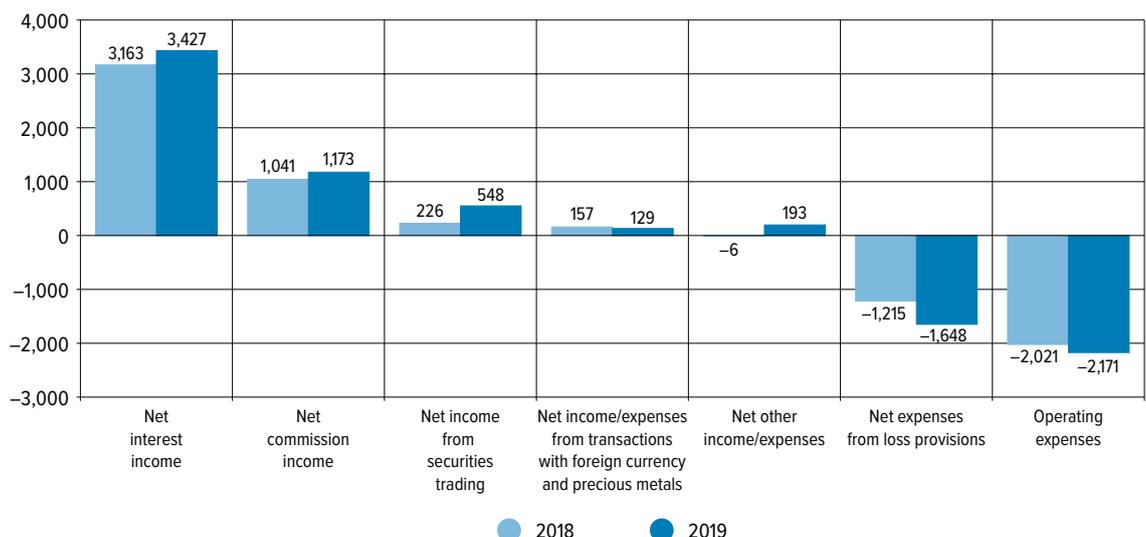
Chart 26



* Technical income of 0.4 trillion rubles from partial adjustments related to the implementation of the new credit risk accounting standard IFRS 9.
** Banks managed by the Fund of Banking Sector Consolidation.
Source: Reporting Form 0409102.

PROFIT FACTORS (BILLIONS OF RUBLES)

Chart 27



Note. Income and expenses of the banking sector in 2019 are adjusted for IFRS 9 impact.
Source: Reporting Form 0409102.

¹ IFRS 9 'Financial instruments'.

² Return on equity (ROE) was calculated based on the average balance sheet capital; the calculation also excluded past negative profit adjustments related to IFRS 9.

The banking sector is dominated by profitable credit institutions. In 2019, 372 credit institutions reported positive financial results (84% of those operating as of 1 January 2020; 98% of banking sector assets).

In 2019, the banking sector increased the volume of its dividends to ₹540 billion. Most dividends were still paid by state-owned banks.

Interest and commission incomes remain the most stable profit-generating sources. Net interest income of the sector (excluding the impact of IFRS 9) increased by 8.3% to ₹3.4 trillion in 2019, amounting to 62.6% of operating income;¹ net fee and commission income increased by 12.7% to ₹1.2 trillion, amounting to 21.4% of operating income.

In 2019, net interest margin² declined slightly to 4.36%. However, it is still at an acceptable

level as deposit rates are declining along with credit rates.

Operating expenses of credit institutions in 2019 rose by 7.4%, to ₹2.2 trillion.

Capital adequacy. In 2019, the banking sector's equity demonstrated moderate growth driven primarily by the sector's high profitability as well as additional capitalisation of several major banks. Substantial dividends paid out by major banks had only a small impact on the dynamics of capital in the banking sector.

In 2019, the capital adequacy of the sector increased from 12.2% to 12.3%. There was a more noticeable rise in the adequacy of common equity Tier I capital and core capital, which increased from 8.3% to 8.6% and from 8.9% to 9.3%, respectively.

Capital adequacy has risen owing to faster growth of capital (total capital increased by

CAPITAL ADEQUACY REQUIREMENTS

Ratios (on a solo basis / on a group basis)	Minimum requirements for capital adequacy ratios	Capital conservation buffer	Countercyclical buffer	Systemic importance buffer	Total minimum capital adequacy requirements, including buffers for CIs with a universal licence	Total minimum capital adequacy requirements, including buffers for SICIs
From 1 January 2019						
N1.1/N20.1	4.5	1.875	0	0.65	6.375	7.025
N1.2/N20.2	6	1.875	0	0.65	7.875	8.525
N1.0/N20.0	8	1.875	0	0.65	9.875	10.525
From 1 April 2019						
N1.1/N20.1	4.5	2	0	0.65	6.5	7.15
N1.2/N20.2	6	2	0	0.65	8	8.65
N1.0/N20.0	8	2	0	0.65	10	10.65
From 1 July 2019						
N1.1/N20.1	4.5	2.125	0	0.65	6.75	7.275
N1.2/N20.2	6	2.125	0	0.65	8.125	8.775
N1.0/N20.0	8	2.125	0	0.65	10.125	10.775
From 1 October 2019						
N1.1/N20.1	4.5	2.25	0	0.65	6.75	7.4
N1.2/N20.2	6	2.25	0	0.65	8.25	8.9
N1.0/N20.0	8	2.25	0	0.65	10.25	10.9
From 1 January 2020						
N1.1/N20.1	4.5	2.5	0	1	7	8
N1.2/N20.2	6	2.5	0	1	8.5	9.5
N1.0/N20.0	8	2.5	0	1	10.5	11.5

¹ Operating income refers to net interest income, fee and commission income, net income from operations with securities and foreign currency, operations with other placed and raised funds and net other operating income.

² For the banking sector without NCIs, excluding the impact of IFRS 9.



The capital adequacy of the banking sector increased by 12.3% in 2019

7.2%, common equity Tier I capital and core capital grew by 9.3% and 10%, respectively) compared to the growth of risk-weighted assets (5.5%).¹ The growth of risk-weighted assets was largely due to the tightening of requirements for risk ratio buffers. Banks with a capital deficit undergoing rehabilitation, whose assets had significantly decreased, had a restraining effect on the growth of risk-weighted assets.

At the same time, the estimated potential to expand lending for the banking sector in 2019 fell to ₺20.2 trillion, or by 12.9%, largely due to a planned increase of requirements for capital adequacy ratio buffers.

As of 1 January 2020, 415 credit institutions in the banking sector² had a capital cushion (94% of credit institutions operating as of 1 January 2020).

NON-GOVERNMENTAL PENSION FUNDS

In 2019, the number of operating NPFs declined by five to 47 (as of 1 January 2020), of which 33 are members of the guarantee system for the rights of insured persons and carry out activities related to mandatory pension insurance.

At the end of 2019, the investment portfolio of NPF pension funds amounted to ₺4,272.8 billion. Over the year, the pension savings portfolio of NPFs increased by 10.1% to ₺2,857.5 billion, and the pension reserves portfolio grew by 12.1% to ₺1,414.3 billion.

The main components of the pension savings portfolio held by NPFs included corporate bonds and government securities of the Russian Federation (their shares at the end of the year

were 51.5% and 29.9%, respectively); the pension reserves portfolio included corporate bonds, investment units of unit investment funds and government securities of the Russian Federation (44.5%, 17.0% and 12.9%, respectively).

In 2019 Q3,³ 6.2 million people participated in the voluntary pension system, and pension payouts under non-governmental pension provision amounted to ₺52.7 billion. There were 1,575,700 recipients of a voluntary pension (3.2% more than in the same period of 2018). The number of insured persons with savings in funds increased to 37.4 million.

As a result of the first three quarters of 2019, pension payouts under mandatory pension insurance increased by 15.9% compared to the same period of 2018 and reached ₺10.5 billion.

Over the period from 30 September 2018 to 30 September 2019, NPF assets grew by 7.1% to ₺4,346.8 billion; their ratio to GDP was stable throughout 2019 and remained at about 4%. The equity of NPFs rose by 41.3% to ₺638.1 billion.

As a result of the first three quarters of 2019, net profit amounted to ₺259.7 billion. In 2019, the return of the pension savings portfolio and pension reserves portfolio of NPFs was 10.7% and 8.1% p.a., respectively.⁴

INSURANCE ENTITIES⁵

As of 1 January 2020, the number of insurance entities registered within the Russian Federation declined by 7.3% to 255 (275 as of 1 January 2019). The number of insurance companies decreased by 10.6% to 178 (199 as of 1 January 2019). The number of insurance brokers rose by two and reached 66, while the number of mutual insurance companies declined by one to 11.

In 2019, insurance premium payments increased slightly by 0.1%, and the amount of collected insurance premiums totalled ₺1,481.2 bil-

¹ The increase is indicated for operating CIs as of 1 January 2020.

² CIs that meet ratios and buffer requirements have a capital buffer.

³ Hereinafter, the absence of statistical data on NPFs overall for 2019 is due to temporary regulatory and supervisory measures for NPFs providing for regulatory easing with regard to reporting deadlines in order to mitigate the impact of the coronavirus infection (COVID-19) in accordance with Bank of Russia Letter No. O15-54/2082, dated 20 March 2020, 'On a Set of Measures to Support the Collective Investment Market'.

⁴ This represents the weighted average return of the pension reserves portfolio and pension savings portfolio of NPFs before the payment of fees to the fund, management companies and the specialised depository.

⁵ Statistical data for 2019 are presented according to the information available as of 12 February 2020; data on accounting (financial) statements as of 31 December 2019 are presented according to the information available as of 8 April 2020.

lion. 208.1 million insurance agreements were concluded in 2019, which was 2.7% more than in 2018. Total payouts under insurance agreements rose by 16.9% to ₹610.9 billion.

Voluntary health insurance (VHI) made the greatest positive impact on the dynamics of total contributions collected in 2019. The amount of insurance premiums grew by 19% and reached ₹180.7 billion. The number of concluded insurance agreements increased by 38.3% to 17 million. The amount of payouts under VHI agreements grew by 13% to ₹126.5 billion.

In the segment of other corporate property insurance, premium payments rose by 16.7% to ₹103.3 billion. Payouts dropped by 41.4% to ₹28.9 billion.

Premium payments under accident and health insurance amounted to ₹187.4 billion. Premiums rose by 10.5%. The number of concluded agreements fell by 4.3% to 55.2 million. Payouts under accident and health insurance increased by 5.4% to ₹17.3 billion.

Premium payments for ground vehicle insurance, excluding railway transport (motor hull insurance), rose by 1.1%. ₹170.5 billion was collected in premiums, and 4.9 million agreements were concluded in 2019. Payouts under motor hull insurance increased by 16.8% to ₹97.2 billion.

Premium payments in the segment of compulsory motor third-party liability insurance (CMTPLI) declined by 4.9% to ₹214.9 billion. The number of concluded insurance agreements fell by 13,100 in 2019 to 39.7 million. Payouts increased by 3.2% to ₹142.4 billion.

Premiums collected for life insurance declined by 9.5% to ₹409.4 billion. The number of concluded life insurance agreements went down 13.2% to 5.2 million. Payouts under life insurance agreements went up 98.9% to ₹133.4 billion.

In 2019, premiums for incoming reinsurance amounted to ₹51.5 billion, a rise of 18.6%. The amount of premiums transferred to reinsurance increased by 7.4% to ₹124 billion.

The combined loss ratio of insurers for the year rose by 3.0 pp to 87.9%. This increase

was due to a higher expense ratio, which rose by 3.5 pp to 39.3%. In contrast, the loss ratio went down 0.5 pp to 48.6%.

The profit of insurers (after tax) increased by 25.8% to ₹207.5 billion. Capital increased by 19.6% to ₹810.1 billion. Return on equity was 33.1%, an increase of 2.0 pp in 2019. Total assets of insurers amounted to ₹3,337.8 billion after increasing by 14.4% in 2019. The return on assets of insurers grew by 0.4 pp to 7.9%.

MICROFINANCE MARKET PARTICIPANTS

In 2019, the number of microfinance organisations (MFOs) declined by 11.4% to 1,774 as of 1 January 2020. This includes 38 microfinance companies (MFCs) and 1,736 microcredit companies (MCCs).

The number of consumer credit cooperatives (CCCs) declined by 9.9% to 2,058, pawnshops decreased by 22% to 3,599, agricultural CCCs (ACCCs) decreased by 17.2% to 863 and the number of housing savings cooperatives (HSCs) fell by 15.3% to 50.

Core assets of MFOs¹ increased by 29% to ₹212 billion.

In 2019, the number of microloan agreements rose by 17% to 33.8 million.

The net profit of MFOs grew by 51.6% and amounted to ₹16.5 billion.

UNIT AND JOINT-STOCK INVESTMENT FUNDS

By the end of 2019, the number of management companies operating in the collective investment market² decreased by 11 to 269 organisations.

By the end of the year, the number of organisations operating as a specialised depository of investment funds, unit investment funds (UIF) and non-governmental pension funds (NPF) was 26.

The number of UIFs (registered and not excluded from the UIF register) increased by 91 to 1,531. The number of closed-end UIFs for qualified investors rose by 83;³ the number of open-end UIFs declined by 13 to 255.

¹ The amount of principal debt under issued microloans.

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

³ Established or in the process of liquidation.

In 2019, the number of operating joint-stock investment funds (JSIFs) remained unchanged and was two.

Despite the lower number of open-end UIFs, the number of their unit holders surged by 30.0%. As a result, the total number of UIF unit holders grew by 14.3% to 1,897,900.

The net assets of UIFs increased by 33.8% and amounted to ₹4,469.7 billion.¹ Net assets of closed-end UIFs rose by 28.5%. Their volume accounted for 88.3% of the total net assets of UIFs.

The net asset value of exchange-traded UIFs increased to ₹16.9 billion. The number of exchange-traded UIF unit holders grew from 3,200 to 70,700. Net inflow of funds (the difference between the issuance and redemption of units) amounted to ₹14.6 billion.

At the end of 2019, UIF assets amounted to ₹5,142.8 billion. UIF funds continued to be invested primarily in real estate (18.1% of all assets), authorised capitals of Russian companies (16.3%) and shares of Russian issuers (15.0%).

PROFESSIONAL SECURITIES MARKET PARTICIPANTS

In 2019, the number of credit institutions and non-bank financial institutions holding licences of professional securities market participants² declined by 9.9% to 484. Of these, 263 are non-bank financial institutions that are professional securities market participants (NFI PSMPs) or investment advisors, and 221 are credit institutions that are professional securities market participants (CI PSMPs). In 2019, the number of professional securities market participants acting as investment advisers surged by 245% and amounted to 69 as of 1 January 2020.

Net profit of NFI PSMPs for 2019 was ₹36.7 billion (for 2018, ₹8.1 billion). Total assets at the end of 2019 amounted to ₹1.1 trillion

(₹1.0 trillion at the end of 2018), capital and reserves amounted to ₹314.2 billion (₹297.7 billion) and liabilities amounted to ₹789.4 billion (₹732.7 billion).

At the end of 2019, the number of customers of professional securities market participants (PSMPs) was 9.2 million³ (of which 99.5% were individuals). For comparison, at the end of 2018, the number of PSMP customers was 5.2 million (of which 99.1% were individuals).

During 2019, more retail customers of professional securities market participants opened individual investment accounts (IIAs). At the end of 2019, the number of IIAs opened by the customers of NFI PSMPs and PSMP-CIs was 1.64 million⁴ (596,300 at the end of 2018), including 1.42 million brokerage accounts. There was a marked reduction in the entry threshold for the sector; customers open IIAs with small amounts, usually to try making investments in the stock market. Key factors in the growth of the client base included the gradual reduction of interest rates and, as a result, lower returns on deposits; tax benefits for IIAs and the entry of major financial market players into the market; the possibility of online sales without the customer visiting the office; and the automation and standardisation of internal processes in companies as well as increased financial inclusion and financial literacy of the public.

Overall, at the end of 2019, NFI PSMPs and CI PSMPs accumulated ₹198.0 billion (including ₹125.7 billion in NFI PSMPs) on IIAs. The main areas for investment were units of resident UIFs (22.3%), ordinary and preferred shares of residents (20.6%) and bonds of residents (19.9%).

The total volume of customer portfolios serviced by brokerage companies exceeded ₹10.5 trillion at the end of 2019, and the share of the 10 largest brokers in terms of customer assets was 75%.

¹ Hereinafter, data provided by management companies as of 6 March 2020.

² The calculation of indicators excluded the data of FBSC AMC Ltd. and JSC DOM.RF due to the specifics of the activities conducted by these organisations.

³ Under agreements on brokerage, depositary activities and securities management activities. The data were prepared based on reports of professional securities market participants submitted in reporting forms 0420418 'Information on the performance of brokerage, depositary activities and securities management activities by a professional securities market participant' and 0409707 'Information on the performance of brokerage, depositary activities and securities management activities'.

⁴ The data were prepared based on reports of professional securities market participants submitted in reporting forms 0420427 'Information on individual investment accounts' and 0409712 'Information on individual investment accounts opened with a credit institution that is a professional securities market participant'.

1.2.2.2. FINANCIAL MARKET INFRASTRUCTURES AND OTHER PARTICIPANTS

In 2019, infrastructures operating in the financial market included exchanges, the central depository, repositories, clearing houses, the central counterparty, organisations performing the functions of a central counterparty, commodity delivery operators, payment system operators, credit history bureaus and information agencies accredited to disclose information on securities and other financial instruments.¹

Summing up the main **activities of exchanges** in 2019, it should be noted that PJSC Moscow Exchange continues to be the leading platform for organising trading on the Russian financial market and to provide its customers with a wide range of services in various market segments.

PJSC Saint Petersburg Exchange, which organises trading in foreign securities, saw its trading volume rise to ₽1.4 trillion in 2019, or by 240% compared to 2018.

The volume of trading on the organised (exchange) commodity market with physical delivery was estimated at ₽1,052.9 in 2019. Exchange trading of petroleum products on JSC SPIMEX (gasoline, diesel fuel, liquefied petroleum gas, furnace fuel oil, etc.) accounted for the bulk of trading.

In 2019, at the proposal of the Bank of Russia, JSC SPIMEX implemented a number of measures aimed at reducing the influence of speculation on petroleum product prices and improving discipline of exchange contract execution. This made it possible to substantially reduce the share of resale on the bases of refineries, create conditions for making any failure to execute exchange contracts economically unprofitable, eliminate exchange transactions with liabilities terminated by agreement of the parties and lower the number of bids not leading to a contract. In addition, in 2019, the Bank of Russia proposed a second package of measures aimed at increasing the transparency of exchange trading and the transactions of

traders. Implementation of these initiatives will continue in 2020.

2019 saw growth of key performance indicators in **systemically important financial market infrastructure institutions** (FMIIIs), which include the Non-bank Credit Institution – Central Counterparty National Clearing Centre (Joint-stock Company) (NCI NCC (JSC)), which is the central counterparty (CC), and the Non-bank Credit Institution – Joint-stock Company National Settlement Depository (NCI JSC NSD), which is the central depository (CD), repository, clearing organisation, settlement depository and payment system operator.

The value of assets in custody at the central depository increased by 16% and amounted to ₽58.1 trillion, which was primarily due to the growth in the value of stocks and bonds in custody and the inflow of new bond issues for servicing. The number of issuers with issuer depository accounts reached 701, which was 6% higher than last year. The number of registered transactions in the repository for all types of contracts increased by 21% to 15.2 million, while the volume of transactions on which information was sent to the repository rose by 28% to ₽558.5 billion.

The trading volume of operations with the CC fell by 7% to ₽667 trillion due to lower trading volumes in the CC repo market, the foreign exchange market and the forward market of PJSC Moscow Exchange as a result, among other things, of declining interest in foreign currency futures and options as well as USD/RUB and EUR/RUB swap and forward transactions. Furthermore, in 2019, there was a slight decline (by 2% to 539) in the number of clearing members of NCI NCC (JSC) mainly due to the lower number of clearing members among credit institutions in connection with the withdrawal of licences by the Bank of Russia.

In 2019, NCI NCC (JSC) was assessed by external organisations. For example, on 29 August 2019, the international rating agency

¹ Detailed information on the number of infrastructures and other financial market participants is provided in [Section 5.4 'Statistical tables', Table 9](#); information on the number of self-regulatory organisations and their members is provided in [Table 10](#).

Fitch Ratings confirmed the long-term foreign currency issuer default rating at BBB¹ and the long-term local currency rating at BBB.

On 24 October 2019, Analytical Credit Rating Agency (Joint-Stock Company) (ACRA JSC) confirmed the credit rating of NCI NCC (JSC) at AAA (RU) with a stable outlook. The agency noted that the high credit rating of NCI NCC (JSC) was due to its strong and stable business profile and its exceptional position in terms of liquidity and capital adequacy reserves, which offsets the risk profile of the organisation.

Development of post-trading infrastructure in the commodity market continued. The functions of organisations conducting, monitoring and keeping records of commodity deliveries based on the results of exchange trading (the 'commodity delivery operators', 'CDOs') were exercised by five companies, of which the following should be particularly noted: PJSC Transneft, exercising the functions of a CDO in the petroleum product market; and LLC Gazprom Mezhregiongaz Postavka, exercising the functions of a CDO in the natural gas market. The regulatory framework² established in 2019 gave an impetus to the further development of CDOs as an institution. In addition, the Bank of Russia is collaborating in active efforts to grant OTP status to one of the companies of OJSC Russian Railways group.³

As of 1 January 2020, 443 funds transfer operators (including 86 e-money operators), 32 payment system operators,⁴ 43 operators of payment infrastructure services, two federal post service operators, payment agents and bank payment agents operated as **National Payment System (NPS) participants**.

At the beginning of 2020, 32 payment systems were operating in the Russian Federation.

In 2019, 1.7 billion funds transfers⁵ were made via the systemically important **Bank of Russia Payment System** (Bank of Russia PS)

in the amount of ₹1,566.5 trillion (1.6 billion transfers in the amount of ₹1,715.1 trillion in 2018). The volume of transfers made via the Bank of Russia PS exceeded the GDP 14.3-fold.

During the reporting year, the number of Bank of Russia PS participants declined from 1,979 to 1,779, which was due to a reduction in the number of credit institutions and optimisation of the Bank of Russia's customer accounts. At the same time, the figures on the use of the Bank of Russia PS indicated an increase in the number and volume of funds transfers per participant by 19.9% and 1.6%, respectively (964,400 transactions totalling ₹880.5 billion).

Functionality of the Bank of Russia PS was expanded in 2019 as the Faster Payments System (FPS) introduced in January complemented the existing speedy and non-speedy transfer services. FPS is designed for retail payments, which influenced the growth in the number of transfers via the Bank of Russia PS. Overall, during the year, 6.8 million funds transfers in the amount of ₹59.7 billion were made via FPS.

The volume of funds transfers via the **NSD payment system (NSD PS)**, the second systemically important payment system, was ₹117.6 trillion. As part of the post-trade infrastructure of the Moscow Exchange Group, the NSD PS provides money transfer services for transactions in exchange trading and the OTC market as well as for operations conducted by the Bank of Russia in the financial market. Funds transfers based on the results of transactions in exchange trading were prevalent and accounted for 65.1% in the value structure of operations. The share of funds transfers for OTC transactions was 23.6%.

The dynamics of indicators describing the activities of **credit institutions that are funds transfer operators** were close to the previous year's figures; transfers made by credit

¹ This rating corresponds to the sovereign rating of the Russian Federation.

² Bank of Russia Ordinance No. 5102-U, dated 26 March 2019, 'On Cases for Commodity Delivery Operators to Open Trading Commodity Accounts and Clearing Commodity Accounts if the Accounting of Assets Used to Fulfil Obligations Accepted for Clearing is Based on Grounds Other Than the Agreement for Storage of These Assets'.

³ Pursuant to Order of the Government of the Russian Federation No. 1697-r, dated 16 August 2018, 'On the Action Plan (Road Map) to Develop Competition in the Russian Economy and to Make Natural Monopolies Competitive in 2018–2020'.

⁴ Including the Bank of Russia and Joint-stock Company National Payment Card System.

⁵ This includes operations for the purpose of implementing monetary policy, settlements in the interbank and financial markets and operations with payment cards.

institutions upon their customers¹ orders as well as their own operations grew by 31.1% in terms of number and 10.3% in terms of volume (to 46.7 billion payments in the amount of ₹836.8 trillion). Banks remained competitive in the payment services market by actively engaging with providers of new technology solutions and offering consumers, primarily in the retail segment, a variety of financial products and payment services.

Payment services using remote banking systems continued to be widely popular among consumers. In 2019, the number of customer accounts with remote access grew by 6.6% to 258.5 million, and their share in the total number of active accounts of credit institutions' customers rose to 86.5%. As of 1 January 2020, there were 1.8 accounts per capita vs 1.7 accounts as of 1 January 2019.

Compared to 2018, the number of operations made by credit institutions' customers electronically increased by more than a third (to 45.2 billion orders), and the volume of such operations rose by 10.7% (to ₹749.6 trillion). Out of 100 operations, 98 were performed electronically, and in terms of value, the share of such operations exceeded 92%. Every fifth electronic payment made by individuals was made using the internet and/or mobile communications devices. Legal entities other than credit institutions used the internet to send their payment orders in 64 out of every 100 cases.

The total number of payment cards issued by Russian credit institutions increased by 4.9% and as of 1 January 2020 reached 285.8 million, or 1.9 cards per capita. In 2019, these payment cards were used within and outside Russia to make 42.3 billion transactions totalling ₹92.6 trillion (an increase of 30.9% in terms of number and 18.9% in terms of volume).

Faster growth of cashless transactions using payment cards (up 34.6% in terms of number and 28.1% in terms of volume) compared to cash withdrawals (down 3.4% in terms of number and up 2.6% in terms of volume) led

to a higher share of cashless transactions in the structure of payment card use (to 92.7% in terms of total number and 68.8% in terms of total volume). Payment cards were used for cashless transactions 13 times more often than for cash withdrawals. 84 out of every 100 cashless transactions were made in retail and service outlets and, in terms of value, the share of payments for goods and services was 42.1%.

The growing adoption of cashless payments led to a further increase in their share in the total turnover of retail trade, food service and paid services provided to households (to 64.7% vs 55.6% in 2018).²

Meeting growing demand of consumers for cashless forms of payment became possible largely as a result of the development of a network of payment card acceptance devices, primarily electronic terminals installed in retail and service outlets (POS³ terminals). In 2019, their number increased by 12.5% and approached 3 million, while purchases involving their use became commonplace. On average, POS terminals were used daily to pay for goods and services in the amount of ₹48.4 billion, while the number of such daily transactions reached 68.9 million. Growth (by 2.3% to 195,600 devices as of 1 January 2020) was also reported for the use of ATMs, most of which are equipped with a cashless payment function.

2019 saw continued high growth rates of payments using contactless technologies (a 2.3-fold increase in terms of number to 18.4 billion transactions and a 2.4-fold increase in terms of volume to ₹13.4 trillion). Most of them involved the use of contactless payment cards (14.0 billion transactions totalling ₹10.2 trillion). Another contactless payment method, that is payment with mobile devices through pay services,⁴ was used 1.4 times more often in 2019 than the year before. The number of such transactions reached 4.4 billion, totalling ₹3.3 trillion. More than half (55.4%) of

¹ Hereinafter, individuals and legal entities other than credit institutions.

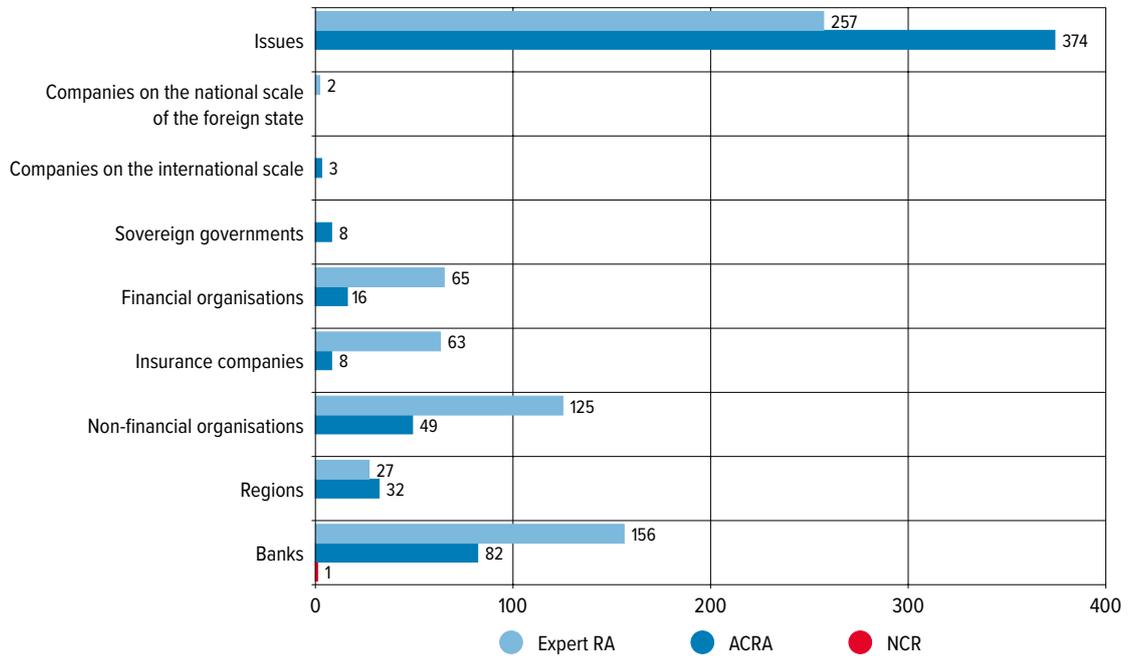
² As estimated based on reporting forms of the Bank of Russia and Rosstat data.

³ POS means point of sale.

⁴ For example, Apple Pay, Samsung Pay, etc.

CREDIT RATINGS ASSIGNED BY RUSSIAN CREDIT RATING AGENCIES AS OF 31 DECEMBER 2019 (UNITS)

Chart 28



payments for goods and services were made using contactless technology.

By the end of 2019, most POS terminals (88%) and almost 40% of ATMs supported contactless technology. During the year, the number of such devices increased by 12.0% and 80.9%, respectively.

The number of contactless cards issued by credit institutions grew 1.6-fold over the year and as of 1 January 2020 reached

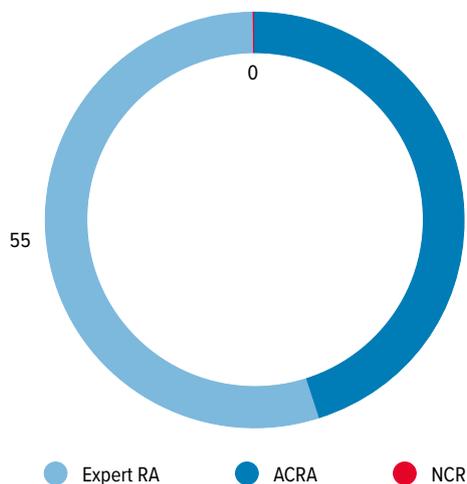
169.3 million (almost 60% of the total number of payment cards). On average, there were 1.2 contactless cards per capita (0.7 at the beginning of 2019).

One of the factors affecting the spread of cashless payments across Russia is the development of the regional payment infrastructure. In 2019, all regions reported positive dynamics in terms of the number of POS terminals. Furthermore, in almost a third of them, the number of these devices was growing at a rate of 15% or faster. While in 2018, their number per 1,000 people exceeded 20 devices in only seven regions, in the reporting year there were already 31 such regions.

In all regions of the Russian Federation, payments for goods and services made with payment cards issued by Russian credit institutions and non-resident banks continued to grow rapidly, significantly outpacing the dynamics of cash withdrawal operations. 61 regions reported an annual increase in the number of cashless payments by more than one third. At the same time, the average payment amount declined (which indicates that cashless payments spread to small daily purchases) and, depending on the region, ranged from ₴487 to ₴1,035.

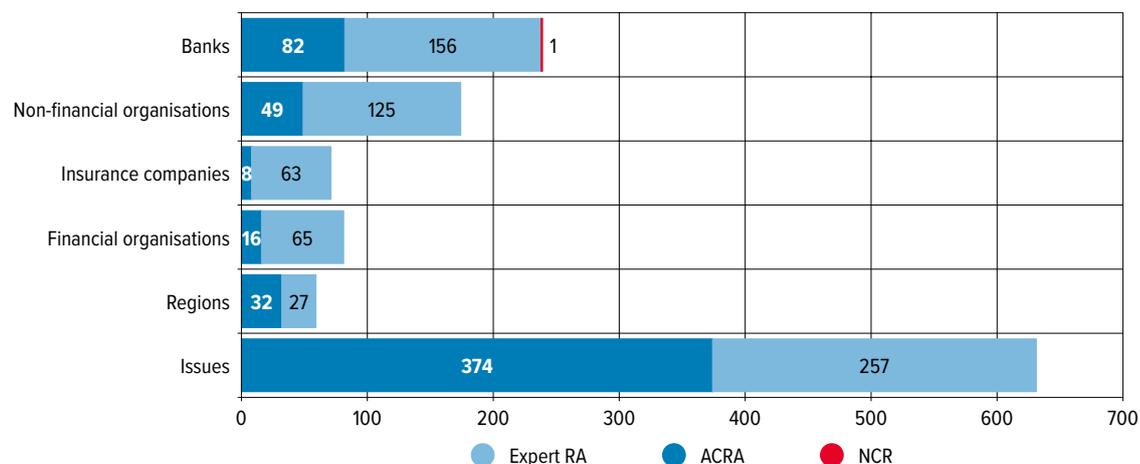
SHARES BY NUMBER OF CREDIT RATINGS (PER CENT)

Chart 29



CREDIT RATINGS ASSIGNED BY RUSSIAN CREDIT RATING AGENCIES ON THE NATIONAL RATING SCALE FOR THE RUSSIAN FEDERATION AS OF 31 DECEMBER 2019 (UNITS)

Chart 30



The number of electronic means of payment (EMP) for the transfer of e-money issued by e-money operators in 2019 increased by 42.2% to 534.6 million. Over the year, they were used to carry out 2.8 billion transactions in the amount of ₴2.0 trillion¹ (up 28.5% in terms of number and 17.5% in terms of volume), most of which were non-personalised EMPs (80.8% and 41.4%, respectively).

In 2019, the **Central Catalogue of Credit Histories** (CCCH) saw a further increase in credit history titles and inquiries from credit history holders and users.

By the end of 2019, the number of credit history titles in the CCCH totalled 359.59 million (a 0.55% increase over the year). This included 358.15 million credit history titles of individual borrowers (the credit history of one individual may be stored in several credit history bureaus) and 1.44 million credit history titles of corporate borrowers.

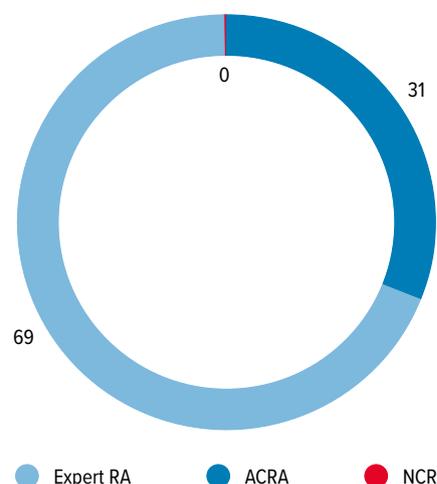
In 2019, the four largest **credit history bureaus** (LLC Equifax Credit Services, JSC National Bureau of Credit Histories, CJSC United Credit Bureau, and LLC Russian Standard Credit Bureau) accounted for nearly 94% of credit history titles.

The number of inquiries submitted to the CCCH by credit history holders, credit history users and units of the Federal Bailiffs Service

regarding CHBs where credit histories of credit history holders and requests for creation, cancellation or modification of the code (additional code) of a credit history holder are stored was 2 million during the reporting year. The most popular channels for submitting inquiries and requests to the CCCH were CHBs, credit institutions and the Unified Portal of State and Municipal Services (Functions) (UPSS). The service for submitting inquiries and requests to the CCCH through UPSS was provided by the Bank of Russia on a continuous basis since 31 January 2019 (the service was launched on

SHARES BY NUMBER OF RATED PERSONS (PER CENT)

Chart 31



¹ This includes transfers of electronic money and electronic money balances, including cash withdrawal.

a pilot basis at the end of 2018) and, over this period, became more popular (almost twice as popular) than sending such inquiries and requests through the official website of the Bank of Russia. More than 1.5 million inquiries and requests were submitted through UPSS since the launch of the service.

The Bank of Russia maintains a register of Russian credit rating agencies and a register of branches and representative offices of foreign credit rating agencies.

As of 1 January 2020, Russian credit rating agencies JSC Expert RA, JSC ACRA and LLC

National Credit Ratings (LLC NCR) assigned 1,268 credit ratings.

As of 1 January 2020, JSC Expert RA, JSC ACRA and LLC NCR assigned 1,255 credit ratings on the national rating scale for the Russian Federation.

As of 1 January 2020, the total number of entities rated by JSC Expert RA, JSC ACRA and LLC NCR was 592, with one rated entity receiving credit ratings from all three credit rating agencies and 43 rated entities receiving credit ratings from two credit rating agencies.

1.2.2.3. COMPETITION IN THE FINANCIAL MARKET

2019 saw a continued implementation of Decree of the President of the Russian Federation No. 618, dated 21 December 2017, 'The Guidelines for the State Competition Policy', according to which the Bank of Russia defined development of competition as one of the four principal areas for the development of the financial market.¹

In 2019, the Bank of Russia prepared consultation paper '[The Bank of Russia's Approaches to Promoting Competition in the Financial Market](#)' and published it on its official website.

This paper presented the Bank of Russia's vision of competition as a key factor in improving market efficiency and stimulating its institutions to improve business models, apply innovative solutions and better meet consumer demands. Based on the quantitative and qualitative assessment of competition and benchmarks selected for achieving the target state of the competitive environment in the financial market, the paper also presented a set of new proposals for developing competition.

For the main product segments of the financial market,² calculations for 2019 indicated that development of competition was still insufficient. The reviewed segments demonstrated a mixed situation where the segment of payments and transfers was the most monopolised (in terms of intra-network competition), while the segments of insurance and investment services continued to be the most competitive in the financial market. As in the previous year, the banking sector was dominated by the same two federal leaders. Nevertheless, the calculations demonstrated that overall across the constituent entities of the Russian Federation the situation in the banking sector improved slightly during the year.

2019 saw continued work on the current roadmap of the Government of the Russian

Federation for 2018–2020,³ which included three main areas:

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

The following was implemented as part of this roadmap in 2019:

1. Adoption of the federal law on abolition of 'bank roaming'⁴ prepared with the participation of the Bank of Russia, which is to come into force on 14 June 2020 and introduces a ban preventing credit institutions from establishing different commission fees for transfers of funds between bank accounts of individuals within a credit institution depending on whether these accounts were opened in one or different stand-alone units (internal structural units) of that credit institution.

2. Approval of Resolution of the Government of the Russian Federation No. 1164, dated 5 September 2019, 'On Amending Certain Resolutions of the Government of the Russian Federation',⁵ which was prepared with the participation of the Bank and introduces a ban on inclusion of expenses incurred by consumers of utility services on payment services provided by credit institutions and other organisations in economically justified expenditures of organisations engaged in regulated activities.

3. Publication of recommendations prepared by the FAS of Russia, jointly with the Bank of Russia, on establishing a set of best practices for developing competition in the financial market of the constituent entities of the Russian Federation. The recommenda-

¹ [The Guidelines for the Development of the Russian Financial Market in 2019–2021](#).

² By type of financial service, such as 'Borrow', 'Save', 'Transfer', 'Multiply' and 'Insure'.

³ The Action Plan (Road Map) to Develop Competition in the Russian Economy and to Make Natural Monopolies Competitive in 2018–2020 (approved by Decree of the Government of the Russian Federation No. 1697-r, dated 16 August 2018).

⁴ Federal Law No. 434-FZ, dated 16 December 2019, 'On Amending Article 29 of the Federal Law "On Banks and Banking Activities"'.
⁵ The document will come into effect on 5 September 2020.

tions provide some examples of measures that can be implemented by regional authorities to improve the competitive environment in the financial market, in particular, by ensuring competitive access of financial institutions to regional preferential financing (subsidy) programmes, preventing financial institutions from abusing state-owned status when promoting their services and encouraging competition in payment of wages and social benefits.

4. Activities conducted by the Government of the Russian Federation together with the Bank of Russia to unify the requirements for CIs, thus making it possible to expand the range of banks involved in implementation of the state policy for the development of priority economic sectors and create favourable conditions for the development of competition in the market of banking services. The Bank of Russia participated¹ in the development by the Ministry of Finance of Russia, the Ministry of Economic Development of Russia and the Federal Antimonopoly Service (FAS of Russia) of unified approaches to the definition of requirements for CIs in order to minimise risk in the placement of federal budget funds and government extra-budgetary funds, the opening of bank accounts and the placement of funds by certain categories of legal entities,² the issuance of bank guarantees to secure third-party liabilities to government authorities, state and municipal customers, participation in subsidy programmes for loans granted at preferential rates. The Bank of Russia proposed using the rating³ as the main market criterion for assessing the financial resilience of banks instead of the requirement for the amount of banks' equity and state participation in the ownership structure. In this case, the stringency of requirements for banks in terms of credit ratings was differentiated depending on the credit risk in the placement of government funds and the urgency and nature of banking operations. In this regard, it

was proposed to provide for the phased elimination of the requirement for a certain credit rating in order to participate in preferential financing programmes since there was no risk of losses to the budget when compensating credit institutions for the shortfall of their income during the provision of preferential financing. The proposals of the Bank of Russia were included in the approaches to defining the requirements for banks both for the placement of funds and for other purposes, as approved by the Government of the Russian Federation in September 2019. The use of this approach based on legislative and regulatory acts prepared by the State Duma of the Federal Assembly of the Russian Federation (the 'State Duma'), the Ministry of Finance of Russia and other stakeholders among federal executive authorities, with the participation of the Bank of Russia, made it possible to increase the number of banks where strategic companies and strategic enterprises, state corporations (companies) and government extra-budgetary funds (Pension Fund of Russia, Social Insurance Fund, Compulsory Medical Insurance Fund) may open bank accounts and place funds.

As part of the transition to **financing of equity housing construction**, the Bank of Russia conducted a survey of authorised banks where current accounts of developers and escrow accounts may be opened. In addition, the use of this approach made it possible to expand the range of banks servicing the current accounts of developers and escrow accounts for settlements under equity construction agreements.

5. The Bank of Russia and the FAS of Russia also published a joint information letter 'On Disclosure of Information about the Amount of Fees'. The letter to credit institutions, bank payment agents and other organisations accepting cash payments from individuals for various services, including housing, utilities and cellular communications, provided recom-

¹ These activities were conducted as part of preparing the report to the Government of the Russian Federation pursuant to Clause 1 of Section XIV of the roadmap.

² Business entities and federal unitary enterprises of strategic importance for the defence industry and security of the Russian Federation as well as companies under their control, state corporations (state-owned companies) and public companies.

³ As of the end of 2019, credit rating was used as a criterion for selection of CIs in 17 out of 24 government programmes for which the Bank of Russia prepares information to be posted on its official website or submitted to federal executive authorities.

mendations for informing consumers about the terms of services, including the amount of their fees, in a simple and clear form.

6. A report of the FAS of Russia prepared with the participation of the Bank of Russia on ensuring competitive terms for the formation of merchant discounts and interbank commission fee rates for payment card settlements was submitted to the Government of the Russian Federation. Based on the joint analysis, this report proposed to increase the transparency of pricing in that area, in particular, to require that payment systems disclose information on the amount of interbank commission fees and that acquirer banks disclose tariffs for acquiring services and the principles of their formation. This ensured that the main payment systems disclose information on the amount of interbank commission fees, and from 1 October 2019 they have also reduced such amount for payment card transactions with regard to certain socially important categories of goods and services (healthcare,

education, pharmacies) and large purchases (real estate and cars).

7. In 2019, much attention was also paid to reducing barriers in the financial market and creating a unified competitive environment through development of remote channels for provision of financial services and establishment of the necessary market infrastructure. This included the launch of the Faster Payments System, further development of the remote identification mechanism, the launch of the Digital Profile pilot project and passage in the first reading of a package of bills regulating transactions involving the use of electronic platforms (Marketplace project).

8. During 2019, the Bank of Russia was actively involved in the development of organised (exchange) trading as one of the tools to stimulate competition and create a favourable competitive environment.

Information on this area is provided in [Sub-section 2.2.11 'Improving financial and commodity market instruments and infrastructure'](#).

2

The Bank of Russia's activities

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

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

The Bank of Russia ensures **price stability** through monetary policy measures aimed at maintaining annual inflation near 4%. Timely and proactive measures implemented by the Bank of Russia made it possible to restrain acceleration of inflation in early 2019. In the first quarter, the effect produced by a number of inflationary factors was mostly exhausted, and in March, annual inflation passed the peak of 5.3%. Later on, the situation was dominated by the factors contributing to the slowdown in consumer price growth. At year-end 2019, inflation stood at 3%. In this context, the Bank of Russia kept its key rate unchanged in January–April and decided to cut it in June–December 2019 (from 7.75% to 6.25% p.a.). The Bank of Russia accompanied its decisions with signals on a possible further reduction of the key rate, which was important for shaping expectations in the financial market and the economy in general.

The key rate decisions were reflected in the dynamics of money market rates. The Interbank market overnight rates were mostly near the Bank of Russia's key rate, which reflected efficiency of the monetary policy implementation at the operational level. Longer interest rates were also influenced by the signals from the Bank of Russia about the prospects of monetary policy. In addition, the Bank of Russia continued to take steps to streamline the procedure for transactions with credit institutions as well as to tighten and unify requirements for the quality of assets accepted as collateral for refinancing operations.

To **ensure the stability of the financial market**, the Bank of Russia monitored and assessed risks for credit and non-bank financial institutions and took measures to limit them. At the same time, the Bank of Russia was improving its risk analysis methodology, including on the basis of international practices. Macroprudential stress testing demonstrated that the Russian financial sector was resilient to realisation of stress scenarios. In 2019, the Bank of Russia continued to take macroprudential measures to limit risks in the consumer lending segment, including those related to borrowers' debt burden and low down payments on mortgages. These measures made it possible to reduce the share of such mortgage loans in the bank portfolio and also slowed down the growth of unsecured consumer lending. Macroprudential measures contributed to the creation of additional capital cushion in credit institutions.

The Bank of Russia continued to use a risk-based approach to **regulation and supervision of financial institutions** focused on early detection of potentially negative trends and measures to address them. Great importance was given to developing a consolidated assessment of financial associations' resilience, which made it possible to identify systemic risks for the financial market. These activities were also carried out as part of introducing and implementing Basel Committee standards, which continued in 2019. In developing regulatory requirements for various financial market participants, the Bank of Russia comprehensively considered, on the one hand, the objectives of improving the resilience and transparency of such participants and protecting rights and limiting risks for financial consumers and, on the other hand, the objectives of optimising the regulatory burden and expanding opportunities for the development of financial market participants.

The Bank of Russia sought to apply unified approaches to the implementation of supervisory procedures in relation to credit and non-bank financial institutions, which improved the efficiency of supervision. At the same time, as before, regulation and supervision were developed and applied in proportion to the activities of financial market entities.

The concept of stimulating banking regulation also continued, which helps create conditions for expanding lending to the real sector. An important area in the Bank of Russia's activities was to clarify the regulatory requirements for credit institutions in transition to project financing of equity construction as part of the national project 'Housing and Urban Environment'.

The Bank of Russia actively worked with self-regulatory organisations of the financial market to develop and approve mandatory standards for financial institutions. In particular, this included approval of a standard for investment consulting, a new activity in the securities market. New standards were also approved for protecting the rights and interests of recipients of financial services and conducting transactions in the financial market. In 2019, the Bank of Russia defined the lists of mandatory standards for operations in the financial market and requirements for their content, which should expedite their development in the future.

The Bank of Russia and DIA were engaged in the financial rehabilitation of credit institutions. They completed activities for preventing the bankruptcy of PJSC Bank FC Otkritie and JSCB ROSSIYSKY CAPITAL (JSC)¹ after achieving the goals of financial rehabilitation. The establishment of a non-core asset bank was completed, and work with these assets already made it possible to partially return funds to the Bank of Russia. Measures were also taken to prevent the bankruptcy of insurance entities. Based on the existing mechanisms for resolution of credit institutions and insurance entities, the Bank of Russia developed approaches to the rehabilitation of non-governmental pension funds with its participation.

The Russian framework for anti-money laundering and countering financing of terrorism was recognised to be in compliance with FATF recommendations. At the same time, the Bank of Russia continued its consistent efforts to reduce dubious transactions in the financial sector, in particular, by improving the efficiency of their detection and suppression. In 2019, the amount of funds transfers abroad on dubious grounds reached a historic low.

Measures taken by the Bank of Russia to improve the framework for **counteracting misconduct of financial market participants** contributed to the stable functioning of the financial market and strengthened confidence in it. The Bank of Russia participated in the development of a legislative framework to counter fraudulent activities in the financial and credit sector. A mechanism of ongoing monitoring was set up in the area of exchange trading, and systematic work to counteract illegal practices and abuses in exchange trading was organised.

¹ At the time rehabilitation was completed, the official name of JSCB ROSSIYSKY CAPITAL (JSC) was JSC Bank Dom.RF.

One of the priority areas in the development of the **National Payment System** was promotion of Mir cards, both in terms of extending the range of their holders and in developing this system's user functionality. By the end of the year, the share of Mir cards reached a quarter of the payment card issuance across Russia, and the list of countries that conduct transactions with Mir cards was significantly expanded.

The work on development of the Bank of Russia Payment System included expanding the use of the Faster Payments System (FPS) launched in January 2019, establishing the requirement for its mandatory use and connecting 36 credit institutions to the system. FPS, which enables the transfer of funds between individuals using their telephone numbers, was complemented with the option to make transfers from individuals to legal entities.

In the reporting year, the Bank of Russia ensured the provision of services for transmission of financial messages to FMS on a 24/7 basis and expanded the user base of that system by connecting corporate customers of banks and foreign credit institutions. In addition, a new service has been launched enabling the use of ISO 20022 messages in communications between banks and their corporate customers through FMS.

The Bank of Russia worked to **expand financial inclusion for households and businesses** in the following key areas: improving accessibility and quality of financial services in remote, sparsely populated or hard-to-reach areas; financial inclusion for the disabled, the elderly and other mobility-impaired population groups; financial inclusion for SMEs; increasing accessibility of certain socially important financial products and services. The Bank of Russia made efforts both to widen the network of financial institutions in various service formats and to develop remote channels for access to financial services along with substantial expansion of internet penetration. Comprehensive measures were taken to improve the availability of various financial instruments and the quality and speed of banking services for SMEs.

The Bank of Russia's efforts to **improve financial literacy** were aimed at increasing the number of events, including those held online, for various target audiences. Educational programmes, games, videos and distance-learning courses were introduced at all levels of education. Study guides and methodological materials on financial literacy were posted on the website 'Financial Culture' (fincult.info), which increased its average monthly audience by 167,600 visitors in 2019.

Substantial progress was made in the area of **technology development and innovation support in the financial market**. Efforts to develop a remote identification mechanism continued. This included the capability to open an account, obtain a loan and make a transfer remotely after undergoing remote

identification using the Unified Biometric System and the launch of a mobile application for biometric identification on Android and iOS. The Bank of Russia together with the Ministry of Communications of Russia and with the participation of PJSC Rostelecom developed the Concept and Architecture of the Digital Profile, obtained an approval for it from the Government of the Russian Federation and launched a pilot project for its use in the provision of loans and the conclusion of CMTPLI and motor hull insurance agreements.

As part of the regulatory 'sandbox' in the Bank of Russia, which aims to facilitate the rapid and safe introduction of innovative products, services and technologies to the Russian financial market, pilot projects were implemented for five services, including a service for lending to SMEs based on credit risk assessment using the information from fiscal data operators and a service for the issuance and circulation of digital rights backed by services, goods and securities.

Masterchain, a platform based on a distributed ledger technology, was used to implement pilot projects for services to keep records of electronic mortgages and conduct transactions with digital bank guarantees.

Efforts continued to develop an information access mechanism for banks as well as a mechanism for sending notifications and obtaining services of the Bank of Russia through the UPSS. The UPSS also acquired functionality for receiving information from credit history bureaus. 2019 saw dynamic development of the mechanism for electronic communication on the financial market via the personal cabinets of information exchange participants, including for information exchange between credit institutions and National Payment System participants.

Among **other activities**, the most important was implementation of an information policy aimed at increasing confidence of the public and economic agents in the actions taken by the Bank of Russia. An active information policy enhanced the efficiency of all key activities of the Bank of Russia. The main trend in 2019 included integrated communications aimed at different target audiences.

Macroeconomics and inflation, matters of optimal policy and financial stability and the development of analytical tools for decision-making were key areas on the economic research agenda.

In the area of international cooperation, work was completed on the EAEU Common Financial Market Concept (which included matters of the development of financial technologies). A number of documents of the International Association of Insurance Supervisors (IAIS) were developed with the participation of the Bank of Russia. The Bank of Russia took part in testing the mechanism of the BRICS Contingent Reserve Arrangement. The Bank

of Russia participated in discussions on financial sector regulation issues held by a number of international organisations and shared experiences on financial inclusion and financial consumer protection.

The Bank of Russia expanded collaboration with foreign financial regulators, including the development of the relevant contractual and legal framework. In 2019, Memorandums of Understanding were signed with the financial regulators of Thailand, Mongolia and Uzbekistan. In addition, the Bank of Russia participated in the conclusion of bilateral inter-governmental agreements on payments and settlements in national currencies with China and Turkey.

2.1. Ensuring price stability

2.1.1. MONETARY POLICY OBJECTIVES AND KEY MEASURES

MONETARY POLICY OBJECTIVES AND PRINCIPLES

Monetary policy objectives and principles are defined and explained in detail in the [Guidelines for the Single State Monetary Policy](#), which are developed by the Bank of Russia for the medium-term period and submitted to the State Duma of the Federal Assembly of the Russian Federation.

The main objective of the monetary policy is to maintain price stability, that is, consistently low inflation. Under the inflation targeting strategy, the quantitative objective of the monetary policy is defined as maintaining annual inflation consistently near 4%.

The key rate is one of the main monetary policy tools. By changing its key rate, the Bank of Russia affects the dynamics of interest rates in the economy, which, in turn, influence domestic demand and inflation. The Bank of Russia makes decisions on the key rate based on the macroeconomic forecast as its change affects price dynamics gradually over several quarters. When preparing its macroeconomic forecast, the Bank of Russia conducts a detailed analysis of a wide range of information.

When the Bank of Russia explains its decisions and future intentions, this helps build inflation expectations, which affect both the dynamics of inflation and interest rates in the economy. In this regard, communication is an important tool, and information transparency is a necessary principle of monetary policy.

As part of the inflation targeting regime, the Bank of Russia adheres to flexible exchange rates and does not intervene in the domestic foreign exchange market to maintain a certain level of exchange rate or the speed of its dynamics. Operations with foreign currency conducted by the Ministry of Finance of Russia in the domestic market under the fiscal rule do not preclude the flexibility of the exchange rate. The application of the fiscal rule is aimed at

smoothing the impact of the foreign economic situation on domestic conditions.

In 2019, the Bank of Russia pursued a monetary policy following the principles stated in the Guidelines for the Single State Monetary Policy. This ensured the continuity of monetary policy, which is important for creating a predictable and favourable environment for people to live and do business.

BANK OF RUSSIA KEY RATE DECISIONS

Maintaining the key rate unchanged in January–April 2019

In 2019, the growth rate of consumer prices increased in the first quarter to 5.3% and then declined to 3% by the end of the year.

At the beginning of 2019, one of the factors in inflation growth was the depreciation of the ruble, which occurred in the second half of 2018 amid normalisation of monetary policy in major economies of the world and capital outflow from EMEs as well as changes in the geopolitical situation. The VAT rate hike effective 1 January 2019 contributed to accelerating inflation. The weakening of the ruble and the VAT rate hike pushed up inflation expectations of businesses and households. Given the unanchored nature of inflation expectations and uncertainty about their potential dynamics, the Bank of Russia allowed for a scenario where the annual growth of consumer prices could exceed 5.5% or even reach 6% in the first months of 2019. In this context, the Bank of Russia proactively raised its key rate in September and December 2018 by 50 bp in aggregate to 7.75% p.a. This was necessary to prevent inflationary pressure from rising. In December 2018, the Bank of Russia noted that it would assess the expediency of a further increase in its key rate by comparing the dynamics of inflation and the economy against the forecast and by considering the



Proactive monetary policy measures of the Bank of Russia taken in September and December 2018 limited inflation growth in early 2019

risks from external conditions and the reaction of financial markets to them.

The timely response of the Bank of Russia made it possible to limit the rise of inflation. In January–April 2019, incoming data confirmed that the VAT rate hike contributed moderately to the acceleration of inflation, without significant secondary effects. In addition to the measures taken by the Bank of Russia, this was due to restrained dynamics of consumer demand and the strengthening of the ruble amid changing external conditions. The local inflation peak reached in March 2019 was 5.3%, which was below the level expected by the Bank of Russia. Based on these factors, in March, the Bank of Russia lowered its inflation forecast from 5.0–5.5% to 4.7–5.2% at the end of 2019. Inflation expectations of households and price expectations of businesses fell markedly after the increase in January–February. Nevertheless, they remained at elevated levels.

Given the reduction of short-term inflation risks and lower-than-projected actual inflation in January–April 2019, the Bank of Russia kept the rate unchanged at 7.75% p.a. and softened its rhetoric. In March, the Bank of Russia announced the possibility of reducing its key rate in 2019 and in April noted that a key rate cut was possible in the second and third quarters of 2019.

Reducing the key rate in June–December 2019

In May–December 2019, the influence of disinflationary factors remained unchanged or intensified, contributing to further decline of inflation. These factors included restrained dynamics of demand, strengthening of the ruble and growth of supply in food markets. This allowed the Bank of Russia to move toward reducing its key rate.

An important factor in reducing inflation was the restrained dynamics of demand. This

factor proved to be more pronounced in the first half of the year than in the second half. This was due to the slowdown in global economic growth and a shift in the timing of implementation of national projects planned by the Government of the Russian Federation in the context of the VAT rate hike effective from the beginning of the year. Expenditures on national projects intensified in the second half of the year, supporting demand. In addition, demand was boosted by rising real wages and disposable income. However, in general, the impact of demand on inflation remained restraining.

The second factor in reducing inflation was the appreciation of the ruble that took place practically throughout the year, except for certain periods of volatility. Signals indicating a slowdown in global economic growth led the world's largest central banks to suspend the process of normalising monetary policy in early 2019 and, in some countries, to move toward easing it. As a result, this lowered the risks of sustained capital outflows from emerging market economies. The dynamics of oil prices also contributed to the continuing trend toward the strengthening of the ruble.

In addition, the reduction of inflation was influenced by the situation in some food markets. Prices in these markets dropped following a significant increase in the supply of agricultural products. This was facilitated by the expansion of livestock production capacity and a good harvest in 2019.

Under the influence of these factors, annual inflation slowed down and amounted to 3% for the year. Declining price growth rates were reported in the main components of the consumer basket, which include food and non-food items and services. Annual inflation figures, which reflect the most stable processes in price dynamics, were also mostly declining and, by September, had fallen to a level close to or below 4%.



In June—December 2019, the Bank of Russia reduced its key rate by a total of 1.5 pp to 6.25%

The slowdown in inflation gradually influenced inflation expectations. Inflation expectations of businesses declined significantly. Starting in August, there was a downward trend in inflation expectations of households, but they still remained elevated.

As the impact of disinflationary factors strengthened, and inflation steadily slowed, the Bank of Russia consistently reduced its inflation forecast for 2019 from 4.7–5.2% in June to 3.2–3.7% in October and 2.9–3.2% in December. The Bank of Russia also expected that inflation would be below 3%¹ in the first quarter of 2020 and then would gradually return to the target of 3.5–4.0% by the end of the year and would remain near 4% in the future. Based on the analysis and forecast of the macroeconomic situation, the Bank of Russia cut its key rate in June—December by a total of 1.5 pp to 6.25%. The decisions to reduce the key rate were accompanied by signals indicating the possibility of further monetary policy easing if the situation developed in accordance with the baseline forecast. Following these decisions, the monetary policy of the Bank of Russia has become neutral, that is, the key rate entered the range of neutral rate values estimated by the Bank of Russia at 2–3% p.a. in real terms and 6–7% p.a. in nominal terms with a target inflation of 4%. This means that the monetary policy became neutral already in 2019.

Under the influence of the decisions and signals of the Bank of Russia as well as a decline in returns in global financial markets, a gradual easing of the monetary policy began. Since the beginning of the year, the OFZ yield curve gradually shifted downward. Bank rates on deposits began to decline in April, and

those on loans, from May—June. At the same time, there were mixed changes in non-price conditions. For corporate lending, they were softened, while for consumer lending they were tightened, including due to macroprudential measures taken by the Bank of Russia.

When taking decisions on the key rate in the second half of 2019, the Bank of Russia primarily noted prevalence of disinflationary risks related, first of all, to the state of domestic and external demand. Disinflationary risks were also observed on the side of price dynamics for certain food products. In addition, the Bank of Russia assumed that the growth in budget expenditures which began in the second half of 2019 would be distributed over time, and that this would reduce the inflationary effect of this factor.

However, the following pro-inflationary risks were noted as significant. External risks continued to include the possibility of a slowdown in the growth of the world economy, in particular, due to further tightening of international trade restrictions. Heightened geopolitical tensions could have led to increased volatility in global commodity and financial markets and adversely affected exchange rate and inflation expectations. Domestic risks were primarily related to high and unanchored inflation expectations of households and businesses. The Bank of Russia also considered the fact that in the medium term price dynamics may be affected by the decision to invest resources of the NWF in the amount by which its liquid part exceeds the threshold level of 7% of GDP. During the year, the Bank of Russia assessed the risks associated with the dynamics of wages and possible changes in consumer behaviour as moderate.

¹ In particular, due to the end of the effect of the VAT increase on calculations of inflation.

2.1.2. MONETARY POLICY INSTRUMENTS

The Bank of Russia uses monetary policy instruments to achieve its operational objective of maintaining the rates of the overnight ruble-denominated interbank market near the key rate. In 2019, amid a structural liquidity surplus, the Bank of Russia effectively achieved its monetary policy objectives as the short-term rates in the money market IBL segment formed in the lower half of the interest rate corridor, close to the Bank of Russia key rate. The banking sector adapted to the current level of structural surplus; as a result, bids submitted by banks at the Bank of Russia's auctions were close to the limits established for absorption operations aimed at achieving the operational goal of the Bank of Russia.

LIQUIDITY FACTORS

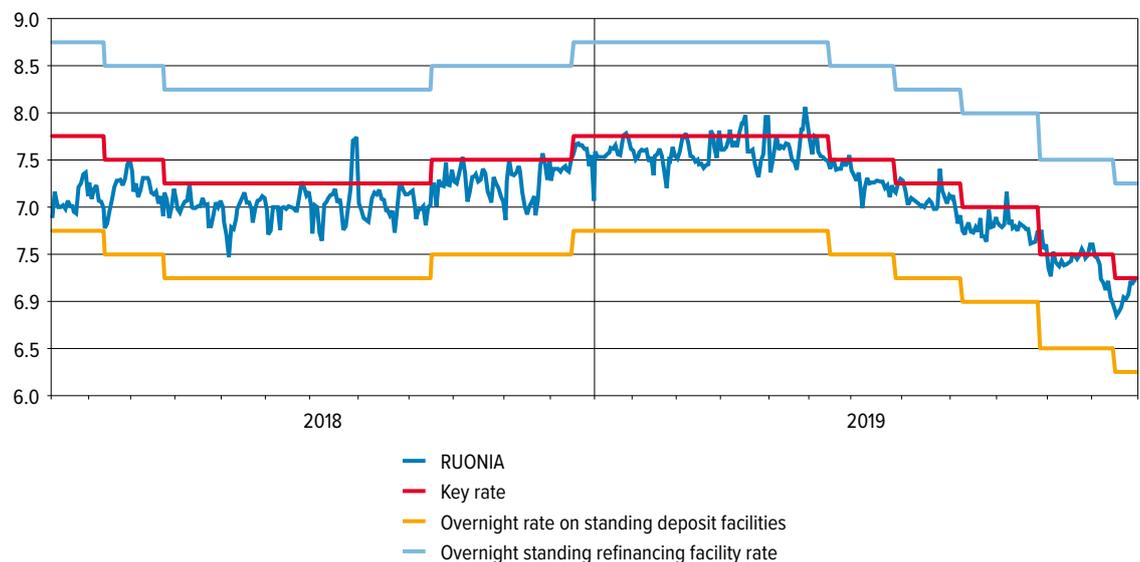
At the beginning of 2019, there was an outflow of funds from the banking sector due to large tax payments made by the customers of banks amid seasonally low budget expenditures. This led to an increase in the balances of budgetary funds deposited with the Bank of Russia. In addition, in January, the return of cash to banks following the New Year holidays, primarily in the form of corporate cash proceeds, became a factor in the seasonal

growth of the structural liquidity surplus. The liquidity surplus was also supported by renewed purchases of foreign currency in the domestic market by the Bank of Russia in 2019 under the fiscal rule. As a result, from January to February, the structural liquidity surplus grew from ₺3.0 trillion to ₺3.6 trillion, reaching ₺4.2 trillion in some periods.

In March–December 2019, the structural liquidity surplus ranged from ₺2.2 trillion to ₺4.0 trillion under the impact of mixed factors, declining to ₺2.8 trillion for the year. The significant inflow of funds that was observed throughout most of the period under review as a result of growing debt of credit institutions on the operations of the Federal Treasury was replaced in December 2019 by an outflow due to a significant decline in the volume of funds temporarily placed with banks on deposits and under other operations by the Federal Treasury and budgets of the constituent entities of the Russian Federation, which was not fully offset by budget expenditures. Moreover, in December, the decline in liquidity was caused by the usual increase of cash in circulation on the eve of the New Year's holidays. At the same time, for the year, the total volume of cash in circulation increased by less than ₺0.1 trillion

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

Chart 32



due to lower demand of households for cash following the spread of non-cash settlements.

During the year, the Ministry of Finance of Russia and the Federal Treasury took measures aimed at expanding the lineup of instruments and the range of possible participants in operations for placing temporarily available budgetary funds. The Federal Treasury began to use exchange-traded currency swaps and bank deposit agreements with the central counterparty and held an auction to place funds on bank deposits (on-demand deposits). This contributed to the increase in the average debt of banks on the operations of the Federal Treasury, which rose 1.9-fold in 2019 compared to the previous year to ₺2.2 trillion. On the part of credit institutions, the highest demand was reported for long-term transactions (from 90 days). In 2019, to finance budget expenditures, the Ministry of Finance of Russia significantly increased its borrowings in the domestic market by placing OFZs (including payments to service the debt), which became a factor in cash outflow from the banking sector in the amount of ₺0.8 trillion.

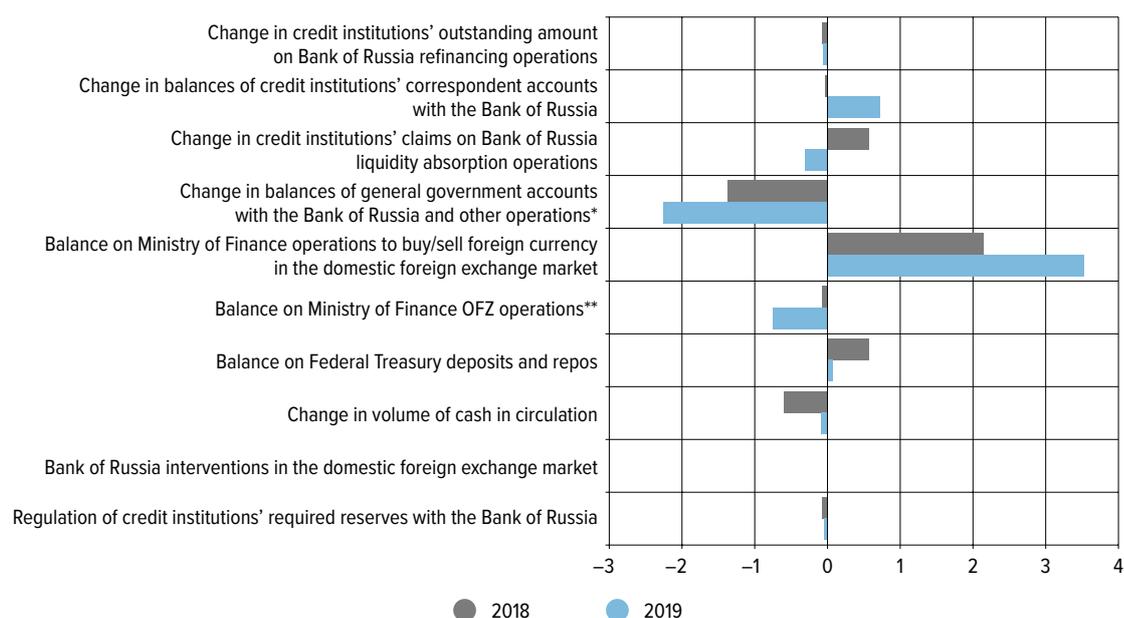
BANKING SECTOR LIQUIDITY MANAGEMENT

In 2019, the Bank of Russia carried out liquidity-absorbing operations to maintain money market rates near the key rate. Its main instrument was one-week deposit auctions. The volumes of funds raised in these auctions remained high, while the rate of exhaustion of the limits increased in comparison with the previous year. The average volume of funds raised at weekly deposit auctions amounted to ₺1.6 trillion in 2019 (₺2.2 trillion in 2018). To prevent significant deviations of the money market rates from the key rate, the Bank of Russia held fine-tuning deposit auctions. 19 such auctions were held in 2019.

To absorb a stable part of excess liquidity, in 2019 the Bank of Russia continued to place three-month Bank of Russia coupon bonds (Coupon OBRs). As in the previous year, the number of new issues of Coupon OBRs placed in 2019 was 12. As a rule, demand at Coupon OBR auctions exceeded the offer. This was facilitated by maintaining the minimum price of Coupon OBR placement below 100% of their

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

Chart 33



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

** Coupon payments factored in.

face value, which provided for a maturity premium over the Bank of Russia key rate. At the same time, the total volume of placements declined slightly in 2019 due to the lower average volume of the issue. Starting in July 2019, the Bank of Russia reduced the volume of Coupon OBR placements, as it expected less need to absorb a stable part of the liquidity surplus, and raised limits at deposit auctions. However, the increased offer of new Coupon OBR issues in the fourth quarter of 2019 compared to the same period of 2018 contributed to a higher total volume of Coupon OBRs in circulation at par value, including the accumulated coupon income, from ₺1.4 trillion as of 1 January 2019 to ₺1.9 trillion as of 1 January 2020.

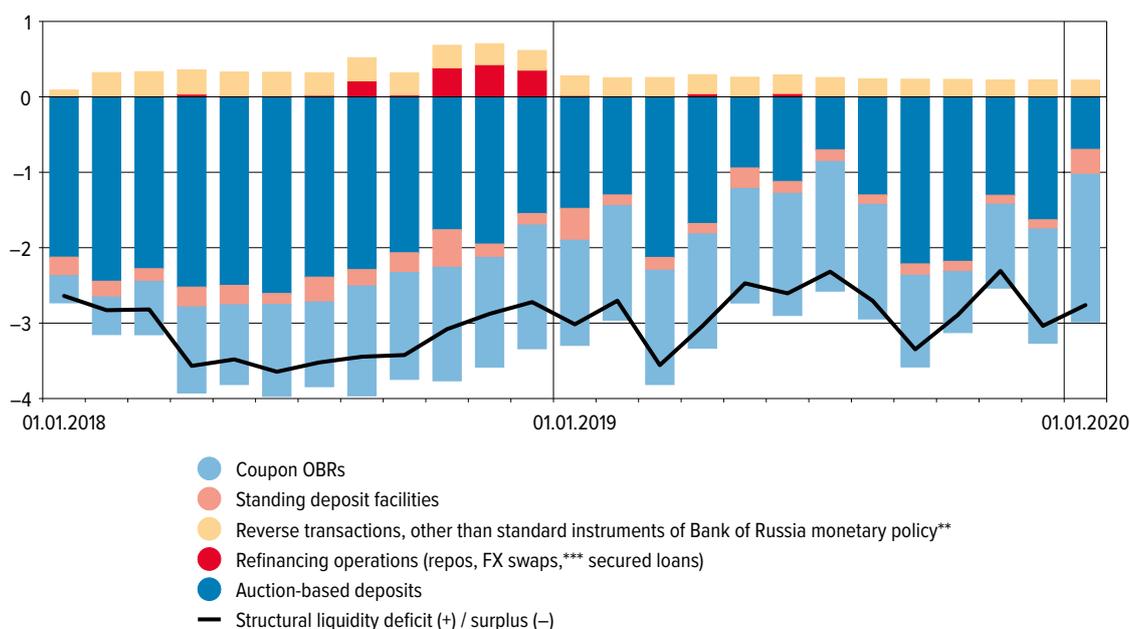
Starting 1 April 2019, the Bank of Russia clarified composition of reservable liabilities of credit institutions, which included all long-term liabilities of credit institutions and liabilities of credit institutions to international financial organisations as well as to the State Development Corporation VEB.RF. This decision was

aimed at enhancing transparency and unifying the procedure for calculating the amount of required reserves and had no substantial impact on banking sector liquidity, including with regard to offsetting the increase in the amount of required reserves due to the simultaneous decrease of required reserve ratios for certain types of liabilities by 0.25 pp.

For universal licence-holder banks, basic licence-holder banks and non-bank credit institutions, the Bank of Russia decided to increase the required reserve ratios for foreign currency-denominated liabilities of credit institutions to individuals by 1 pp to 8.00% effective 1 July 2019.¹ This decision was intended to discourage the growth of foreign currency-denominated liabilities in the liability structure of credit institutions. As a result, the average volume of funds held by credit institutions on correspondent accounts with the Bank of Russia grew from ₺2.1 trillion in 2018 to ₺2.4 trillion in 2019. At the same time, the standard for required reserves that are subject to averaging

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

Chart 34



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

** The Bank of Russia's special-purpose refinancing instruments, Bank of Russia loans issued under irrevocable credit lines, and USD/RUB and EUR/RUB sell/buy FX swap transactions.

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

¹ Bank of Russia Ordinance No. 5158-U, dated 31 May 2019, 'On Mandatory Reserve Requirements'.

on correspondent accounts increased from ₺2.2 trillion as of 1 January 2019 to ₺2.4 trillion as of 1 January 2020.

ACHIEVING THE OPERATIONAL OBJECTIVE OF MONETARY POLICY

Amid the surplus of liquidity, short-term rates on ruble-denominated interbank loans (IBL) formed close to the Bank of Russia key rate with a small negative spread. On average, in 2019, the absolute deviation of the IBL rate from the key rate was 18 bp; the rate spread narrowed compared to 2018 (29 bp in 2018). The spread fluctuated in the range from –55 to 31 bp (from –87 to 49 bp in 2018). The narrowing of the spread compared to 2018 was due to the adaptation of the banking sector to the current level of structural surplus in 2018–2019, as a result of which the offer of banks at deposit and Coupon OBR auctions increased and began to form on average close to the established limits. Another factor behind the narrowing of the spread was the decline in the cost of foreign currency-denominated borrowings in the Russian market and the corresponding growth of implied ruble rates in the currency swap segment. Factors that kept the spread below zero in 2019 included market participants' expectations of key rate cuts at the meetings of the Bank of Russia Board of Directors in the second to fourth quarters as well as liquidity inflows in certain weeks and other temporary factors.

OPTIMISATION OF THE PROCEDURE FOR THE BANK OF RUSSIA'S OPERATIONS

During the year, the Bank of Russia sought to improve the efficiency of its operating procedures by modernising and improving the availability of monetary policy instruments. In particular, it extended the deadline for acceptance of applications for a Bank of Russia loan. Starting 15 April 2019, the deadline for acceptance of documents submitted by credit institutions as part of their applications for a Bank of Russia loan and requests for withdrawal of such applications that are to be submitted electronically in accordance with the Terms and Conditions for the Issue and Redemption of Bank of Russia Loans Backed by Securities

or Credit Claims was extended from 07:00 PM to 08:25 PM, Moscow time. The extension of the deadline for accepting these documents expanded the capacity of credit institutions to manage their own liquidity during the settlement period (from 08:00 PM to 09:00 PM, Moscow time) of the regular session of the Bank of Russia Payment System.

COLLATERAL FOR BANK OF RUSSIA OPERATIONS

In 2019, given the expected persistence of liquidity surplus in the medium term and a sufficient amount of collateral held by credit institutions, as part of implementing a countercyclical approach to the preparation of the collateral list for refinancing operations, the Bank of Russia continued to take measures to tighten and unify the requirements for the quality of assets accepted as collateral for these operations.

Effective 1 July 2019, the list of constituent entities of the Russian Federation and municipalities which can be parties liable under credit agreements the rights of claim on which may be included in the collateral pool of Bank of Russia loans began to be formed from among the constituent entities of the Russian Federation and municipalities with credit ratings not lower than 'A(RU)' according to the classification of JSC ACRA or 'ruA' according to the classification of JSC Expert RA.

Effective 1 September 2019, the list of legal entities liable under credit agreements the rights of claim on which are included in the collateral pool without verification of the indicators provided in their accounting (financial) statements and other information on these parties by the Bank of Russia began to be formed from among resident organisations of the Russian Federation with credit ratings not lower than 'A(RU)' (JSC ACRA) or 'ruA' (JSC Expert RA) and operating in the non-financial sector of the economy.

In 2019, the minimum credit rating requirements for an issue (issuer) of securities to be included in the Bank of Russia Lombard List corresponded to the requirements of the previous year. At the same time, in 2019, the Bank of

Russia made a number of decisions to increase the requirements for the minimum credit rating (both for marketable and non-marketable collateral) by one notch, which entered into force on 1 January 2020.

The amount of potential market collateral for Bank of Russia's refinancing operations

increased compared to the previous year and amounted to nearly ₹8.7 trillion at the end of 2019, while the amount of non-marketable assets included in the collateral pool for standard refinancing operations of the Bank of Russia declined to ₹5.7 trillion (at the end of 2018, ₹7.1 trillion and ₹6.2 trillion, respectively).

2.2. Ensuring financial market resilience

2.2.1. ENSURING FINANCIAL STABILITY

2.2.1.1. MONITORING OF FINANCIAL STABILITY RISKS

EXTERNAL RISKS

In 2019, amid a slowdown in the global economy, 'safe haven' assets, in particular, US treasury bonds and gold, saw an increase in investor demand. EMEs faced increased market volatility with a weakening of national currencies against the US dollar, an outflow of portfolio investments and growing risk premiums. However, the negative consequences were offset by the leading central banks (the US Fed, the ECB) easing their monetary policy, both by lowering interest rates on their operations and through alternative monetary policy measures. As global growth concerns increased, central banks around the world stepped up their policy easing measures. In advanced economies and EMEs, the total number of key rate cuts was the highest since the 2008 global financial crisis. This resulted in a marked increase in stock indices in October–December (S&P 500 and Eurostoxx 600 reached record highs), while EMEs experienced a favourable effect of the restoration of risk appetite among global investors. Dollar funding shortfall risks that arose in the US in September were mitigated by emergency liquidity provision by the US Fed (regular repo operations, repurchase of short-term bills).

The average price of Brent crude in 2019 amounted to \$64.2 per barrel, 10.5% lower than the average for 2018 (\$71.7 per barrel). Increased risks of a slowdown in global growth and a continued increase in US oil production exerted downward pressure on oil prices in 2019. The abrupt surge in oil prices in mid-September against the backdrop of drone attacks on the largest oil processing complex in Saudi Arabia was short-lived. The risks of the UK's unilateral withdrawal from the EU without an agreement failed to materialise as it was agreed to finalise the relevant terms by the end of 2020.

FINANCIAL SECTOR RISKS

In 2019, the situation in the Russian financial market remained stable despite the deterioration of external conditions. The period under review was characterised by more favourable dynamics of the main indicators of the Russian financial market compared to other EMEs. The US sanctions on Russian sovereign eurobonds in August failed to have any persistent impact on the government debt market. In 2019, non-residents' demand for OFZs recovered: they acquired OFZs for a total amount of ₹1,080 billion, exceeding the figures for 2018. Over the year, the share of non-residents in the OFZ market increased from 24.4% to 32.2%. OFZ yields on average over the curve declined over the year by 220 bp to 6.07% (lower than before the April 2018 sanctions). The premium on five-year Russian sovereign CDSs at the end of 2019 fell to 55 bp, the lowest since July 2007. Implied volatility of the US dollar against the ruble over a 1-month horizon, reflecting expectations of market participants regarding exchange rate volatility, dropped in 2019 from 14% in January to 6% in December, the lowest since September 2008.

In 2019, the Bank of Russia monitored the risks of the financial sector, including with the use of the tools of the Situation Centre, which monitors the exchange trading on PJSC Moscow Exchange and works with corporate news and macroeconomic indicators so that, among other things, the Bank of Russia can adopt decisions aimed at ensuring resilience of exchange trading to shock imbalances.

BANKING SECTOR RISKS

In 2019, stability of the banking sector grew, which was attested to, inter alia, by the results of stress tests. Credit institutions'

pre-tax financial result for 2019 amounted to ₹2,036.8 billion, showing a YoY growth of ₹692.0 billion. Credit institutions' capital adequacy ratio remained acceptable (12.3% as of 1 January 2020). Macroprudential measures of the Bank of Russia also contributed to the increased stability of the banking sector, allowing credit institutions to create an additional capital cushion of ₹782.4 billion. This cushion can be used to absorb possible losses should a negative economic scenario develop.

Credit risk. Credit risk remains prevalent among the main risks of the banking sector despite improving asset quality. In 2019, the total share of problem and loss loans (quality categories IV and V, respectively) decreased from 10.8% to 9.6% of the total loan portfolio. At the same time, the coverage of these loans with loan loss provisions grew by 3.3 pp to 75.2%.¹ The banking sector has a capital cushion of ₹1.8 trillion² sufficient to ensure full coverage of potential losses from problem and loss loans (excluding the value of collateral that can be used to reduce these losses).

Bank risks on corporate loans. In 2019, corporate lending grew by 5.8%.³ The share of problem and loss loans in the corporate loan portfolio decreased by 1.2 pp to 11.0%; at the same time, a downturn was noted in almost all types of economic activity. The highest share of problem and loss loans is typical of companies engaged in wholesale and retail trade, construction of infrastructure facilities and real estate transactions.

Bank risks on household loans. In 2019, the Bank of Russia twice applied macroprudential measures to limit the risks of increasing household debt burden from loans.

The growing household debt burden was mainly driven by an increase in debt from unsecured consumer loans. The overall dynamics of unsecured consumer lending were more restrained in 2019 than in 2018 (an increase in loan debt by 20.9% compared to 22.8%). 2019 Q4 saw a significant slowdown (an increase in loan debt by 11.6% YoY vs 23.3% for the previous 9 months of 2019⁴) after additional add-ons to risk weights for loans to borrowers with a high debt burden (above 50%) had been introduced. The share of 90+ days overdue loans fell from 9.1% at the beginning of the year to 7.5% as of 1 January 2020 due to banks writing off and selling problem loans, the improved financial position of certain borrowers and the growth of the loan portfolio.

In the mortgage lending segment, the growth rate of loan debt remained high (over 20% as of 1 January 2020⁵) but did not threaten financial stability. In 2019, banks securitised mortgage loans for ₹224 billion. Risks on foreign currency mortgage loans were limited since the debt on such loans did not exceed 0.5% of total mortgage loan debt.

The quality of the mortgage loan portfolio remained historically high; the share of overdue loans did not exceed 1.4% as of 1 January 2020. Banks were also improving lending standards, including as a result of implemented macroprudential measures (see [Subsection 2.2.1.2 'Macroprudential regulation measures to ensure financial stability'](#)).

RISKS OF NON-BANK FINANCIAL INSTITUTIONS

Non-governmental pension funds. In 2019, the credit quality of assets of the non-governmental pension funds (NPFs) sector continued to improve: the share of unrated assets in the total portfolio of NPFs' pension savings amounted to 1.6% (–0.8 pp YoY), while in the total portfolio of pension reserves it amounted to 19.9% (–2.6 pp YoY). In part, this was



Growth rates of mortgage lending remained high (over 20%) but did not threaten financial stability

¹ Before adjustments for IFRS 9.

² Before credit institutions' violation of requirements to maintain capital conservation buffer and systemic importance capital buffer.

³ Including loans to non-financial organisations and financial institutions (except for credit institutions). For credit institutions operating as of 1 January 2020 (including previously reorganised banks), adjusted for foreign currency revaluation.

⁴ Annualised quarterly growth rates of loan debt.

⁵ Adjusted for securitised loans. Less securitised loans, debt growth amounted to 17.2%.

facilitated by a withdrawal of low-quality assets from investment portfolios of NPFs under NPF regulatory requirements, mandatory stress testing of NPFs taking into account non-governmental pension provision effective 1 January 2019 and mandatory disclosure of the full structure of NPFs' investment portfolios (information on NPF portfolios by asset class has been required to be disclosed since 2019; information on NPF investments by securities issue will have to be disclosed effective from 1 July 2021).

2019 saw a trend towards an increase in the share of corporate bonds (up to 51.5% and 44.5% for pension savings and pension reserves, respectively, in 2019) in pension assets, including in connection with the positive revaluation of debt instruments due to a lower Bank of Russia key rate. Pension funds' investments in the real sector grew by 22.3% YoY to ₹1.56 trillion, exceeding the volume of investments in the financial sector. The share of the real sector in the structure of investments of pension savings and pension reserves amounted to 38.0% and 33.5% as of the end of the year, respectively.

In 2019, the yields on NPF portfolios showed significant growth, reaching 10.7% in the portfolio of pension savings and 8.1% in the portfolio of pension reserves as of the end of 2019 (0.1% and 5.6% in 2018, respectively). The increase in yields was due to the dynamics of the stock market as well as the lower Bank of Russia key rate. The average weighted return on investment of NPF pension savings exceeded the return on the Pension Fund of Russia's extended investment portfolio of pension savings for the first time in the last 5 years.

Concentration in the sector continues to grow in part due to the ongoing consolidation of the market around large NPFs. In this regard, it should be noted that the sector's consolidation may also drive an increase in the yields of the NPF pension fund portfolio due to the scale

effect enabling NPFs to reduce management and commission costs.

Brokers. In 2019, the brokerage services market saw an increase in customer volumes mainly due to lower deposit rates and a favourable environment in the securities market. In addition, brokers' revenues showed a significant increase compared to the previous year, resulting in return on equity of 17% on average for the market in 2019 compared to 9.4% in 2018. The growing returns of brokers were mainly driven by trade and investment revenues, which almost doubled compared to the previous year.

Amendments to the margin trading rules¹ came into force on 1 July 2019 in accordance with which, when performing margin operations, the broker must take into account positions on certain financial derivatives in addition to securities and cash.

Liquidity risk is the most significant risk in the brokerage services market. In 2019, the LCR for the sector overall was considerably higher than the expected threshold values of the ratio.

Insurance companies. A record growth demonstrated over the previous years by the investment life insurance segment gave way to a reduction in insurance premiums, leading to a decrease in total life insurance collections by 9.5% in 2019. The development of the endowment and credit life insurance segments in 2019 allowed the market to partially compensate for the decline in sales in the segment of investment life insurance. In particular, reduced collections in the investment life insurance segment can be linked with the Bank of Russia's closer monitoring of informing customers on risks² inherent in investment life insurance products. An almost twofold increase in payouts in the segment is the direct result of the maturity of a significant amount of contracts entered into in 2014–2016. The relatively low returns demonstrated, in particular, by products with the participation of the policyholder in the investment income of the insurer create

¹ Bank of Russia Ordinance No. 4928-U, dated 8 October 2018, 'On the Requirements for Brokerage with Regard to Securities Transactions and Derivatives Contracts, Liquidity Criteria of Securities Serving as Collateral of Customers' Obligations to the Broker Engaged in Such Transactions and Contracts, as well as the Required Ratios of Brokers Engaged in Such Transactions and Contracts'.

² Bank of Russia Ordinance No. 5055-U, dated 11 January 2019, 'On Minimum (Standard) Requirements for the Conditions and Procedure to Provide Voluntary Life Insurance with Periodic Insurance Payments (Rents, Annuities) and/or Participation of a Policyholder in the Investment Income of an Insurer'.

uncertainty in prospects for the development of the life insurance market.

The **CMTPLI market** in 2019 operated in the first stage of the insurance tariff individualisation reform. One of the results of the reform was a 4.8% YoY decrease in the average CMTPLI insurance premium. At the same time, due to increased competition in the CMTPLI market and the rising cost of spare parts putting pressure on profitability of CMTPLI insurers, the combined loss ratio for CMTPLI for 2019 grew by 6.6 pp. The uncertainty in further development prospects is mainly driven by the existing potential for a further deterioration in market profitability.

Microfinance organisations. In 2019, the microfinance market saw a slowdown in annual growth rates from 45.1% to 29.5%,¹ which could be partially due to a gradual decrease in the low base effect of a number of microfinance organisations (MFOs) as well as the Bank of Russia's measures aimed at reducing the household debt burden and limiting the credit risks of MFOs. Namely, the Bank of Russia established increased risk ratios for calculating the capital adequacy ratios of MFOs for microloans issued since 1 October 2019 to borrowers with a debt burden ratio (DBR) over 50%² and additionally limited the maximum amount for accrued interest and other income under microloan contracts issued since 1 July 2019.³ In this context, microloans that are 90+ days overdue show an increased growth rate (their share in the microloan portfolio for 2019 grew from 26.6% to 28.7%). At the same time, in the microfinance market, there remains a high concentration of equity in MFOs' liabilities, and the financial leverage ratio⁴ does not exceed 61.5%. Therefore, the microfinance sector

demonstrates a low level of interconnectedness with the financial market as a whole. The share of consumer microfinance lending as of the end of 2019 is no more than 1.9% of total unsecured consumer lending.

RISKS OF DEVELOPMENT INSTITUTIONS

Within the framework of the Bank of Russia's monitoring of the activities of development institutions (VEB.RF, JSC DOM.RF, JSC RSMB Corporation) in 2019, a certain expansion of their business was observed related to implementation of the relevant development strategies. Currently, these institutions do not have any significant risks indicating systemic threats, while at the same time their systemic importance is increasing.

In 2019, the most noticeable accomplishment of the development institutions was increased activity of the unified development institution for the housing sector (JSC DOM.RF), which was accompanied by the issue of a significant volume of single-tranche mortgage-backed securities⁵ under the MBS Factory project in the amount of ₴544.5 billion as of the end of 2019 (+69.8% YoY). During 2019, JSC DOM.RF also launched a new mechanism for guaranteeing loans to developers as part of reforming housing construction financing. The said activities of JSC DOM.RF prompted an increase in its systemic importance and formed the basis for establishing financial stability standards and requirements for stress testing the development institution's capital adequacy and liquidity position.⁶ In accordance with the law, the Government of the Russian Federation establishes a procedure for calculating and monitoring compliance with financial stability ratios of the development

¹ For the principal debt balance.

² Bank of Russia Ordinance No. 5115-U, dated 2 April 2019, 'On Setting Economic Ratios for a Microfinance Company Attracting Funds from Individuals, Including Individual Entrepreneurs, and/or Legal Entities in the Form of Loans and for a Microfinance Company Issuing and Placing Bonds'; and Bank of Russia Ordinance No. 5114-U, dated 2 April 2019, 'On Setting Economic Ratios for a Microcredit Company Attracting Funds from Individuals, Including Individual Entrepreneurs Who Are Founders (Members, Shareholders), and/or Legal Entities in the Form of Loans'.

³ In accordance with Federal Law No. 554-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On Consumer Loans' and the Federal Law 'On Microfinance Activities and Microfinance Organisations'.

⁴ Debt-to-equity ratio.

⁵ The issue was carried out by DOM.RF Mortgage Agent LLC with a guarantee from the parent company JSC DOM.RF.

⁶ Federal Law No. 401-FZ, dated 2 December 2019, 'On Amending the Federal Law 'On Promotion of Development and Increased Efficiency of Management in the Housing Sector and on Amending Certain Laws of the Russian Federation' and Certain Laws of the Russian Federation'.

institute, the first calculation to be carried out as of 1 April 2020.

IMPROVEMENT OF RISK ASSESSMENT METHODS

Macroprudential stress testing. In 2019, the Bank of Russia continued to improve its methodology for macroprudential stress testing of the financial sector. In terms of assessing the credit risk of banks, stress testing of the corporate loan portfolio used the expected loss model based on the data on certain loans. The methodology for assessing the liquidity risk of banks was improved with the use of Basel III LCR data. Furthermore, the possibilities of emergency sales of securities by certain participants were considered. The methodology for the stress testing of non-

bank financial institutions was significantly refined: in respect of insurance risk for insurance organisations; in respect of capital adequacy and required reserves for mandatory pension insurance for non-governmental pension funds; in respect of foreign currency risks, risks of derivative financial instruments and modelling of financial results and liquidity risk for professional securities market participants (brokers). In addition, the scope of participants in macroprudential stress testing was expanded to include development institutions. This resulted in improved analysis of intra-sectoral and inter-sectoral contagion effects in the financial sector.

Macroprudential stress testing demonstrated that the Russian financial sector was resilient to the materialisation of stress scenarios.



The development of macroprudential stress testing expands the possibility of assessing the stability of the financial sector as a whole

2.2.1.2. MACROPRUDENTIAL REGULATION MEASURES TO ENSURE FINANCIAL STABILITY

DEVELOPMENT OF MACROPRUDENTIAL REGULATION

The Bank of Russia studied foreign practices of restricting lending in high-risk segments and developed approaches to introducing appropriate amendments to Russian regulation (for example, limiting the issuance of certain types of loans depending on a borrower's debt burden and loan maturity). A [consultation paper](#) with proposals to that effect was published in September 2019.

The Bank of Russia also considered using macroprudential measures in the long term to limit the debt burden of major non-financial organisations. A [consultation paper](#) on this subject was published in April 2019. The Bank of Russia arranged a series of working meetings with the banking sector community and conducted a survey of the corporate portfolio of certain systemically important credit institutions.

The survey showed significant differences in various credit institutions' methods for calculating company debt metrics and assessing the probability of default. This confirmed the need to develop a unified methodology for calculating debt metrics to monitor and limit the risks (if any) of an increase in the debt burden of non-financial organisations.

Macroprudential measures in the unsecured consumer lending segment. In 2019, the Bank of Russia made two decisions to increase risk ratio buffers for unsecured consumer loans. To limit the growth of the household debt burden, the following buffers were increased:

- risk ratio buffers for consumer loans with an effective interest rate (EIR) from 10% to 30% issued on or after 1 April 2019 (30 pp increase)
- risk ratio buffers for consumer loans issued on or after 1 October 2019 (with any EIR as well as for borrowers with a DBR of more

than 50%). This was made possible by the entry into force on 1 October 2019 of the requirement for mandatory calculation of borrowers' debt burden indicator by credit institutions.

To limit the risks associated with banks extending loan maturities, including for the purpose of artificially lowering the value of DBR for borrowers under unsecured consumer loans, Bank of Russia Ordinance No. 4892-U, dated 31 August 2018, was amended.¹ The changes introduce a five-year limit that can be used in calculating the average monthly payment on unsecured consumer loans.

The increase of risk ratio buffers, in particular, depending on DBR, was one of the main factors in reducing the growth rate of loan debt on unsecured consumer loans from a record high of 25.3% as of 1 May 2019 to 20.9% as of 1 January 2020.

The risk ratio buffers also let banks form an additional capital cushion of ₴441.1 billion as of 1 January 2020 to be used for covering possible future losses on unsecured consumer loans.

Macroprudential measures in the mortgage lending segment. Mortgage debt growth rates remained high. Therefore, it was important to maintain balanced growth in mortgage lending, including consistent lending standards. A 100 pp risk ratio buffer applies to mortgage loans with a down payment of 10% to 20% issued on or after 1 January 2019. Loans with a small down payment are characterised by an increased level of borrower credit risk as they reflect the borrower's inability to accumulate funds. The Bank of Russia's measures made it possible to reduce the share of such loans in the total volume of mortgage loans from 41% in 2019 Q1 to 32% in 2019 Q4.²

In December 2019, the Bank of Russia published a report on macroprudential measures

¹ Bank of Russia Ordinance No. 5219-U, dated 30 July 2019, 'On Amending Bank of Russia Ordinance No. 4892-U, dated 31 August 2018, 'On Types and Characteristics of Assets for Which Risk-weight Capital Add-ons are Set and on the Methodology for Applying These Add-ons to the Said Types of Assets for Credit Institutions to Calculate Their Capital Adequacy Ratios''. The document came into effect on 1 October 2019.

² According to a quarterly survey of banks accounting for over 70% of outstanding household loans.

aimed at ensuring balanced growth in mortgage lending; the report proposed differentiating buffers depending on borrowers' DBRs.

Macprudential measures in the segment of foreign currency-denominated lending to non-financial organisations. During 2019, the debt on FX loans granted to non-financial organisations continued to decline from \$138.3 billion as of 1 January 2019 to \$135.2 billion as of 1 January 2020. The reduction in debt was caused both by the actions of banks limiting risk intensity for such loans and by existing macroprudential measures.

Measures for limiting liquidity risk. Since 2016, systemically important credit institutions (SICIs) must comply with the Bank of Russia's requirements for the liquidity coverage ratio N26 (N27) (LCR). Effective 1 January 2019, the minimum allowed value of the LCR is 100%. Between 1 January 2019 and 1 January 2020, the average weighted actual value of the LCR for SICIs increased from 122% to 126%,

while some banks continued to use additional elements provided for by the Bank of Russia regulation¹ in the calculation of the LCR numerator. As of 1 January 2020, positive maximum possible limits of the Bank of Russia's irrevocable credit line were set by the Bank of Russia for six systemically important credit institutions. The total maximum irrevocable credit line limit as of that date amounted to ₹1,303 billion. No loans were granted to credit institutions under this refinancing mechanism in 2019.

To encourage SICIs to comply with the LCR by building a portfolio of high-quality liquid assets on the balance sheet, in 2019, the Bank of Russia decided to gradually curtail the use of irrevocable credit lines. Accordingly, effective 1 May 2019, the fee for the right to use a new irrevocable credit line was increased from 0.15% to 0.5% per year,² and a unified schedule for reducing individual limits was established³ for each credit institution.⁴

¹ When the LCR was implemented, due to a lack of high-quality liquid assets (HQLAs) corresponding to the Basel III criteria, the Bank of Russia, in line with the BCBS standard, made a decision to include the ICL limits opened by the Bank of Russia and HQLAs in certain foreign currencies in the amount exceeding the demand for such currency in the calculation of the LCR numerator.

² According to the decision of the Bank of Russia Board of Directors.

³ Bank of Russia Order No. OD-854, dated 16 April 2019, 'On Amending Bank of Russia Order No. OD-3439, dated 3 December 2015'.

⁴ In March 2020, the above parameters of the irrevocable credit line were adjusted.

2.2.2. MANAGING ASSETS IN FOREIGN CURRENCIES AND PRECIOUS METALS¹

ASSET STRUCTURE

The foreign currency assets of the Bank of Russia include:

- government and non-government debt securities;
- deposits and balances of nostro accounts;
- funds invested under reverse repo transactions;²
- the net position of the Russian Federation in the IMF (net claims on the IMF);
- eurobonds of the Russian Federation;
- other claims on counterparties under executed transactions.

The said instruments are denominated in US dollars, euros, pounds sterling, Canadian

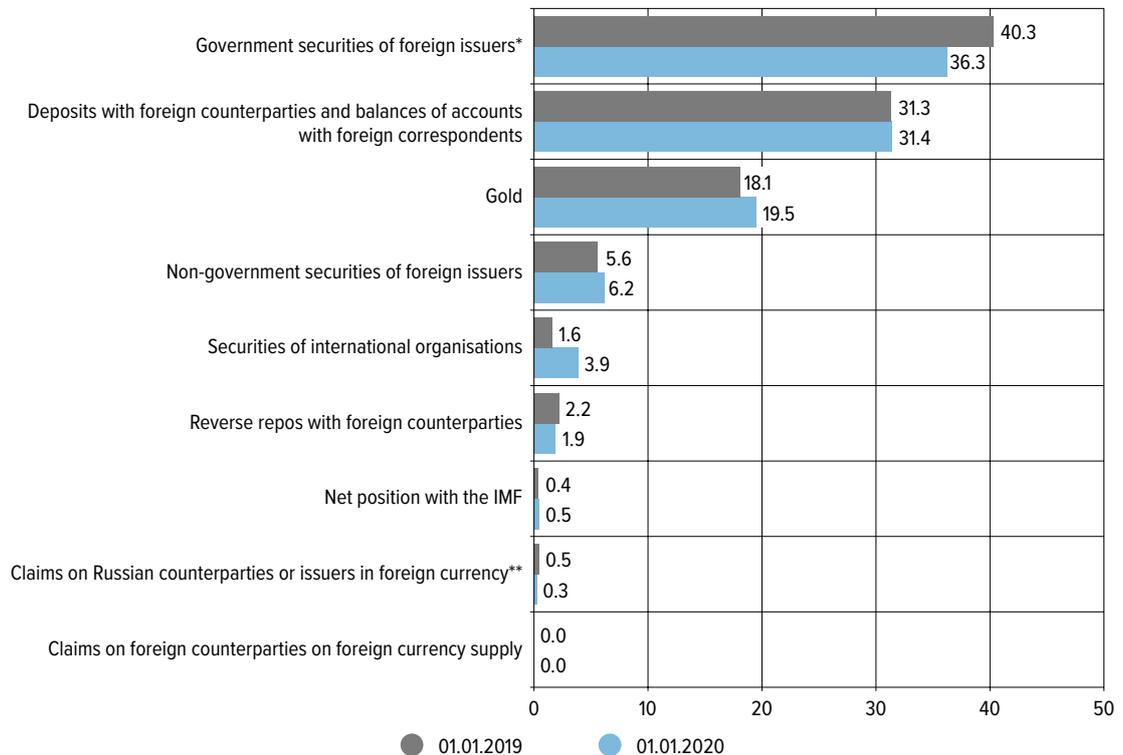
and Australian dollars, Swiss francs, yen, yuan and special drawing rights (SDR)³ (hereinafter, 'foreign currencies').

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

As of the end of 2019, the amount of Bank of Russia assets in foreign currency and gold stood at \$559.1 billion, of which \$449.8 billion was foreign currency assets, and \$109.2 billion was gold.⁴ In 2019, the Bank of Russia's gold assets changed mainly owing to the purchase of gold from Russian credit institutions (156 tonnes) and the sale of gold in the form of precious metal coins, and as of 31 December

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

Chart 35



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

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

¹ All allocations and indicators provided in this section were calculated based on managerial reporting data.

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

³ Unit of calculation used in IMF operations. The exchange rate of the 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.

⁴ Discrepancies between the total and the sum of components are due to the rounding of data.

2019 the Bank of Russia's gold assets amounted to 2,231 tonnes.

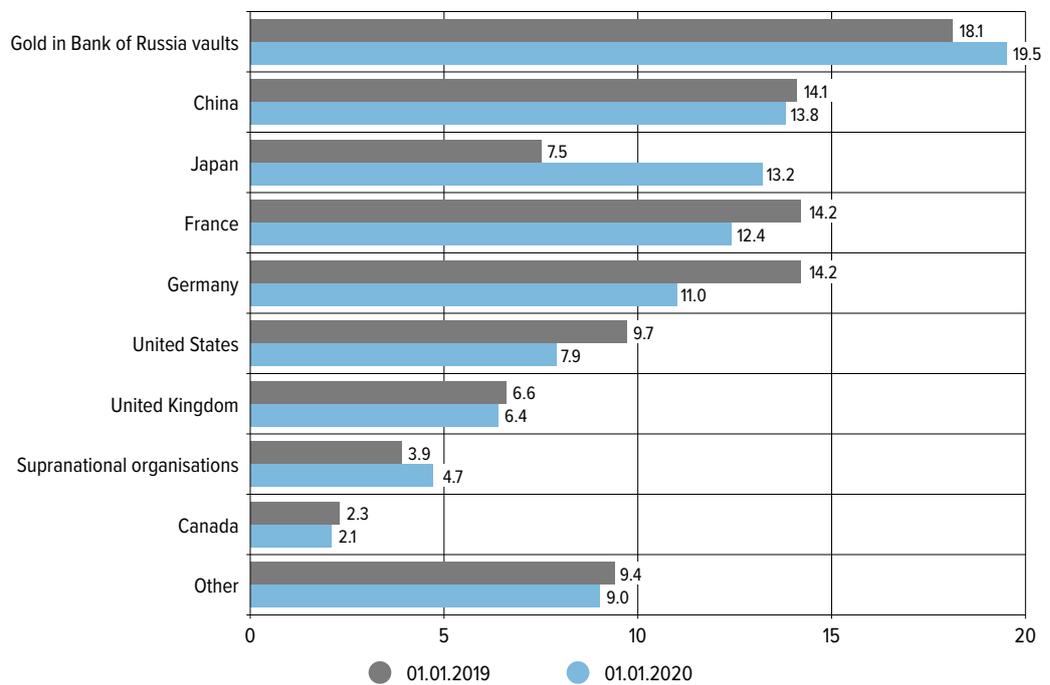
The securities of foreign issuers are debt liabilities mainly issued or guaranteed by foreign governments (China, France, Germany, the United Kingdom, the USA, Canada) as well as government agencies and foundations, international organisations and banks.

As part of its operations to manage foreign currency assets, the Bank of Russia purchased and sold debt liabilities of foreign issuers, conducted repo transactions with these securities and reverse repo transactions involving lending securities of foreign issuers.

The geographic distribution of foreign currency assets is based on the location (place of

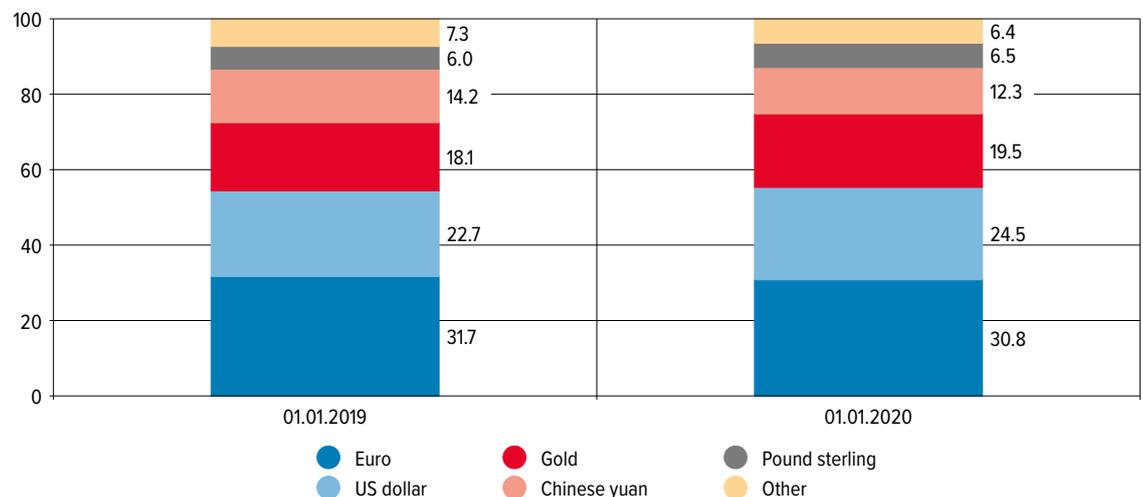
BANK OF RUSSIA ASSETS IN FOREIGN CURRENCY AND GOLD BY COUNTRY (PER CENT)

Chart 36



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

Chart 37



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

registration) of legal entities which are the Bank of Russia's counterparties or foreign issuers of securities.

In the structure of the Bank of Russia's assets in foreign currency and gold, the category 'Other currencies' includes assets in the Japanese yen (3.5%), Canadian dollars (2.2%) and Australian dollars (0.7%). Account balances in Swiss francs were insignificant. Net claims of the Russian Federation on the IMF, which are denominated in the SDR, were recognised in the breakdown as assets in the foreign currencies included in the SDR basket, in the proportions determined by the IMF for calculating the value of the SDR.¹

In 2019, the amount of the Bank of Russia's assets in foreign currency and gold grew by \$85.1 billion. Their growth was driven mainly by transactions for the purchase of foreign currency in the domestic FX market carried out by the Bank of Russia in connection with the purchase of foreign currency from the Bank of Russia by the Federal Treasury under the fiscal rule. Other drivers of the growth of assets included the change in the price of gold over the period and the purchase of gold from Russian credit institutions. The growth of assets was also related to the inflow of customer funds into accounts with the Bank of Russia. The growth of assets was partially offset by changes in the exchange rates of foreign currencies against

the US dollar and a decrease in outstanding direct repo transactions of the Bank of Russia with foreign counterparties as of the reporting date. These transactions are mainly concluded by the Bank of Russia to raise funds under a direct repo transaction and simultaneously place the corresponding amount of funds with foreign counterparties at a higher interest rate in the form of deposit, reverse repo or in a nostro account with a correspondent bank.

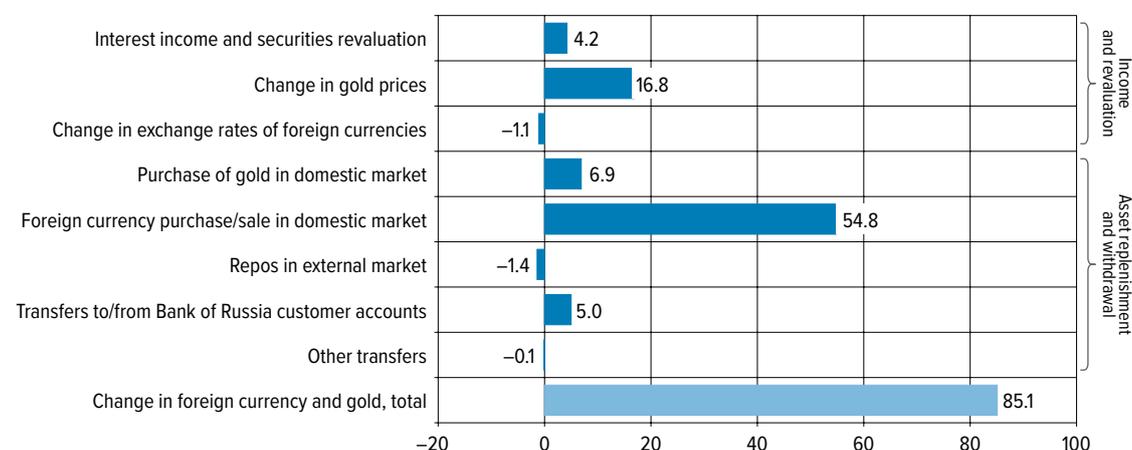
MANAGEMENT OF ASSETS

The assets of the Bank of Russia in foreign currencies are managed with due regard for the Bank of Russia's foreign currency liabilities, i.e. balances in foreign currency accounts of the Bank of Russia's customers, which mainly include the accounts of the National Wealth Fund of the Russian Federation (NWF)² and funds of the Federal Treasury to be credited to the NWF.

Management of foreign currency assets is associated with the Bank of Russia's assumption of such financial risks as credit, foreign exchange, interest rate and liquidity risks. The risk management process while conducting operations with foreign currency assets of the Bank of Russia includes identifying risks, assessing them, setting risk limits and monitoring their compliance. In making these decisions, the Bank of Russia also considers non-economic risks.

**FACTORS BEHIND CHANGES IN BANK OF RUSSIA ASSETS IN FOREIGN CURRENCY AND GOLD IN 2019
(BILLIONS OF US DOLLARS)**

Chart 38



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

² The assets of the NWF are managed by the Ministry of Finance of the Russian Federation, including, inter alia, by placing them on accounts in foreign currency (US dollars, euros and pounds sterling) with the Bank of Russia.

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

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 foreign exchange risk is equal to net foreign currency assets, which is the amount of foreign currency assets net of the Bank of Russia's foreign currency liabilities. The level of currency risk accepted by the Bank of Russia is established by the target weights or amounts of currencies in net foreign currency assets and is limited by the allowed deviations from such weights and amounts.

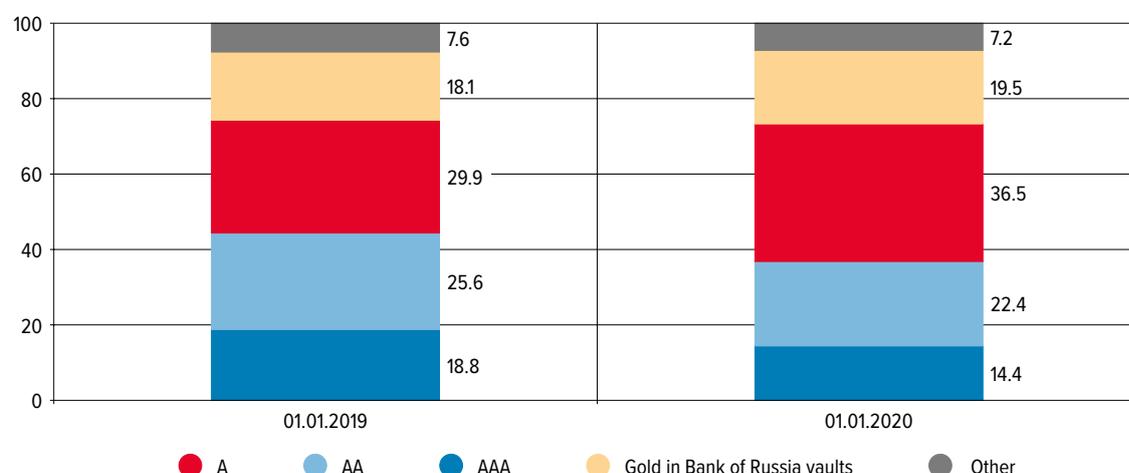
Credit risk means the risk of default by a counterparty or an issuer of securities on its liabilities to the Bank of Russia. Credit risk is restricted by various limits and requirements for the credit quality of foreign counterparties and issuers. The minimum required long-term credit rating of the Bank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

Interest rate risk means the risk of a decline in the value of the Bank of Russia's foreign currency assets as a result of unfavourable changes in interest rates. The level of interest rate risk accepted by the Bank of Russia is determined by the duration¹ of assets in the relevant foreign currency. To manage interest rate risk, the Bank of Russia sets the minimum and maximum duration of assets in each foreign currency and limits the time left to maturity of securities and the terms of deposits and repo transactions.

Liquidity risk means the risk of losses as a result of insufficient funds for the Bank of Russia to discharge its current foreign curren-

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

Chart 39



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

¹ The percentage change in the value of a financial instrument or a class of instruments against the change in the corresponding interest rate by 1 pp.

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

Under bank account agreements, the Bank of Russia accrues and pays interest on the balances in the foreign currency accounts of the NWF based on the yields of indices, each of which is an aggregate of foreign government securities (denominated in the currency of the account) that have specific shares in that aggregate. The set of foreign government securities included in these indices is established by the Federal

Treasury and regularly revised in compliance with the procedures set forth in the said agreements. The Bank of Russia accrues interest on balances of the Federal Treasury's foreign currency accounts to be credited to the NWF based on money market rates in the respective currency. Liabilities related to the payment of interest on balances of Federal Treasury accounts are discharged by the Bank of Russia in Russian rubles. The Bank of Russia is the issuing bank, so the said liabilities do not create any interest rate risk or liquidity risk for it.

Bank of Russia foreign currency assets as well as claims and liabilities in the indicated currencies for concluded transactions are grouped into portfolios by the respective currency. For the purpose of evaluating the effectiveness of the management of the said portfolios, their yield is compared with the yield of standard portfolios.¹ The rate of return on these portfolios in foreign currencies was calculated as the total (realised and unrealised) return of the respective portfolio on investment as a percentage per annum. The cumulative rates of return for 2019 are available in [Table 23 of Section 5.4 'Statistical tables'](#).

¹ The set of instruments available for investment in each foreign currency taken with certain weights. Standard portfolios reflect the target allocation of the Bank of Russia's assets and market structure in each of the foreign currencies.

2.2.3. ACCESS TO THE FINANCIAL MARKET

2.2.3.1. CREDIT INSTITUTIONS

As of 1 January 2020, there were 442 operating credit institutions with a banking licence (including 40 non-bank credit institutions), which is 42, or 8.7%, less than on 1 January 2019.

In 2019:

- one new bank established through incorporation was registered and obtained a banking licence;
- one credit institution terminated its credit institution status with a simultaneous cancellation of its banking licence in connection with obtaining the status of a microfinance company;
- 11 credit institutions terminated their operations as a result of mergers;
- 28 credit institutions had their banking licences revoked, and 3 credit institutions had their licences cancelled.

In 2019, the Bank of Russia denied state registration to the founder of a new non-banking credit institution due to the unsatisfactory financial position of the founder and non-compliance of the documents submitted to the Bank of Russia for state registration of the credit institution and receipt of a banking licence with the requirements of federal laws and the relevant Bank of Russia regulations.

262 amendments to the articles of association of credit institutions were registered in 2019 by decision of the Bank of Russia.

As of 1 January 2020, the structure of credit institutions by type of license was as follows:

- 266 banks, or 60.2% of the total number of operating credit institutions, had a universal licence;
- 136 banks, or 30.8% of the total number of operating credit institutions, had a basic licence.

The right to carry out banking operations with precious metals was granted to 200 credit institutions, or 45.2% of the total number of operating credit institutions.

Quantitative changes in operating credit institutions and certain segments of their licensed activities are shown in Chart 40.

The total authorised capital of operating credit institutions increased by ₹167.3 billion (6.3%) to ₹2,822.7 billion in 2019.

As of 1 January 2020, non-residents' investments in the authorised capital of operating credit institutions amounted to ₹401 billion, or 13.9% of the total authorised capital¹ of operating credit institutions (₹391.7 billion, or 14.5%, as of 1 January 2019).

As of 1 January 2020, in 74 out of 133 operating credit institutions with non-residents' participation, non-residents' share in the authorised capital exceeded 50% (77 out of 141 as of 1 January 2019).

The share of foreign capital in the total authorised capital of operating credit institutions as calculated by the Bank of Russia in accordance with the procedure specified in Article 18 of Federal Law No. 395-1² amounted to 11.8% as of 1 January 2020 (12.4% as of 1 January 2019). The change in this indicator was driven by the growth of the total authorised capital of operating credit institutions outstripping the growth of non-residents' investments in 2019.³

Due to optimisation of regional branch networks and the use of new financial instruments and technologies, the number of branches of operating credit institutions in the Russian Federation dropped by 12.8% and amounted to 618 as of 1 January 2020. The number of

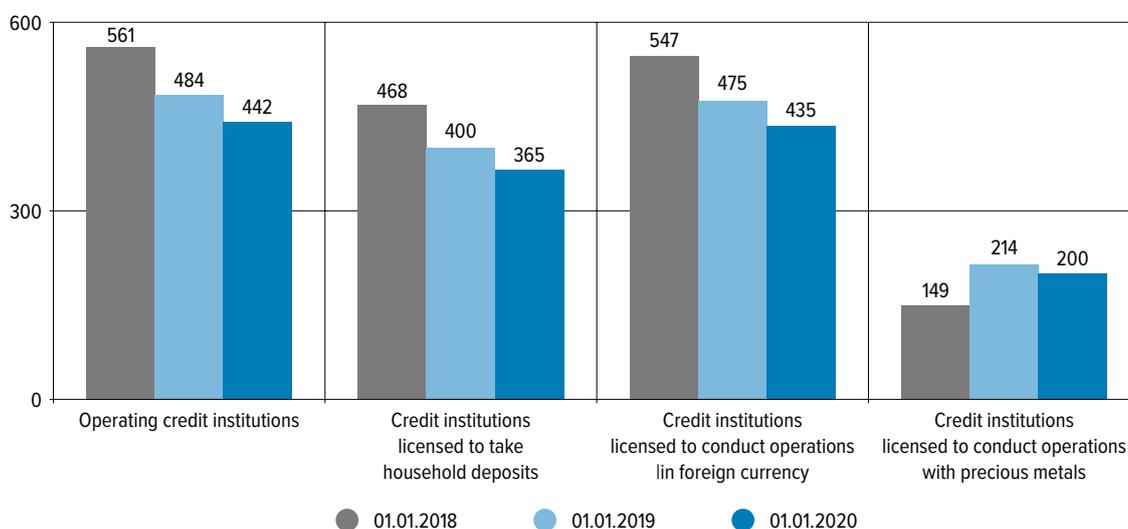
¹ Total authorised capital means the total registered authorised capital and issues of joint-stock credit institutions completed as of 1 January 2020.

² Federal Law No. 395-1, dated 2 December 1990, 'On Banks and Banking Activities'.

³ Investments by non-residents are calculated with the adjustments established by Article 18 of Federal Law No. 395-1, dated 2 December 1990, 'On Banks and Banking Activities' and for the first time do not include foreign investments comprising 51% or more of the shares (stakes) in the authorised capital issued after 1 January 2007, provided that the indicated shares (stakes) have been owned by the investor for 12 years or more.

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

Chart 40



representative offices of credit institutions in the Russian Federation fell by 4.5% to 279.

In 2019, the total number of internal structural units of credit institutions (their branches) decreased slightly (by 2.4%) to 29,079 as of 1 January 2020. The number of additional offices fell to 19,997 (by 2.4%), cash operations departments outside cash settlement centres fell to 870 (by 18.5%) and operations offices fell to 5,724 (by 4.8%). At the same time, the network of credit and cash offices grew by 14.6% (to 2,198), and the network of mobile cash points grew by 2.5% (to 290).

As of 1 January 2020, the Bank of Russia accredited 40 representative offices of foreign credit institutions in the Russian Federation. In 2019, the Bank of Russia extended the accreditation of 17 representative offices of foreign credit institutions. The Bank of Russia terminated the accreditation of 6 representative offices of foreign credit institutions due to the decisions adopted by their authorised bodies to terminate the activities of representative offices in the Russian Federation.

In 2019, the Bank of Russia reviewed:

- 833 documentation packages with information on persons exercising control or significant influence over credit institutions;
- 1,218 applications for approval of candidates to the governing bodies or for other positions in credit institutions (their branches) (1,174 applications were approved, 44 applications were denied);
- 189 applications for the Bank of Russia's approval of transactions aimed at acquiring more than 10% of the shares (stakes) of credit institutions or establishing control in relation to shareholders (participants) of credit institutions (131 applications were approved, 58 applications were denied);
- 1,369 notifications of the election/appointment of 3,692 members of credit institutions' boards of directors (supervisory boards), heads of the internal control service / internal control audit / risk management service and special officers for AML/CFT of credit institutions (3,676 candidates met the requirements for professional qualifications and/or business reputation, 16 candidates did not).

2.2.3.2. NON-GOVERNMENTAL PENSION FUNDS

As of 1 January 2020, 47 non-governmental pension funds (NPFs) that are joint-stock companies were operating in the financial market.

In 2019, two NPFs were reorganised in the form of a merger; as a result, two NPFs terminated their operations.

In 2019, the Bank of Russia reviewed:

- 320 applications for approval of candidates for executives and other officials of NPFs (319 applications were approved);

- 16 applications for the Bank of Russia approval (consent) for transactions aimed at acquiring more than 10% of the shares (stakes) of NPFs or establishing control in relation to shareholders (participants) of NPFs (14 applications were approved, two applications were denied);
- 125 documents containing information on the structure and shareholders of NPFs, including persons exercising control or significant influence over NPFs.

2.2.3.3. INSURANCE ENTITIES

As of 1 January 2020, the total number of insurance entities was 255 (178 insurance companies,¹ 66 insurance brokers and 11 mutual insurance companies).

In 2019, with regard to insurance entities, the Bank of Russia issued nine licences for insurance activities, including seven licences for intermediary activities as an insurance broker, one insurance licence and one licence for compulsory health insurance in additional territories. The Bank of Russia also issued three replacement licence forms due to reorganisation of insurance companies and renewed licences for 46 insurance entities.

The amount of foreign capital in the total authorised capital of insurance companies² licenced to carry out insurance activities calculated by the Bank of Russia as of 1 January 2020 amounted to 10.83% (11.99% as of 1 January 2019). The decreased share of foreign capital in the authorised capital of insurance companies is due to the fact that in 2019 insurance companies conducted procedures to increase authorised capital in accordance with the requirements of Federal Law No. 251-FZ.³

For the first time, in accordance with Bank of Russia Ordinance No. 3386-U, the amount of foreign capital participation calculated as of 1 January 2020 does not include foreign investments comprising 51% or more of the shares (stakes) in the authorised capital issued after 1 January 2007, provided that these shares (stakes) have been owned by the investor for 12 years or more.

In 2019, the Bank of Russia reviewed:

- 483 applications for the approval of candidates for executives in insurance companies (469 applications approved, 14 applications denied);
- 76 applications for Bank of Russia approval (consent) for transactions aimed at acquiring more than 10% of the shares (stakes) of insurance companies or establishing control in relation to shareholders (participants) of insurance companies (66 applications approved, 10 applications denied);
- 447 documents containing information on the structure and shareholders of insurance companies, including persons exercising control or significant influence over insurance companies.

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

² In accordance with Article 6 of Russian Federation Law No. 4015-1, dated 27 November 1992, 'On the Organisation of Insurance Business in the Russian Federation' and 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'.

³ Federal Law No. 251-FZ, dated 29 July 2018, 'On Amending the Law of the Russian Federation 'On the Organisation of Insurance Business in the Russian Federation'.

2.2.3.4. MICROFINANCE MARKET ENTITIES

As of 1 January 2020, the state register of microfinance organisations included 1,774 organisations (2,002 as of 1 January 2019).

In 2019, 439 microfinance organisations were registered in the state register of microfinance organisations, and information on 667 microfinance organisations was excluded.

In 2019, the Central Bank of the Russian Federation reviewed:

- 92 applications for the approval of candidates for executives and other officials of

microfinance organisations (81 applications approved, 11 applications denied);

- 11 applications for Bank of Russia approval (consent) for transactions aimed at acquiring more than 10% of the shares (stakes) of microfinance organisations (seven applications approved, four applications denied);

- 89 documents containing information on the structure and shareholders of microfinance organisations, including persons exercising control or significant influence over microfinance organisations.

2.2.3.5. NATIONAL PAYMENT SYSTEM PARTICIPANTS

The Central Bank of the Russian Federation registers organisations as payment system operators in accordance with Article 15 of Federal Law No. 161-FZ.¹

As of 1 January 2020, there were 30 payment system operators registered and listed in the register of payment system operators (as of 1 January 2019, there were 34).

In 2019, the Bank of Russia received applications from one organisation for registration as a payment system operator. It was denied registration due to non-compliance with the requirements of Federal Law No. 161-FZ.

Four organisations were removed from the register of payment system operators in 2019 based on applications from the payment system operators.

¹ Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System'.

2.2.3.6. OTHER PARTICIPANTS

In 2019, the Bank of Russia included 49 investment advisers in the unified register of investment advisers and issued two brokerage licences, five depository licences, two dealer licences and three securities management licences.

As of 1 January 2020, there were 69 investment advisers (20 as of 1 January 2019), 290 brokers (331), 276 depositories (306), 319 dealers (366) and 202 trust managers (231) in Russia.

In 2019, a professional securities market participant's brokerage licence not allowing the use of customers' funds or the execution of transactions with securities and derivative financial instruments under a brokerage agreement at customers' expense without involving another broker (agent) registered as a clearing member and a professional market participant was for the first time replaced by a professional securities market participant licence for brokerage services.

In addition, in 2019 the first individual entrepreneurs were included in the unified register of investment advisers (by the end of 2019, six individual entrepreneurs were listed in this register).

In 2019, the Bank of Russia reviewed 303 notifications on the approval of candidates for executives and other officials of professional securities market participants (265 candidates were approved, 38 candidates required no approval).

In the year under review, 12 management companies were granted licences to manage investment funds, unit investment funds and non-governmental unit funds. As of 1 January 2020, 269 management companies were operating in the market (280 as of 1 January 2019).

In 2019, the Bank of Russia reviewed:

- 1,069 applications for the approval of candidates to executive positions in manage-

ment companies (1,050 applications were approved, 19 applications were denied);

- 49 applications for Bank of Russia approval (consent) for transactions aimed at acquiring more than 10% of the shares (stakes) of management companies or establishing control in relation to shareholders (participants) of management companies (37 applications were approved, 12 applications were denied);
- 236 documents containing information on the structure and shareholders (members) of management companies, including persons exercising control or significant influence over management companies.

In 2019, for the first time, the status of a self-regulatory organisation in the financial market was assigned to investment advisers (NAUFOR and SRO National Financial Association) and agricultural credit consumer cooperatives (Interregional Association of ACCCs LAD, Interregional Association of ACCCs Edinstvo, SRO Association of ACCCs Vybor), while the status of a self-regulatory organisation in the financial market was terminated for organisations involved in the activities of credit consumer cooperatives (Interregional Union of Credit Cooperatives and SRO Narodnye Kassy – Soyuzsberzaim Union) and brokers, dealers and asset managers (PARTAD¹).

Two credit rating agencies (National Rating Agency LLC and National Credit Ratings LLC) were entered in the register of credit rating agencies. Thus, the number of rating agencies increased from two as of 1 January 2019 to four as of 1 January 2020.

On 1 July 2019, the restrictions established by Article 11 of Federal Law No. 238-FZ² entered into force, prohibiting the use of a qualification certificate after 1 July 2019 as a document confirming qualification of an employee (candidate for a position) of a non-bank financial institution; that is, qualification certificates

¹ Professional Association of Registrars, Transfer Agents and Depositories.

² Federal Law No. 238-FZ, dated 3 July 2016, 'On Independent Qualification Assessment'.

can no longer be used to assess a person's qualifications, and effective 1 July 2019, they are no longer required for the clearance of officials of financial institutions and for monitoring their activities.

However, organisations accredited to certify financial market specialists continued to provide training and issue qualification certificates of financial market specialists even after 1 July 2019. During the reporting period, one organisation certifying financial market specialists had its accreditation extended. The number of organisations accredited for carrying out the qualification review of financial market specialists totalled 11 as of 1 January 2020.

In 2019, the Bank of Russia held a qualification exam for persons wishing to join self-regulatory organisations of actuaries, which was successfully passed by 15 applicants.

As of 1 January 2020, the unified register of responsible actuaries listed 97 responsible actuaries (103 responsible actuaries as of 1 January 2019). The decrease is due to the exclusion of actuaries that did not submit documents to confirm their compliance with the requirements stipulated by Federal Law No. 293-FZ, dated 2 November 2013, 'On Actuarial Activities in the Russian Federation' within five years from the date of registration in the unified register of responsible actuaries.

2.2.3.7. FINANCIAL INSTRUMENTS

In 2019, one of the Bank of Russia's main objectives regarding admission of issue-grade securities to the financial market was the development of new versions of relevant regulations complying with Federal Law No. 514-FZ, adopted at the end of 2018 for streamlining the issue of securities,¹ and, above all, a new version of the Securities Issue Standards.² Adopted and submitted to the Ministry of Justice of Russia in December 2019, this regulation pursues the trend mapped out by Federal Law No. 514-FZ aimed at creating a workable procedure for registering securities issues and new opportunities to attract financing in the securities market. The new Securities Issue Standards for the first time combined regulation of issuance procedures for banking and other organisations while maintaining the key features of bank securities issuance.

The Standards expand opportunities for attracting investments in the capital market by establishing new instruments such as perpetual bonds of non-bank institutions and 'green', social and infrastructure bonds as well as by creating new rules for issuing convertible securities.

In 2019, the Bank of Russia took a number of key steps toward providing the possibility of electronic registration of securities issues:

- it ensured the technological capability of admitting and registering issues of securities in electronic form;
- it defined methods for confirming electronic registration and resolved other procedural issues in the Securities Issue Standards.

Electronic registration of securities issues will be available to all issuers applying for such registration with the Bank of Russia after the Securities Issue Standards enter into force.

Another important area of the Bank of Russia automating its activities is electronic interaction with registration organisations³ and organisations of the accounting system enabling exchange of information on registration of securities issues.

The Bank of Russia, mainly its regional divisions, worked on reconciling the register of issue-grade securities. Information on 240,258 issuers was reviewed, and it was updated for 117,162 issuers.

Another simplification of the procedures for admitting financial instruments to the financial market was related not only to issue-grade securities but also to the rules of trust management of unit investment funds. In 2019, as a result of optimising the authorisation powers of the Bank of Russia, its functions for registering share issues upon establishment of joint-stock companies were transferred to registrars, and its functions for approving the rules for trust management of unit investment funds for qualified investors were transferred to specialised depositories.

Throughout 2019, in addition to developing regulatory documents, the Bank of Russia continued to coordinate methodology with registrars and specialised depositories. As a result, as soon as the federal laws vesting them with necessary powers⁴ entered into



The new Standards streamline registration procedures and expand opportunities for attracting investment through new instruments

¹ Federal Law No. 514-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation with Regard to Improving the Legal Regulation of Securities Issuance' (entered into force on 1 January 2020).

² Bank of Russia Regulation No. 706-P, dated 19 December 2019, 'On Securities Issue Standards' (submitted for state registration with the Ministry of Justice of Russia).

³ Stock exchanges, NCI JSC NSD and registrars.

⁴ Federal Law No. 514-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation with Regard to Improving the Legal Regulation of Securities Issuance' and Federal Law of No. 248-FZ, dated 26 July 2019, 'On Amending Certain Laws of the Russian Federation'.

force, registrars and specialised depositories immediately proceeded with implementing the new functions. For example, within the first two months of 2020, 11 registrars already registered 55 share issues, five of which were placed, and specialised depositories agreed upon six new rules for closed-end unit investment funds and 104 amendments to the rules of closed-end unit investment funds previously registered by the Bank of Russia.

The functions of registrars in registering share issues granted by Federal Law No. 514-FZ on simplifying securities issuance are expanded by Federal Law No. 259-FZ on investment platforms,¹ which granted them the right to register issues of shares placed on investment platforms.

In 2019, financial market participants assessed the availability of information on admission requirements for financial instruments. According to a survey, the average score was 4.64 on a 5-point scale. The annual positive trend in the availability of information on admission requirements for financial instruments indicates the efficiency of this business process.

In 2019, due to the adoption of Federal Law No. 290-FZ on international companies,² a unique financial instrument appeared in the Russian financial market, i.e. shares of international companies that offer an identical or wider scope of rights as the rights of shareholders of a foreign legal entity before its transfer to Russian jurisdiction as part of redomiciliation.

In total, since the adoption of Federal Law No. 290-FZ until the end of 2019, 15 issues of shares of international companies were

registered; one of the redomiciled companies is public, and its shares were admitted to trading on several stock exchanges and remain admitted as shares of a Russian joint-stock company.

The transition from the old procedure for issuing securities to the new one in 2019 did not lead to a slowdown in issuing activity. The total number of issues of securities registered³ in 2019 is slightly (by 11.8%) more than the number of issues registered in 2018 (3,451 in 2019 vs 3,086 in 2018).

The largest increase in the number of new issues is consistently shown by exchange and commercial bonds, which combine a simple registration procedure and convenient access to a wide range of investors. The number of issues of exchange and commercial bonds admitted to the financial market in 2019 by the exchanges⁴ and the central depository amounted to 1,006, 45.4% more than in 2018 (692 issues). In total, 1,115 bond issues were placed in 2019, with a total par value of ₽22,986.5 billion, \$0.87 billion and €0.15 billion (vs ₽28,212.5 billion, \$1.42 billion and €0.35 billion in 2018 with 804 issues).

The total par value of the shares admitted to the market amounted to ₽3,362.52 billion and \$0.04 million with 2,336 issues (vs ₽1,834.43 billion in 2018 with 2,282 issues). Furthermore, the Bank of Russia registered 32 prospectuses of shares in 2019.

The total par value of the securities placed in 2019 was ₽10,947.91 billion, \$0.06 billion and €0.15 billion (of which ₽1,819.14 billion and \$0.04 million were shares, and ₽9,128.76 billion, \$0.06 billion and €0.15 billion were bonds,



The total par value of ruble bonds admitted to the market amounted to about ₽23 trillion, while the par value of shares amounted to about ₽3.4 trillion. Nearly ₽11 trillion of securities were placed in the market in 2019

¹ Federal Law No. 259-FZ, dated 2 August 2019, 'On Attracting Investments Using Investment Platforms and Amending Certain Laws of the Russian Federation'.

² Federal Law No. 290-FZ, dated 3 August 2018 'On International Companies and International Foundations'.

³ Meaning the issues of securities registered by the Bank of Russia as well as the issues of exchange and commercial bonds assigned issue identification numbers by stock exchanges or NCI JSC NSD.

⁴ Hereinafter in this section, 'exchanges' mean Public Joint-stock Company Moscow Exchange MICEX-RTS and Public Joint-stock Company Saint Petersburg Stock Exchange.

including exchange-traded and commercial bonds) (vs ₹1,538.7 billion in shares and ₹10,427.2 billion and \$0.61 billion in bonds in 2018).

During the reporting period, the Bank of Russia registered 14 conditions for issuing certificates of credit institutions, including nine conditions for savings certificates and five conditions for certificates of deposit (in 2018, only conditions for issuing and circulating savings certificates were registered).

In 2019, the number of new registered rules for trust management of unit investment funds (301 in 2019 vs 192 in 2018) as well as amendments and additions to the previously registered rules for trust management of unit investment funds (1,969 in 2019 vs 1,595 in 2018) increased significantly.

The interest of financial market participants in exchange-traded unit investment funds significantly increased, and 16 new exchange-traded unit investment funds were registered in 2019, six of which provide for the possibility of transferring foreign currency as payment for investment units (four exchange-traded unit investment funds in 2018).

Overall, as of the end of 2019, the number of existing rules for trust management of unit investment funds increased by more than 6% and amounted to 1,531, including 255 open-end unit investment funds, 40 interval unit investment funds, 20 exchange-traded unit investment funds and 1,216 closed-end unit investment funds. The number of effective sets of rules of trust management of mortgage coverage declined by 11 to 28.

2.2.3.8. ACTIVITY OF THE BANK OF RUSSIA COMPLAINT COMMISSION

The Bank of Russia Complaint Commission for considering complaints about the decisions of Bank of Russia officials regarding recognition of persons as not meeting the qualification requirements and/or business reputation requirements established by federal laws (the 'Commission') has been functioning since 28 January 2018.

As of 1 January 2020, since the beginning of the Commission's work, it received 555 complaints and considered 444 complaints, of which 205 complaints were denied, and 239 complaints were satisfied (Chart 41).

In 2019, the Commission received 330 complaints and considered 286 complaints (as of 1 January 2020), of which 162 complaints were satisfied, and 124 complaints were denied.

The number of complaints received by the Commission in 2019 showed a tendency to grow compared to 2018. One of the reasons

driving the growth in the number of complaints was a simplified procedure for receiving information on availability of data about a person in the database¹ (the service was available starting 2 August 2019 on the UPSS; as of 1 January 2020, more than 5,000 requests were received).

The number of complaints to the Commission from persons with activities connected (or previously connected) with non-bank financial institutions, mainly insurance organisations, increased. In 2019, there were 81 complaints of this category (vs 20 in 2018).

Broken down by offices held by the persons applying to the Commission, the statistics for 2019 are dominated by complaints from members of boards of directors (supervisory boards) (49), heads of branches (45), deputy sole executive bodies (42) and members of the collegial executive body of financial organisations (38).

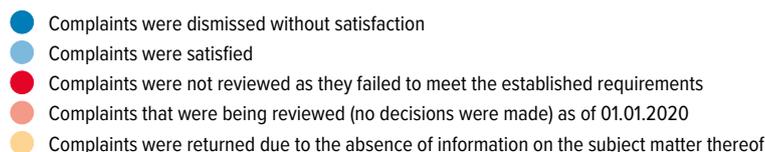
STATISTICS OF APPEALS TO THE BANK OF RUSSIA COMPLAINT REVIEW COMMISSION

Chart 41

From 28 January 2018 to 1 January 2020, the Commission received 555 complaints of which:

455 complaints related to the activity of 113 credit institutions

100 complaints related to the activity of 44 credit institutions



¹ Maintained in accordance with Articles 75 and 76.7 of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)'.

2.2.4. REGULATION

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

In 2019, the Bank of Russia continued its efforts to improve the Russian **deposit insurance system**. Together with State Corporation Deposit Insurance Agency, the Bank of Russia worked on developing a draft law¹ providing for:

- expanding the deposit insurance system to include funds of certain non-profit organisations, including homeowner associations and horticultural non-profit associations;
- increasing the insurance compensation limit to ₹10 million for temporary cash balances of individuals that arise in special life situations, in particular, the sale of a dwelling and/or a land plot, receipt of an inheritance, or execution of a court decision.

Given the importance of the deposit insurance system for the development of the banking system as a whole as well as for the protection of consumers of banking services and taking into account relevant international best practices, the Bank of Russia published a consultation paper² for discussion with financial market participants that, among other things, addressed the inclusion of funds of other legal entities in the perimeter of insurance coverage of the deposit insurance system.



Supporting growth in lending to the real sector of the economy was the main objective of incentive-based banking regulation

In 2019, work on implementing the **concept of incentive-based banking regulation** was continued. A special procedure to make provisions for loans and borrowings granted under the project financing mechanism involving State Development Corporation VEB.RF (VEB.RF) was extended³ to all project financing loans.

To support growth in lending to the real sector of the economy, credit institutions were given the opportunity to upgrade any loans used by borrowers to finance their operations by one category of quality classification, subject to certain conditions regarding quality of debt service, financial position and performance indicators of borrowers.

Credit institutions were granted⁴ the right to decide not to downgrade the quality of debt service on loans to individuals exercising their right to mortgage payment holidays in a difficult life situation.

Through 31 December 2021, reduced requirements for provisions for possible losses are in effect for credit institutions with corporate borrowers (counterparties) affected by restrictive measures of foreign states (regardless of the date such sanctions took effect).⁵

A 20% reduced risk weighting ratio for calculating capital adequacy requirements was extended⁶ to ruble exposures secured by a VEB.RF ruble guarantee. Exemptions from including bank borrowers in a group of related

¹ Draft Federal Law No. 757296-7 'On Amending Certain Laws of the Russian Federation' (passed in the first reading by the State Duma on 5 December 2019).

² The Consultation Paper '[On improving the compulsory deposit insurance system in Russian banks](#)' was published on the Bank of Russia website in July 2019. The Paper sets out a vision for the further improvement of the deposit insurance system in the Russian Federation that would make it possible, among other things, to increase the overall level of deposit insurance coverage to standards similar to those of the most well-developed deposit insurance systems of the world.

³ Bank of Russia Ordinance No. 5288-U, dated 16 October 2019, 'On Amending Bank of Russia Regulation No. 590-P, Dated 28 June 2017, 'On the Procedure for Credit Institutions to Make Loss Provisions for Loans, Loan and Similar Debts'. The document came into effect on 10 December 2019.

⁴ Bank of Russia Ordinance No. 5211-U, dated 18 July 2019, 'On Amending Bank of Russia Regulation No. 590-P, Dated 28 June 2017, 'On the Procedure for Credit Institutions to Make Loss Provisions for Loans, Loan and Similar Debts'. The document came into effect on 24 September 2019.

⁵ Information Letter No. IN-016-41/10, dated 31 January 2019.

⁶ Bank of Russia Ordinance No. 5137-U, dated 6 May 2019, 'On Amending Bank of Russia Instruction No. 180-I, Dated 28 June 2017, 'On Banks' Required Ratios'. The document was effective from 7 June 2019 to 31 December 2019. The document is no longer valid since 1 January 2020 due to the publication of Bank of Russia Instruction No. 199-I, dated 29 November 2019.



The Bank of Russia continued its efforts to implement the standards of the Basel Committee on Banking Supervision

borrowers classified as general contractors or contractors in accordance with Federal Law No. 275-FZ¹ were expanded.

Another important area of the Bank of Russia's activities in 2019 was participation in the transition to **project financing of equity housing construction** under the Housing and Urban Environment national project. Instead of developers' raising funds directly from individuals, the new scheme provides for financing through bank loans to developers with the funds of individuals participating in equity construction placed in escrow accounts until construction is completed. The new scheme for equity construction financing aims to minimise risks and protect participants' rights and encompasses a range of regulatory changes and supervisory and communication measures.

The Bank of Russia adopted the necessary amendments to regulations enabling banks to apply:

- a new approach to forming provisions for loans to developers using escrow accounts that provides for determining the amount of provisions based on the level of the developer's creditworthiness;
- reduced risk ratios on loans to developers with a surety (guarantee) of the unified development institution of the housing sector (JSC DOM.RF).²

The Bank of Russia with participation of the Ministry of Construction of Russia and JSC DOM.RF has developed [Recommendations to determine best practices in cooperation be-](#)

[tween authorised banks and developers in project financing of equity housing construction with the use of escrow accounts](#) and posted them on its official website. Given the importance of effective cooperation for successful implementation of project financing, the Bank of Russia regularly communicated with banks, developers, public authorities and JSC DOM.RF to discuss and develop solutions for pressing project financing issues.

In 2019, the Bank of Russia continued its earlier work on the development of **proportional regulation** for banks with a basic licence and expanded³ the range of borrowers to whom an increased coefficient is not applied for calculation of concentration ratios. In addition, measures were taken to increase the availability of lending for small- and medium-sized enterprises, including in banks with a basic licence.⁴

In the reporting year, the Bank of Russia continued to implement the **standards of the Basel Committee on Banking Supervision (BCBS)**.

Gradual implementation of the BCBS's new standardised approach to assessment of credit risk⁵ for calculation of ratios involved introduction of the following changes:

- introduction of an approach to assessment of claims on sovereign borrowers based on external long-term credit ratings;⁶
- the possibility for banks to apply a new approach to assessing the credit risk of claims on banks and corporate borrowers

¹ Federal Law No. 275-FZ, dated 29 December 2012, 'On State Defence Order'.

² Amendments were introduced to Bank of Russia Regulation No. 590-P, dated 28 June 2017, 'On the Procedure for Credit Institutions to Make Loss Provisions for Loans, Loan and Similar Debts' and to Bank of Russia Instruction No. 180-I, dated 28 June 2017, 'On Banks' Required Ratios' (this approach was maintained in Bank of Russia Instruction No. 199-I, dated 29 November 2019, 'On Banks' Required Ratios and Capital Adequacy Buffers for Banks with a Universal Licence').

³ Bank of Russia Ordinance No. 5213-U, dated 18 July 2019, 'On Amending Bank of Russia Instruction No. 183-I, Dated 6 December 2017, 'On the Required Ratios of Banks with a Basic Licence'. The document came into effect on 24 September 2019.

⁴ See [Subsection 2.3.3 'Expanding financial inclusion'](#) for details.

⁵ In accordance with Basel III: Finalising post-crisis reforms (December 2017).

⁶ Bank of Russia Ordinance No. 5137-U, dated 6 May 2019, 'On Amending Bank of Russia Instruction No. 180-I, Dated 28 June 2017, 'On Banks' Required Ratios'. The document was effective from 7 June 2019 to 31 December 2019. The document is no longer valid since 1 January 2020 due to the publication of Bank of Russia Instruction No. 199-I, dated 29 November 2019.

depending on the level of creditworthiness of borrowers and their performance indicators, notifying the Bank of Russia if they apply the new approach;¹

- abolishment of the aggregate risk ratio for bank insiders (N10.1).¹

To improve the methodology of the internal ratings-based approach to credit risk (the 'IRB approach') for the purpose of calculating capital adequacy requirements, the Bank of Russia refined² the criteria for classifying exposures as retail exposures and introduced a requirement that bank units responsible for internal quality assessment of the models and methodologies used under the IRB approach should be structurally independent of credit risk management units and business units. As part of the gradual implementation of changes to the internal ratings-based approach to credit risk provided for by the BCBS standard, the limit for permissible deviation of IRB credit risk from the value calculated using the standardised approach was reduced from 80% to 72.5% starting from the third year of implementation of the IRB approach.

In the reporting year, the Bank of Russia continued to evaluate the methods and models for credit risk assessment of Sberbank and JSC Raiffeisenbank, which already apply the IRB approach for part of the loan portfolio and are planning a gradual transition to it for the entire loan portfolio. The Bank of Russia also completed the first stage of evaluation of JSC ALFA-BANK.

To increase stability of the banking sector, the Bank of Russia refined³ the methodology for capital calculation in terms of introducing an additional deduction from sources of Tier II capital

for banks with a universal licence in relation to investments in so-called TLAC⁴ instruments of Globally Systemically Important Banks (G-SIBs) providing the ability to absorb losses of the G-SIBs at the stage of resolving their insolvency by terminating liabilities under the instruments and/or exchanging (converting) claims under them into ordinary shares of the G-SIBs.

Russian banking regulation saw the launch of implementation of the Basel II (phase III) document 'Revised Pillar 3 Disclosure Requirements' clarifying the form of disclosures of information on encumbered and unencumbered assets of credit institutions (banking groups).⁵

In 2019, the Bank of Russia started evaluating the quality of the capital adequacy and internal capital adequacy assessment process on a consolidated basis for parent credit institutions of banking groups and credit institutions that are members of banking groups and on an individual basis for credit institutions that do not belong to banking groups.

Improvement of approaches to risk management included development⁶ of requirements for procedures for managing step-in risk as well as detailed requirements for stress testing procedures of credit institutions.

The procedure for calculation of a short-term liquidity ratio and a liquidity coverage ratio was updated⁷ in connection with changes to the legislation, including extension of the deposit insurance system to small businesses and the possibility for banks to issue irrevocable savings certificates as well as the continued work of the BCBS on defining the concept of secured lending. In addition, accumulated practice and collaboration with financial market participants resulted in a number of other

¹ Bank of Russia Instruction No. 199-I, dated 29 November 2019, 'On Banks' Required Ratios and Capital Adequacy Buffers for Banks with a Universal Licence'. The document came into effect on 1 January 2020.

² Bank of Russia Ordinance No. 5091-U, dated 10 March 2019, 'On Amending Bank of Russia Regulation No. 483-P, Dated 6 August 2015, 'On the Procedure for Assessing IRB Credit Risk'. The document came into effect on 15 July 2019 (except for certain provisions).

³ Bank of Russia Ordinance No. 5163-U, dated 6 June 2019, 'On Amending Bank of Russia Regulation No. 646-P, Dated 4 July 2018, 'On the Methodology for Measuring Credit Institution Capital (Basel III)'. The document came into effect on 14 October 2019.

⁴ TLAC means total loss-absorbing capacity.

⁵ Amendments to Bank of Russia Ordinance No. 4482-U, dated 7 August 2017, 'On the Form and Procedure for a Credit Institution (Parent Credit Institution of a Banking Group) to Disclose Information on Risks Assumed, Risk Assessment Procedures and Risk and Capital Management Procedures' are to become effective in 2021.

⁶ These amendments are to become effective in 2021.

⁷ Bank of Russia Ordinance No. 5164-U, dated 6 June 2019, 'On Amending Bank of Russia Regulation No. 421-P, Dated 30 May 2014, 'On the Procedure for Calculating Liquidity Coverage Ratio (Basel III)'; Bank of Russia Ordinance No. 5165-U, dated 6 June 2019, 'On Amending Bank of Russia Regulation No. 510-P, Dated 3 December 2015, 'On the Procedure for Calculating the Liquidity Coverage Ratio (Basel III) by Systemically Important Credit Institutions'. Both documents came into effect on 6 October 2019.

changes.¹ The updated procedure expands the possibilities for compliance with the liquidity coverage requirements for systemically important credit institutions.

The amendments to the procedure for calculating market risk adopted in 2018² to reduce the use of credit ratings assigned by international credit rating agencies in relation to corporate debt securities entered into force.

The Bank of Russia's work on improving requirements for calculation of equity (capital) by parent credit institutions of banking groups and updating the values of required ratios and capital adequacy buffers³ will enable parent credit institutions of banking groups to calculate group capital adequacy requirements in accordance with the approaches established by Bank of Russia Instruction No. 199-I.⁴

The Bank of Russia established⁵ a list of measures that can be applied to a credit institution (a parent credit institution of a banking group) for violating the requirements of Federal Law No. 115-FZ⁶ and/or Bank of Russia regulations adopted in accordance with the said federal law as well as for failing to eliminate identified violations as instructed by the

Bank of Russia. The maximum fine that can be levied on a credit institution for violations was increased to 0.1% of its equity (capital), and for failure to comply with the instructions of the Bank of Russia it was increased to 1% of its equity (capital).

As a result of public consultations, the Bank of Russia developed amendments to the legislation⁷ that require the Bank of Russia to disclose information on prohibitions from taking household deposits and/or opening household accounts imposed on credit institutions. In accordance with the amended legislation, information on prohibitions imposed on credit institutions will be posted on the Bank of Russia website.

In accordance with Federal Law No. 289-FZ,⁸ the Bank of Russia has established⁹ the procedure for the banks to send to the customs authorities bank guarantees in the form of electronic documents signed with an enhanced qualified electronic signature and inform the customs authorities of the issuance of bank guarantees in the form of paper documents as well as for the customs authorities to send to the banks electronic documents in connection with issued banking guarantees.

¹ For example, regarding the inclusion of funds raised from affiliated parties in the calculation of the liquidity coverage ratio of a bank.

² Bank of Russia Ordinance No. 4969-U, dated 15 November 2018, 'On Amending Bank of Russia Regulation No. 511-P, Dated 3 December 2015, 'On the Procedure for Calculating Market Risk by Credit Institutions'. The document came into effect on 24 March 2019.

³ A new version of Bank of Russia Regulation No. 509-P, dated 3 December 2015, 'On Calculating the Capital, Required Ratios and Open Currency Position Limits of Banking Groups' was being developed in 2019.

⁴ Bank of Russia Instruction No. 199-I, dated 29 November 2019, 'On Banks' Required Ratios and Capital Adequacy Buffers for Banks with a Universal Licence'.

⁵ Bank of Russia Ordinance No. 5305-U, dated 1 November 2019, 'On Amending Bank of Russia Instruction No. 188-I, Dated 21 June 2018, 'On the Procedure for Applying Measures to Credit Institutions (Parent Credit Institutions of Banking Groups) Envisaged by Article 74 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'. The document came into effect on 30 December 2019.

⁶ Federal Law No. 115-FZ, dated 7 August 2001, 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'.

⁷ The amendments became effective from 12 April 2020 in accordance with Federal Law No. 91-FZ, dated 1 April 2020, 'On Amending Article 74 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'.
⁸ Federal Law No. 289-FZ, dated 3 August 2018, 'On the Customs Regulation in the Russian Federation and on Amending Certain Laws of the Russian Federation'.

⁹ Bank of Russia Regulation No. 690-P, dated 18 August 2019, 'On the Procedure for Banks and the Customs Authorities to Exchange Electronic Documents Signed with Enhanced Qualified Electronic Signature and Information in Electronic Form Provided for by Article 61 of Federal Law No. 289-FZ, Dated 3 August 2018, 'On the Customs Regulation in the Russian Federation and on Amending Certain Laws of the Russian Federation'. The document came into effect on 27 October 2019. As soon as Regulation No. 690-P became effective, Bank of Russia Regulation No. 545-P, dated 27 May 2016, 'On the Procedure for Banks and Other Credit Institutions and the Customs Authorities to Exchange Electronic Documents Signed with Enhanced Qualified Electronic Signature and Information in Electronic Form in Connection with Issuing Bank Guarantees of Customs Duty and Tax Payments' was no longer valid.

2.2.4.2. NON-GOVERNMENTAL PENSION FUNDS

In 2019, the Bank of Russia participated in developing a draft federal law on the rehabilitation of non-governmental pension funds (NPFs) aimed at protecting the rights of NPF customers, ensuring full performance of NPFs' obligations to customers and minimising negative consequences of NPFs' loss of financial stability for the financial market. This draft is based on the existing mechanisms for rehabilitation of credit and insurance institutions and provides for the Bank of Russia taking measures to prevent bankruptcy of an NPF exhibiting signs of financial instability that threatens the rights and legitimate interests of its customers and/or the stability of the financial (pension) market.¹

The following new requirements² for the allocation of funds of pension reserves are aimed at protecting the rights of depositors and participants of NPFs as well as providing additional opportunities for the allocation of pension reserves while limiting the excess investment risks of NPFs:

- NPFs now may independently place their pension reserve funds;³
- concentration limits for placement of pension reserves are being introduced (for example, by 1 January 2023 the limit for a legal entity / group of related entities will amount to 10%);

- the list of assets for placement of pension reserves is being expanded (for example, bonds not admitted to exchange trading within established risk-based limits, whereas previously pension reserves could be used to purchase only bonds admitted to trading);
- requirements with regard to assets for placement of pension reserves and the structure of pension reserves are becoming stricter (for example, a new requirement for the availability of ratings for bonds to be included in the main investment portfolio and a limit for investments in banking sector assets (up to 30%).

In agreement with the Ministry of Labour of Russia, a standard form of a pension agreement for early non-governmental pension support (Bank of Russia Ordinance No. 5237-U⁴) and standard rules of early non-governmental pension support as a base for pension rules of NPFs determining the procedure and conditions for the fulfilment of obligations under pension agreements by NPFs (Bank of Russia Ordinance No. 5238-U⁵) were introduced to develop a system of early non-governmental pension support aimed at creating additional pension guarantees for citizens working in hazardous and harmful conditions.

¹ The draft federal law is planned for adoption by the State Duma in 2020–2021.

² Bank of Russia Ordinance No. 5343-U, dated 5 December 2019, 'On the Requirements for the Composition and Structure of Pension Reserves'. In accordance with Clause 4.1, it is to enter into force on the effective day of the Russian Federation Government Resolution repealing Russian Federation Government Resolution No. 63, dated 1 February 2007, 'On Approving the Rules for Placing Pension Reserves of Non-governmental Pension Funds and Monitoring Their Placement', except for certain provisions that are to enter into force on other dates.

³ Previously, NPFs could independently place pension reserve funds exclusively in accounts and deposits with credit institutions, certificates of deposit, government securities of the Russian Federation, investment units of unit investment funds and real estate.

⁴ Bank of Russia Ordinance No. 5237-U, dated 23 August 2019, 'On Approving the Standard Pension Agreement Form for Early Retirement Occupational Pension Schemes'. The document came into effect on 9 November 2019.

⁵ Bank of Russia Ordinance No. 5238-U, dated 23 August 2019, 'On Approving the Standard Rules for Early Retirement Occupational Pension Schemes'. The document came into effect on 9 November 2019.

2.2.4.3. INSURANCE ENTITIES

In 2019, as part of introduction of a risk-based approach to the regulation of the insurance sector in the Russian Federation:

- Proposals to amend Federal Law No. 4015-1¹ were developed that are aimed at expanding the powers of the Bank of Russia in connection with the introduction of a risk-based approach to regulation and supervision of the insurance market and at modernising the requirements for the financial stability of insurers. Following the review of the Bank of Russia's proposals by the Ministry of Finance of Russia, joint development of the corresponding draft law has been launched.
- Bank of Russia Regulation No. 710-P² was published, introducing new approaches to

determining financial stability and solvency of insurers, establishing a methodology for determining equity (capital) and taking into account asset risk in determining capital adequacy.

The cumulative effect of risks on an insurer's capital will be assessed as the effect of concentration risk, credit spread risk, interest rate risk, stock market risk, exchange rate risk, real estate risk, credit risk and other types of asset risk. The impact of risks on the insurer's solvency directly depends on all assets of the insurer, including the credit quality of individual assets and the degree of diversification of the credit risk of the portfolio as a whole, the duration ratio of assets and liabilities and the value of its open currency position.



New approaches to determining the financial stability and solvency of insurers were established

¹ Federal Law No. 4015-1, dated 27 November 1992, 'On the Organisation of Insurance Business in the Russian Federation'.

² Bank of Russia Regulation No. 710-P, dated 10 January 2020, 'On Certain Requirements for Financial Sustainability and Solvency of Insurers'.

2.2.4.4. MICROFINANCE MARKET ENTITIES

LEGISLATIVE SUPPORT OF ACTIVITIES

Improvement of regulation of microfinance organisations' (MFOs') activities was continued in 2019. The Bank of Russia took part in amending Federal Law No. 151-FZ, dated 2 July 2010, 'On Microfinance Activities and Microfinance Organisations' as well as certain other laws of the Russian Federation.

Federal Law No. 271-FZ,¹ aimed at preventing illegal actions against citizens in the course of microfinance activities, was adopted to increase transparency and further socialise the microfinance market. In particular, it prohibits MFOs from providing consumer loans secured with residential property, limits the range of entities entitled to provide mortgage-secured consumer loans and establishes stricter requirements for microcredit companies (MCCs), including a minimum capital and requirements for the business reputation of executives and owners.

Draft laws were developed to reinforce administrative penalties² and introduce criminal penalties³ for illegal consumer lending activities.

To ensure the sustainable development of the financial market of the Russian Federation, the Bank of Russia together with the Ministry of Finance of Russia developed Draft Federal Law No. 775367-7⁴ providing for the procedure for admitting pawnshops to the financial market, improving the principles for uniting members of credit consumer cooperatives

(CCC) on a territorial, professional or social basis and improving the awareness of microfinance institutions' financial consumers as well as Draft Federal law No. 775302-7⁵ establishing the fee for registering legal entities in the state register of pawnshops.

IMPROVED REGULATION

The Bank of Russia continued to improve regulation of the microfinance market to further enhance the financial stability of its participants and ensure market transparency in general.

In accordance with Federal Law No. 271-FZ, a decision of the Bank of Russia Board of Directors⁶ set the maximum interest rate on mortgage-secured household loans provided by credit consumer cooperatives (CCC) and agricultural credit consumer cooperatives (ACCC) for purposes not related to entrepreneurial activity at 17% per annum.

Taking into account existing compliance practices, a new methodology for determining the equity (capital) of microfinance companies (MFCs)⁷ was established to improve the quality assessment of the equity (capital) of MFCs.

Bank of Russia Ordinance No. 5114-U and Bank of Russia Ordinance No. 5115-U⁸ on economic ratios for MCCs and MFCs establish the obligation to calculate the debt burden ratio of borrowers.

To monitor interaction of provisional administrations of CCCs and MFOs with law en-

¹ Federal Law No. 271-FZ, dated 2 August 2019, 'On Amending Certain Laws of the Russian Federation'.

² Draft Federal Law No. 237560-7 'On Amending Articles 3.5, 4.1.1 and 14.56 of the Russian Federation Code of Administrative Offences'.

³ Draft Federal Law No. 237666-7 'On Amending the Criminal Code of the Russian Federation'.

⁴ Draft Federal Law No. 775367-7 'On Amending Certain Laws of the Russian Federation (Pertaining to Improving the Procedure for Granting Pawnshops Access to the Financial Market, the Operating Principles of Credit Cooperatives and Improving the Awareness of Microfinance Institutions' Financial Consumers)'. Passed in the first reading at the State Duma on 6 November 2019.

⁵ Draft Federal Law No. 775302-7 'On Amending Article 333.33 of the Tax Code of the Russian Federation to Establish the Amount of the State Fee for Registering a Legal Entity in the State Register of Pawnshops'. Passed in the first reading at the State Duma on 6 November 2019.

⁶ Decision of the Bank of Russia Board of Directors, dated 27 September 2019, '[On Determining the Maximum Interest Rate on Mortgage-Secured Household Loans Provided by Credit Consumer Cooperatives and Agricultural Credit Consumer Cooperatives for Purposes Not Related to Entrepreneurial Activity](#)' (published on the Bank of Russia website).

⁷ Bank of Russia Ordinance No. 5253-U, dated 11 September 2019, 'On the Procedure for Calculating Microfinance Organisations' Capital' (became effective from 13 March 2020).

⁸ Bank of Russia Ordinance No. 5114-U, dated 2 April 2019, 'On Setting Economic Ratios for a Microcredit Company Attracting Funds from Individuals, Including Individual Entrepreneurs Who Are Founders (Members, Shareholders), and/or from Legal Entities in the Form of Loans' (became effective from 1 October 2019); Bank of Russia Ordinance No. 5115-U, dated 2 April 2019, 'On Setting Economic Ratios for a Microfinance Company Attracting Funds from Individuals, Including Individual Entrepreneurs, and/or from Legal Entities in the Form of Loans and for a Microfinance Company Issuing and Placing Bonds' (became effective from 1 October 2019).

forcement agencies, Bank of Russia Ordinance No. 5124-U¹ and Bank of Russia Ordinance No. 5125-U² were amended to establish the obligation of provisional administrations of

CCCs and MFOs to get the Bank of Russia's preliminary approval for appeals to law enforcement agencies related to the liability of executive bodies.

¹ Bank of Russia Ordinance No. 5124-U, dated 10 April 2019, 'On Amending Bank of Russia Ordinance No. 3531-U, Dated 12 January 2015, 'On the Provisional Administration of a Consumer Credit Cooperative' (became effective from 4 June 2019).

² Bank of Russia Ordinance No. 5125-U, dated 10 April 2019, 'On Amending Bank of Russia Ordinance No. 3689-U, Dated 24 June 2015, 'On the Provisional Administration of a Microfinance Organisation' (became effective from 4 June 2019).

2.2.4.5. NATIONAL PAYMENT SYSTEM PARTICIPANTS

The active development of modern payment services, the formation of digital platforms and the entry of foreign companies into the Russian market are causing a steady trend towards expansion of institutional composition of the national payment system.

Given this trend, Federal Law No. 161-FZ¹ was amended in 2019 to establish a legal basis for the activities of new participants of the national payment system.²

The amendments specify:

- requirements for banks to organise interaction with suppliers of payment applications as well as to disclose information on the terms of use of payment applications to customers;
- requirements for information exchange operators regarding the prohibition of unilateral suspension of services to banks and their customers as well as mandatory provisions for agreements with banks;
- requirements and conditions for banks to engage bank payment agents to carry out payment aggregator operations;
- interaction of foreign payment service providers with Russian banks;
- the Bank of Russia's authority to maintain lists of suppliers of payment applications, foreign payment service providers, bank

payment agents engaged in payment aggregator operations and information exchange operators and to fine the latter for unilateral suspension (termination) of services to banks and their customers;

- requirements for the operation of foreign payment systems in the territory of the Russian Federation, including, among other things, the presence of separate divisions of such systems in the Russian Federation, registration of foreign payment system operators by the Bank of Russia in the register, requirements for the rules of these systems and supervision of their activity by the Bank of Russia.

In connection with amendments to legislation, the Bank of Russia issued ordinances that regulate the provision of information by funds transfer operators to the Bank of Russia on their participation (termination of participation) in foreign payment systems,³ registration of foreign payment system operators in the register of foreign payment system operators,⁴ supervision of foreign payment system operators,⁵ provision of information by funds transfer operators to the Bank of Russia on unilateral suspension (termination) of provision of information exchange services⁶ and the procedure for imposing penalties for such suspension (termination).⁷

¹ Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System'.

² Federal Law No. 173-FZ, dated 3 July 2019, 'On Amending the Federal Law 'On the National Payment System' and Certain Laws of the Russian Federation' and Federal Law No. 264-FZ, dated 2 August 2019, 'On Amending the Federal Law 'On the National Payment System' and the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'.

³ Bank of Russia Ordinance No. 5323-U, dated 21 November 2019, 'On the Form of Notifying the Bank of Russia by Funds Transfer Operators about their Participation (Termination of Participation) in a Foreign Payment System and on the Procedure for Compiling and Submitting Such Notification'.

⁴ Bank of Russia Ordinance No. 5379-U, dated 26 December 2019, 'On Registration by the Bank of Russia of Organisations as Payment System Operators, on the Inclusion of Foreign Organisations Which Are Foreign Payment System Operators in the Register of Foreign Payment System Operators and the Procedure for Maintaining the Register of Payment System Operators and the Register of Foreign Payment System Operators'.

⁵ Bank of Russia Regulation No. 705-P, dated 18 December 2019, 'On the Procedure for the Bank of Russia to Supervise over Compliance by Payment System Operators, Which are not Credit Institutions, Payment Infrastructure Operators, as well as Foreign Payment System Operators with Federal Law No. 161-FZ, Dated 27 June 2011, 'On the National Payment System' and Related Bank of Russia Regulations'.

⁶ Bank of Russia Ordinance No. 5325-U, dated 21 November 2019, 'On the Form, Procedure and Terms for a Funds Transfer Operator to Notify the Bank of Russia of a Unilateral Suspension (Termination) of Information Exchange Services to the Funds Transfer Operator and Its Customers by an Information Exchange Operator'.

⁷ Bank of Russia Ordinance No. 5324-U, dated 21 November 2019, 'On the Procedure for Imposing Penalties on Information Exchange Operators Stipulated by Article 82.6 of Federal Law No. 86-FZ, Dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)'.

2.2.4.6. OTHER PARTICIPANTS

COLLECTIVE INVESTMENT

MARKET ENTITIES

In 2019, the following amendments were introduced to Federal Law No. 156-FZ¹ with the participation of the Bank of Russia:

- Starting from 2 May 2020, Federal Law No. 75-FZ² introduces an obligation for management companies (MCs) and specialised depositories (SDs) to identify conflicts of interest and manage them (by preventing or disclosing conflicts of interest). If an undisclosed conflict of interest materialises, MCs and SDs must compensate their customers for losses.

In addition, the Bank of Russia is authorised to apply supervisory measures for violation of conflict of interest management requirements up to revoking the licences of MCs and SDs;

- Federal Law No. 248-FZ³ provides for reduction in the regulatory burden on unit investment funds (UIFs) and an increase in the investment attractiveness of UIF investment units. The provisions of this federal law are to become effective in phases.⁴

To improve the requirements for investing property of investment funds, Bank of Russia Ordinance No. 4129-U⁵ was amended to provide, in particular, for a gradual reduction of the limit on investments in one legal entity from

15% to 10% of investment fund assets (20% for UIFs with passive investment strategy aimed at following one of the major global market indices) by 1 January 2022.

PROFESSIONAL SECURITIES

MARKET PARTICIPANTS

In 2019, the Bank of Russia took part in amending Federal Law No. 39-FZ⁶ and adopting Federal Law No. 454-FZ⁷ aimed at improving protection of investors' property rights, in particular, protecting customers in transactions on the securities market and providing additional opportunities for brokers' business development.

Bank of Russia Ordinance No. 5099-U⁸ aims to improve the current capital requirements for professional securities market participants (PSMPs) as well as to bring the terminology of the current procedure for measuring capital in line with the requirements of the Single Chart of Accounts for Non-bank Financial Institutions (NFIs) and industry accounting standards. This guidance contains a number of innovations for improving financial stability of professional participants, in particular:

- after 1 January 2020, margin loans issued to customers with a special level of risk may be included in capital only within the scope of

¹ Federal Law No. 156-FZ, dated 29 November 2001, 'On Investment Funds'.

² Federal Law No. 75-FZ, dated 1 May 2019, 'On Amending the Federal Law 'On Investment Funds' and the Federal Law 'On the Russian Direct Investment Fund'. The document came into effect on 1 May 2019 (except for certain provisions).

³ Federal Law No. 248-FZ, dated 26 July 2019, 'On Amending Certain Laws of the Russian Federation'. The document came into effect on 26 July 2019 (except for certain provisions).

⁴ Starting from 26 July 2019, statutory audits of UIFs have been cancelled; restrictions on transactions with property comprising UIFs are lifted starting on the day when the grounds for termination of such UIF arise.

Starting from 23 January 2020, registration of the rules for trust management of UIFs for qualified investors by the Bank of Russia and approval of reports on the termination of such UIFs by the Bank of Russia have been replaced by the approval of the above-mentioned documents by the SD.

Starting from 1 February 2021, standard rules for trust management of UIFs for qualified investors will be replaced by the Bank of Russia establishing requirements for such rules with the possibility of property allotment when redeeming investment units of UIFs for qualified investors as well as the possibility of paying current income on any investment units.

Starting from 1 February 2022, standard rules for trust management of UIFs without restrictions on trading of investment units will be replaced by the Bank of Russia establishing requirements for such rules.

⁵ Bank of Russia Ordinance No. 5143-U, dated 15 May 2019, 'On Amending 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'. The document came into effect on 2 September 2019.

⁶ Federal Law No. 39-FZ, dated 22 April 2019, 'On the Securities Market'.

⁷ Federal Law No. 454-FZ, dated 27 December 2019, 'On Amending the Federal Law 'On the Securities Market' and Article 73 of the Federal Law 'On Enforcement Proceedings' to Improve Regulation of Professional Activities in the Securities Market'. The document came into effect on 1 January 2020.

⁸ Bank of Russia Ordinance No. 5099-U, dated 22 March 2019, 'On Requirements for Measuring Capital When Conducting Professional Activity in the Securities Market and When Obtaining a Licence of a Professional Securities Market Participant'. The document came into effect on 1 January 2020.



The law obligates brokers to execute customers' orders on the best terms possible

collateral or subject to a counterparty that meets certain requirements;

- after 1 January 2020, the share of real estate in capital should not exceed 50% of the total value of assets used for calculation.

In 2019, as part of building a risk-based supervision system, the Bank of Russia started introducing prudential requirements for PSMPs, in particular, a capital adequacy ratio for PSMPs licenced to carry out dealer, broker, securities management and forex dealer activities. To introduce this requirement, in 2018, the Bank of Russia established requirements for the capital adequacy ratio, and in 2019 it approved the Concept for Establishing a Standard Capital Adequacy Ratio Value. The Concept provides for the gradual establishment of a standard capital adequacy ratio value within 3–4 years, starting from 4% until reaching the target value of 8%.

Due to the entry into force of Federal Law No. 238-FZ,¹ excluding qualification certificate requirements for financial market specialists, the Bank of Russia issued Ordinance No. 5221-U² to bring the Bank of Russia regulatory framework into line with applicable laws.

To stimulate the best practices in the activities of investment advisers (IAs), the Bank of Russia approved the Basic Standard for Investment Advisers to Conduct Operations in the Financial Market developed by self-regulatory organisations (SROs) and approved by the

Committee on Standards for IA Activities. One of the main objectives of the Basic Standard is to separate investment advisory activities from other activities, primarily sales and analytics.

The Basic Standard clarifies the characteristics of an individual investment recommendation, establishes additional requirements for IAs' activities and also determines cases when the provided information is not recognised as an investment recommendation.

SELF-REGULATORY ORGANISATIONS IN THE FINANCIAL MARKET

To ensure standardisation of financial institution activities, in 2019, the Bank of Russia issued regulations specifying the lists of core standards and requirements for their content and lists of operations in the financial market subject to standardisation to be developed by self-regulatory organisations in the financial market (SROFMs) uniting:

- agricultural credit consumer cooperatives;³
- non-governmental pension funds, joint-stock investment funds, management companies of investment funds, unit investment funds and non-governmental pension funds and specialised depositories;⁴
- investment advisers.⁵

In 2019, the Bank of Russia had 14 standards committees mainly working on the harmonisation of basic standards developed by SROFMs as well as on proposing areas for further development of financial institution activities.

Four [basic standards](#) were developed by SROFMs and approved by the Bank of Russia in 2019:

¹ Federal Law No. 238-FZ, dated 3 July 2016, 'On Independent Qualification Assessment'.

² Bank of Russia Ordinance No. 5221-U, dated 1 August 2019, 'On Amending Bank of Russia Ordinance No. 4956-U, Dated 2 November 2018, 'On the Requirements for Investment Advisers' regarding the exclusion of the qualification certificate requirement for investment advisers and their employees. The document came into effect on 13 September 2019.

³ Bank of Russia Ordinance No. 5236-U, dated 23 August 2019, 'On the List of Basic Standards That Are Mandatory for Development by Financial Market Self-regulatory Organisations of Agricultural Consumer Credit Cooperatives and on the Requirements for Their Content, as well as on the List of Operations (the Substance of Activities) of Agricultural Consumer Credit Cooperatives in the Financial Market That Are Subject to Standardisation'. The document came into effect on 29 September 2019.

⁴ Bank of Russia Ordinance No. 5202-U, dated 15 July 2019, 'On the List of Basic Standards That Are Mandatory for Development by Financial Market Self-regulatory Organisations of Non-governmental Pension Funds, Joint-stock Investment Funds and Management Companies of Investment Funds, Unit Investment Funds and Non-governmental Pension Funds, Specialised Depositories, and on the Requirements for Their Content, as well as on the List of Operations (the Substance of Activities) of Specialised Depositories in the Financial Market That Are Subject to Standardisation'. The document came into effect on 29 September 2019.

⁵ Bank of Russia Ordinance No. 5229-U, dated 9 August 2019, 'On the List of Basic Standards That Are Mandatory for Development by Financial Market Self-regulatory Organisations of Investment Advisers and on the Requirements for Their Content, as well as on the List of Operations (the Substance of Activities) of Investment Advisers in the Financial Market That Are Subject to Standardisation'. The document came into effect on 24 November 2019.

- Basic Standard for Protection of Financial Consumers of Services Provided by Members of Forex Dealer Self-regulatory Organisations in the Financial Market (approved on 10 January 2019);
- Basic Standard for Protection of Individual and Legal Entity Financial Consumers of Services Provided by Members of Insurance Broker Self-regulatory Organisations (approved on 8 May 2019);
- Basic Standard for Operations of Insurance Brokers in the Financial Market (approved on 25 April 2019);
- Basic Standard for Operations of Investment Advisers in the Financial Market (approved on 21 November 2019).

To improve the regulation of the activities of ACCCs and their self-regulatory organisations (SROs), in 2019, the Bank of Russia issued Bank of Russia Ordinance No. 5236-U¹ requiring the SROs of ACCCs to develop basic standards for risk management, corporate governance, operations in the financial market and protection of individual and legal entity financial consumers of services provided by ACCCs as well as establishing requirements for the content of these standards.

This ordinance also determines the list of ACCC operations in the financial market subject to standardisation: raising funds from members and associate members of credit cooperatives, issuing loans to be repaid using maternity (family) capital, issuing guarantees of credit cooperatives for obligations of members and placement of money from reserve funds of credit cooperatives.

To reduce the supervisory burden of self-regulatory organisations in the financial market

(SROFMs), in 2019, the Bank of Russia issued Bank of Russia Ordinance No. 5097-U² according to which a number of documents necessary for approving candidates for the position of the head of an SROFM can be sent to the Bank of Russia via the interdepartmental electronic interaction system.

CREDIT RATING AGENCIES

The Bank of Russia took part in the development of Draft Federal Law No. 611498-7³ aimed at bringing existing federal laws into line with the provisions of Federal Law No. 222-FZ.⁴

The draft law, among other things, provides for the clarification of:

- the procedure for disclosure of credit ratings by insurers and issuers as well as disclosure of such information by securities market participants;
- the list of persons that are considered insiders;
- credit rating requirements for financial institutions with which a federal executive body, an executive body of a constituent entity of the Russian Federation, a local government body or a government extra-budgetary fund is planning a transaction.

RESPONSIBLE ACTUARIES

To improve regulation of actuarial activities, in 2019, the Bank of Russia issued Bank of Russia Ordinance No. 5203-U⁵ establishing additional requirements for actuarial opinions prepared on the basis of compulsory actuarial valuation of the Bank of Russia's activities in developing insurance tariffs for compulsory insurance.

¹ Bank of Russia Ordinance No. 5236-U, dated 23 August 2019, 'On the List of Basic Standards That Are Mandatory for Development by Financial Market Self-regulatory Organisations of Agricultural Consumer Credit Cooperatives and on the Requirements for Their Content, as well as on the List of Operations (the Substance of Activities) of Agricultural Consumer Credit Cooperatives in the Financial Market That Are Subject to Standardisation'. The document came into effect on 20 September 2019.

² Bank of Russia Ordinance No. 5097-U, dated 22 March 2019, 'On Amending Bank of Russia Ordinance No. 3897-U, Dated 14 December 2015, 'On the Procedure to Coordinate with the Bank of Russia the Head of a Self-regulatory Organisation in the Financial Market'. The document came into effect on 15 June 2019.

³ Draft Federal Law No. 611498-7 'On Amending Certain Laws of the Russian Federation'. Passed in the second reading at the State Duma on 17 March 2020.

⁴ 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'.

⁵ Bank of Russia Ordinance No. 5203-U, dated 15 July 2019, 'On Additional Requirements for an Actuarial Opinion Prepared on the Basis of Compulsory Actuarial Valuation of the Bank of Russia's Activities in Developing Insurance Tariffs for Compulsory Insurance'. The document came into effect on 29 September 2019.

In 2019, the Bank of Russia issued Bank of Russia Ordinance No. 5053-U¹ clarifying the procedure for certification of responsible actuaries depending on experience in compulsory actuarial valuation in the chosen area of certification as well as the criteria for the possibility of oral certification of responsible actuaries.

To improve actuarial activities, the Bank of Russia has approved the federal standards for actuarial activities governing life insurance pricing² and pricing of other types of insurance³ as well as the federal actuarial standard governing liquidation procedures for non-governmental pension funds⁴ to be used for actuarial valuation of liabilities of non-governmental pension funds for non-governmental life pensions liquidated at the initiative of the Bank of Russia or declared bankrupt.

Bank of Russia Regulation No. 696-P⁵ was issued to govern the procedure for selecting actuaries for audits of non-bank financial institutions on behalf of the Bank of Russia.

INFRASTRUCTURE ORGANISATIONS OF THE FINANCIAL MARKET

As part of optimisation of the regulatory burden on infrastructure organisations of the financial market (IOFMs), the Bank of Russia

took part in amending certain laws⁶ to shorten the list of IOFM documents subject to registration, approval or ratification by the Bank of Russia. Registration (approval or ratification) with the Bank of Russia only applies to such internal documents of market participants as, for example, clearing rules or rules of exchange trading. These amendments will not affect the quality of supervision of IOFMs since the Bank of Russia retains the ability to evaluate IOFM internal documents as part of routine supervisory measures.

The following regulations were issued in order to implement the competences of the Bank of Russia established by Federal Law No. 514-FZ:⁷

- Bank of Russia Ordinance No. 5334-U,⁸ defining the requirements for carrying out depository activities for recording of rights to securities transferred to escrow agents under escrow agreements and for adding a new account for the accounting of centralised securities to the list of depository accounts not intended for recording rights to securities;
- Bank of Russia Ordinance No. 5311-U⁹ and Bank of Russia Ordinance No. 5312-U,¹⁰ establishing criteria to be complied with

¹ Bank of Russia Ordinance No. 5053-U, dated 10 January 2019, 'On Amending Bank of Russia Ordinance No. 3435-U, Dated 6 November 2014, 'On Additional Requirements for the Qualifications of Responsible Actuaries and the Procedure for Certifying Responsible Actuaries'. The document came into effect on 29 September 2019.

² Federal Standard for Actuarial Activity 'Actuarial Work to Rate Life Insurance' (approved by the Actuarial Board of the Bank of Russia on 18 December 2018, Minutes No. SADP-19).

³ Federal Standard for Actuarial Activity 'Actuarial Work to Rate Non-life Types of Insurance' (approved by the Actuarial Board of the Bank of Russia on 24 June 2019, Minutes No. SADP-21).

⁴ Federal Standard for Actuarial Activity 'The Specifics of Actuarial Valuation During Liquidation of Non-governmental Pension Funds' (approved by the Actuarial Board of the Bank of Russia on 24 June 2019, Minutes No. SADP-21).

⁵ Bank of Russia Regulation No. 696-P, dated 1 October 2019, 'On the Procedure for Selecting Actuaries to Inspect Non-bank Financial Institutions as Instructed by the Bank of Russia'. The document came into effect on 5 January 2020.

⁶ Federal Law No. 484-FZ, dated 27 December 2019, 'On Amending Certain Laws of the Russian Federation'. The document will come into effect on 1 January 2021.

⁷ Federal Law No. 514-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation with Regard to Improving the Legal Regulation of Securities Issuance'.

⁸ Bank of Russia Ordinance No. 5334-U, dated 28 November 2019, 'On Amending Bank of Russia Regulation No. 503-P, Dated 13 November 2015, 'On the Procedure for Depositories to Open and Maintain Depo and Other Accounts'. The document came into effect on 20 January 2020.

⁹ Bank of Russia Ordinance No. 5311-U, dated 11 November 2019, 'On the Criteria to Be Complied With By an Organisation Recording the Depository's Rights to Underlying Securities in the Account Opened to This Depository as an Entity Acting on Behalf of Other Entities, for Issuing Russian Depository Receipts, and to Be Complied With By a Foreign Organisation Recording Rights to Securities Where the Depository Has an Account Opened to It as an Entity Acting on Behalf of Other Entities, for Recording Rights to Foreign Issuers' Securities in the Case of Their Public Offering and/or Public Trading in the Russian Federation'. The document came into effect on 1 January 2020.

¹⁰ Bank of Russia Ordinance No. 5312-U, dated 11 November 2019, 'On the Criteria to Be Complied With By a Foreign Exchange Where the Listing of Securities Underlying Russian Depository Receipts is Mandatory for Issuing Russian Depository Receipts Whereunder the Issuer of Underlying Securities Undertakes No Obligations to the Holders of Russian Depository Receipts, or Where the Listing of Foreign Issuers' Securities Has Been Commenced or Completed, Except the Securities of International Financial Institutions, for a Russian Exchange to Make a Decision on Whether to Admit Them to Exchange Trading'. The document came into effect on 1 January 2020.

by foreign organisations recording rights to securities and foreign stock exchanges.

The Bank of Russia specified new requirements for termination of obligations under depository agreements in the event of cancellation of a depository's licence or its voluntary withdrawal from the market. Bank of Russia Ordinance No. 5220-U¹ improves the mechanisms for termination of nominal holder functions by organisations with cancelled depository licences or depositories and provides an increased level of protection for the rights of securities owners, in particular:

- it establishes a mechanism for organisations with cancelled depository licences or depositories intending to voluntarily withdraw from depository activity to obtain instructions from depositors on the method for returning securities and funds held by such organisations;
- it regulates a procedure for returning such property in accordance with the instructions of depositors;
- it establishes a procedure for returning property to depositors in the absence of instructions from the latter.

Bank of Russia Ordinance No. 5170-U² was issued to implement a mechanism for notifying the Bank of Russia of information restricted for disclosure by IOFMs as well as to prevent unjustified audits regarding compliance with compulsory disclosure requirements and to reduce possible regulatory risks of IOFMs. This regulation establishes a notification form and a term for submitting it coinciding with the period for the disclosure of relevant information.

Bank of Russia Ordinance No. 5216-U³ was issued in 2019 to:

- improve the existing procedure for formation of a committee of central depository customers (the 'Committee');
- confirm requirements for the content of internal documents of the central depository, including the regulation on the Committee to ensure the participation of the widest possible range of central depository customers in discussing issues and making decisions related to central depository activities on the securities market as well as confirm the grounds for terminating the powers of the Committee or its individual members.

Bank of Russia Ordinance No. 5102-U⁴ was issued to implement one of the Bank of Russia's priority objectives of developing exchange trading in commodities and ensuring the execution of exchange trading supply contracts. It defines cases of commodity delivery operators (CDOs) opening commodity accounts without agreements for storage of assets used to fulfil and/or secure obligations accepted for clearing. Such cases include a CDO simultaneously meeting the following requirements:

- the CDO conducts, monitors and records commodity deliveries of assets in liquid or gaseous aggregate states;
- the CDO possesses facilities for transportation of assets recorded in commodity accounts;
- the CDO possesses measuring facilities for the orderly collection and registration of information regarding assets recorded in commodity accounts;
- the CDO possesses automated software and hardware for aggregating such information.

¹ Bank of Russia Ordinance No. 5220-U, dated 30 July 2019, 'On the Requirements for Terminating Obligations under Depository Agreements by Entities Whose Depository Activity Licences of Professional Securities Market Participants Have Been Cancelled by the Bank of Russia, and the Requirements for Depository Activities and for Keeping the Register of Securities Holders in the Case of Termination of Obligations under Depository Agreements'. The document came into effect on 3 November 2019.

² Bank of Russia Ordinance No. 5170-U, dated 11 June 2019, 'On the Form and Procedure for Clearing Companies, Central Counterparties, Trade Organisers, and Central Depositories to Submit to the Bank of Russia Notifications Containing Information Not Subject to Disclosure'. The document came into effect on 29 July 2019.

³ Bank of Russia Ordinance No. 5216-U, dated 22 July 2019, 'On Additional Requirements for the Procedure to Form the Committee of Central Depository Customers and Requirements for the Regulation on the Committee of Central Depository Customers'. The document came into effect on 15 April 2020. Due to this ordinance entering into effect, Order of the Federal Financial Markets Service of Russia No. 12-13/pz-n, dated 15 March 2012, 'On Approval of Additional Requirements for the Procedure for Forming the Committee of Central Depository Customers and Requirements for the Regulation on the Committee of Central Depository Customers' is no longer applicable.

⁴ Bank of Russia Ordinance No. 5102-U, dated 26 March 2019, 'On Cases for Commodity Delivery Operators to Open Trading Commodity Accounts and Clearing Commodity Accounts if the Accounting of Assets Used to Fulfil Obligations Accepted for Clearing Is Based on Grounds Other Than the Agreement for Storage of These Assets'. The document came into effect on 8 July 2019.

This regulation, including with regard to the obligation to ensure preservation of assets, allows CDOs to open commodity accounts on the grounds of other types of civil law contracts that in practice can mediate (formalise) relationships between CDOs and trading participants. Such contracts have a focus other than preservation of assets, but at the same time the actual obligation to store assets forms an integral part thereof due to the inclusion of obligations for ensuring the preservation and integrity of assets.

Bank of Russia Ordinance No. 5273-U¹ was issued in 2019 to implement the competences stipulated by the Federal Law 'On Clearing, Clearing Activities and the Central Counterparty'.² The ordinance establishes the procedure and timeframes for obtaining the Bank of Russia's approval for restructuring a non-bank credit institution that is a central counterparty (except restructuring through transformation) and for the NCI-CCP to make a decision on voluntary liquidation based on an assessment of the impact of the restructuring or voluntary liquidation of the central counterparty on the stability of the financial market of the Russian Federation.

CREDIT HISTORY BUREAUS

In 2019, the Bank of Russia's regulation of credit history bureaus (CHBs) was aimed at continued comprehensive modernisation of the existing system of credit history formation based on the development level of today's credit market and financial technologies.

Federal Law No. 77-FZ,³ providing for the introduction of a unique transaction identifier, came into effect. Its requirements are aimed at increasing reliability of data in credit histories of individuals and legal entities by ensuring accurate identification of credit (loan) agreement data submitted to the credit history bureaus, including by avoiding duplication of agreement data.

The rules for assigning a unique identifier to contracts (transactions) that form a credit history are established by Bank of Russia Ordinance No. 5251-U.⁴

In 2019, the Bank of Russia took part in developing Draft Federal Law No. 724741-7,⁵ which passed the second reading at the State Duma and is aimed at achieving the following objectives:

- implementation of a mechanism for collecting and providing credit and non-bank financial institutions with comprehensive information on citizens' obligations in order to determine their debt (payment) burden;
- comprehensive modernisation of the existing credit history generation system;
- increased quality and availability of credit information;
- improvement of the Bank of Russia's supervisory powers in respect of the activity of credit history bureaus.

In the course of preparations for the second reading at the State Duma and consultations with financial market participants,⁶ the draft



A unique contract (transaction) identifier was introduced to improve the accuracy of calculating household debt burden

¹ Bank of Russia Ordinance No. 5273-U, dated 30 September 2019, 'On the Procedure and Timeframes for Obtaining the Bank of Russia's Approval for Restructuring the Non-bank Credit Institution – Central Counterparty (Except Restructuring through Transformation) and for Making the Decision on Voluntary Liquidation by the Non-bank Credit Institution – Central Counterparty'. The document came into effect on 5 January 2020.

² Federal Law No. 7-FZ, dated 7 February 2011, 'On Clearing, Clearing Activities and the Central Counterparty'.

³ Federal Law No. 77-FZ, dated 1 May 2019, 'On Amending Article 4 of the Federal Law 'On Credit Histories'. The document came into effect on 29 October 2019.

⁴ Bank of Russia Ordinance No. 5251-U, dated 9 September 2019, 'On the Rules for Assigning a Unique Identifier to a Contract (Transaction) Stipulating Obligations That Form a Credit History'. The document came into effect on 26 November 2019.

⁵ Draft Federal Law No. 724741-7 'On Amending the Federal Law 'On Credit Histories' and Chapter 1 of the Federal Law 'On Agricultural Cooperation'. Passed in the second reading at the State Duma on 7 November 2019.

⁶ The consultations were held as part of the discussion on the report '[Development of Individual Ratings for Credit History Subjects](#)' (posted on 26 June 2019 at the Bank of Russia website in Documents and Data / Analytics / Consultation Papers).

law was supplemented by provisions enabling the Bank of Russia to establish requirements for the methodology for calculating individual ratings for credit history subjects and the procedure for disclosing the ratings and information related to the calculation.

Based on the results of domestic consultations completed in 2019, the Bank of Russia took part in finalising the Draft Agreement on Cooperation between EAEU Member States Regarding the Exchange of Credit History Data to ensure the cross-border exchange of credit information.

2.2.5. SUPERVISION

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

OFF-SITE SUPERVISION

In 2019, centralised supervision of credit institutions was carried out by the Systematically Important Banks Supervision Department (SIBSD) and the Service for Ongoing Banking Supervision (SOBS). As of 1 January 2020, the number of operating credit institutions (CIs) supervised by SOBS was 412, including 241 banks with a universal licence, 136 banks with a basic licence and 35 non-bank credit institutions (NCIs). SIBSD supervised activities of 29 credit institutions, including 11 systemically important credit institutions (SICIs). The Financial Stability Department supervised one non-bank credit institution.

Supervision of CIs **was carried out in proportion to the specifics of their activity in line with the type of issued licence:**

- for banks with a basic licence, high intensity of supervisory activities was related to the need to monitor their compliance with regulatory constraints with regard to operations (a more limited range of operations compared to other banks) and in terms of activities with 'core' and 'non-core' customers¹ as well as exposure of basic licence-holder banks to the significant impact of changes in the economic conditions of operations due to limited capital and lower competitiveness;
- for banks with a universal licence, increased regulatory requirements in terms of risk management, capital management and internal control systems were taken into account, which required an in-depth analysis of procedures and processes established in the bank;
- supervision of NCIs considered risks in the area of payment systems since the business

model in most NCIs is based on funds transfers, including electronic money transfers.

Supervisors were appointed in all credit institutions. The Bank of Russia has appointed its authorised representatives to 114 credit institutions.

A risk-based approach in banking supervision was implemented to further develop **consolidated supervision**.

The application of unified approaches to supervisory procedures in respect of CIs and non-bank financial institutions (NFIs) will make it possible to minimise the risks of supervisory activities and improve the efficiency of supervision. As of the end of 2019, the Bank of Russia established supervisory groups for 23 financial associations, including 11 where SICIs are parent companies.

The first positive outcomes were achieved in the area of group supervision:

- operational information exchange was established between the supervisors of banks and NFIs within a group from various supervising divisions of the Bank of Russia;
- information on the group companies was consolidated and regularly updated in an electronic file;
- key risks of financial associations were identified.

Regional employees of SOBS participated or were appointed as the authorised representatives of the Bank of Russia in supervisory groups supervising CIs² that are subject to supervision by SOBS³ and are located outside the Moscow region.

As part of their functional duties, regional employees visited the CI (branch) to obtain current information on the bank's activities and identify signs of inaccurate accounting of

¹ 'Core' customers are defined in accordance with clause 2.3 of Bank of Russia Instruction No. 183-I, dated 6 December 2017, 'On the Required Ratios of Banks with a Basic Licence'.

² 210 CIs were supervised by SOBS outside the Moscow Region.

³ As of 1 January 2020, CIs supervised by SOBS included 69 parent companies of banking groups comprising 92 CIs; 28 CIs were members of 26 bank holding companies.

household deposits, participated in meetings and monitoring of the CI's activities and correspondent account, took part in monitoring of the implementation of measures (requirements, restrictions or prohibitions) imposed on the CI and the review of appeals submitted by CI and its customers as well as other legal entities and individuals and participated in inspections of CIs (branches).¹

In 2019, to implement advisory supervision (an approach aimed at close collaboration with the management bodies of CIs to prevent negative developments and trends in their activities), regular discussions were held on the matters of current activities, provisioning, improvement of internal documents and adequacy of accepted risk assessment.

In most cases, SICIs took timely corrective actions, such as updating their credit risk assessment, without the Bank of Russia issuing an order.

Under advisory supervision, the actions taken with regard to 23 CIs supervised by SOBS proved to be effective without the use of restrictive measures. For 53 CIs (compared to 45 in 2018), the intensity of supervisory actions was reduced (their supervision regime was relaxed) without the use of restrictive measures. In addition, clarifications were sent to all CIs that requested clarifications on the Bank of Russia regulations. The number of CIs for which a decision was adopted to impose restrictive measures to normalise their activities without revoking their licences or placing them under financial rehabilitation procedure at a later stage declined from 57 in 2018 to 29 in 2019.

An important component of supervisory activities is **to evaluate the quality of the Internal Capital Adequacy Assessment Process (ICAAP)** of CIs and banking groups. The focus

was on assessing the integration of ICAAP into the practical activities of a CI or a banking group and its reflection in the development strategy of the CI and the appropriateness of ICAAP to the current business model. The substance of these efforts was communicating with CIs regarding their risk and capital management systems and their appropriateness to the current business model and development areas.

The assessment of ICAAP for 2018 showed that the level of integration of ICAAP into real business processes was low. At the same time, compared to the assessment of ICAAP for 2017, the dynamics were positive in terms of improving the quality of documents prepared for ICAAP, assessing the efficiency of the risk and capital management system within ICAAP and reducing the number of cases related to insufficiently objective evaluation of significant risks and the amounts of internal capital to cover them.

Pursuant to Bank of Russia Ordinance No. 3883-U,² the first supervisory assessment of ICAAP quality in banking groups was completed in 2019, and, in addition to the banking groups of SICIs, the assessment of ICAAP quality for 2018 was conducted for banks with a universal licence which are not part of a banking group (on a solo basis). Following the assessment, information letters were sent to CIs and parent CIs of banking groups on the assignment of the CI or the banking group to a capital adequacy assessment group, and, when necessary, recommendations to eliminate deficiencies or orders to bring the risk and capital management system into line with regulatory requirements were also sent.³

The first **supervisory assessment of financial stability recovery plans** developed by SICIs in accordance with Bank of Russia Regulation

¹ In 2019, regional employees took part in inspections of 109 credit institutions.

² 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'.

³ SOBS sent information letters on the assignment of a CI/banking group to one of the capital adequacy assessment groups and on identified deficiencies in the activities of the CI/banking group which provided the grounds for assigning the CI/banking group to one of the capital adequacy assessment groups to 143 CIs and 22 banking groups. Orders to bring the risk and capital management system into compliance with the requirements of Bank of Russia Ordinance No. 3624-U, dated 15 April 2015, 'On the Requirements for the Risk and Capital Management System of a Credit Institution or a Banking Group' and consistency with the nature and scale of the operations carried out by the credit institution / banking group and the level and combination of accepted risks along with an indication of identified deficiencies were issued to 25 CIs and 19 banking groups.

No. 653-P¹ was conducted. Recommendations to eliminate identified deficiencies in the development of their financial stability recovery plans were sent to credit institutions.

A key tool of banking supervision is **supervisory stress testing**, which the Bank of Russia continued to develop extensively in the reporting year. Based on research, models were developed for stress testing the credit risks of major borrowers, and recommendations were prepared on areas for using the results of stress testing in supervisory activities, methodological approaches to developing scenarios for supervisory stress testing and improvement of the current methodology and the set of models for supervising stress testing. Implementation of these recommendations and introduction of new tools and models in the future will make it possible to determine the capital needs of individual banks and the entire banking system in case of stress and will help develop measures for reducing risks and improving the stability of the financial system.

In 2019, the Risk Analysis Service continued to conduct **off-site analysis of risks in CIs and NCIs** and regular **assessment of various types of assets in credit institutions and non-bank financial institutions**.

In 2019, we analysed more than 300 groups of companies and major borrowers with a total debt burden, including that of related companies, of more than ₹32 trillion.

When assessing the credit risk of the mass segment, more than 25,000 corporate loans were analysed in 2019; 34 reports were prepared with an assessment of retail loan portfolios totalling about ₹1.1 trillion (more than 15.7 million loans), including the analysis of 672 internal regulatory documents of credit institutions. A Self-service Analytics application was put into commercial operation in October 2019 to improve the quality of assessment of retail loan portfolios and individual household loans. The application was built on the platform of the Bank of Russia Unified Data Warehouse

and features algorithms for assessing credit and market risks, such as searching for 'anomalies' in credit portfolio behaviour, checking datasets for violations in provisioning, evaluating datasets across different databases and building predictive models for credit risk level in banks.

Comprehensive assessment of possible loan losses included expert evaluation of pledged items accepted by CIs as collateral on loans, as part of which the existence of the pledged item and its legal status were established, and a judgement was made on the value of the pledged item. In 2019, 25,000 pledged items and 11,600 assets of credit institutions were assessed. As part of its Collateral Register introduction, the Bank of Russia started developing IT solutions for the project and establishing the Bank of Russia's regulatory authority to build and maintain the Collateral Register and to provide the information contained in the Collateral Register to CIs.

In the area of market risk analysis, 496 reports were prepared in 2019 with regard to 185 credit institutions on the assessment of the fair value of securities and derivatives, the quality categories of securities issues, the financial condition of their issuers and the analysis of transactions with financial instruments. The average monthly volume of the securities portfolio held by credit institutions and analysed as part of regular analysis was about ₹1.1 trillion.

As part of assessing the quality of operational risk management framework in credit financial institutions, including the quality of their business continuity plans, 143 reports on 118 credit institutions were prepared in 2019, including the analysis of 2,339 internal regulatory documents.

Given the social importance of the housing construction industry, fundamental changes in its financing mechanism and the need to create effective interaction between banks and developers, the Bank of Russia monitored

¹ Bank of Russia Regulation No. 653-P, dated 4 October 2018, 'On the Requirements for the Contents of Financial Stability Recovery Plans, the Procedure and Timeframes for their Submission by Credit Institutions to the Bank of Russia and Amendments Thereto, on the Procedure for the Bank of Russia to Assess the Above Plans, as well as on the Procedure for Credit Institutions to Inform the Bank of Russia of the Events Stipulated by the Financial Stability Recovery Plan and the Decision to Start Implementing It'.

introduction of project **financing of equity construction** and surveyed the authorised banks with the right to open settlement accounts of developers and escrow accounts. These surveys, submitted on a regular basis by authorised banks (on the number and main parameters of loan agreements concluded with developers, opened escrow accounts and developers' loan applications), were used to analyse the development of reform in equity construction. The results of monitoring of the transition to project financing in specific regions were communicated by the Bank of Russia to the responsible federal and regional authorities. Relevant information, aggregated data on the monitoring of the transition to project financing by regions and answers to incoming questions were posted in the '[Equity Construction Financing](#)' sub-section of the 'Documents and Data / Banking Sector' section on the Bank of Russia website.

ON-SITE SUPERVISION

In 2019, as part of inspections in CIs, the authorised representatives of the Bank of Russia initiated inspections of 346 CIs (branches thereof) (including 32 inspections of SICIs (and branches thereof) and CIs supervised by SIBSD). 80% of inspections (277) were conducted on a scheduled basis, and 20% (69), on an unscheduled basis.

Most violations found during **inspections of CIs** were related to inadequate assessment of the loan quality in terms of overestimating the financial position of borrowers, the quality of debt serviced by them, the use of collateral that fails to meet regulatory requirements or was overestimated to minimise credit risk and failure to apply other material factors affecting the classification of loans into a lower quality category.

With regard to consumer lending, instances of the effective interest rate (EIR) exceeding the limit set by the Bank of Russia, violations of the procedure for calculating EIR (including failure to include insurance premiums in the EIR calculation), inaccurate reflection of information on the size of the EIR in loan agreements and violations of the procedure and deadlines for

submitting information to credit history bureaus (CHB) were identified. One of the groups was also found to use a fraudulent solution that enabled it to provide customers, to the detriment of their interests, with an additional paid service (on behalf of a related third party not supervised by the Bank of Russia) which significantly increased the cost of loans.

There were cases of fraudulent operations aimed at artificially improving the indicators of CIs, including overvaluation of equity (capital) by failing to fully account for the sources of funds that reduce that amount, adjustments to financial results through one-time recognition as income of claims for commission fee payments made by instalments, unjustified restoration of formed provisions for bad loans (with its re-creation after the reporting date) and untimely recognition of accounts receivable as expenses.

Based on the results of inspections in certain CIs, it was also found that deposit agreements included terms that failed to comply with the Civil Code of the Russian Federation with regard to the option for withdrawing a household deposit at the depositor's first request.

During the inspections of **AML/CFT/FPWMD** compliance, identified cases included violations in the procedure and terms for submitting information to the authorities and the untimely submission of information on the opening or closing of bank accounts by business entities that are of strategic importance for the defence industry and security of the Russian Federation to the authorities.

In addition, there were cases when CIs violated certain requirements of the Bank of Russia regulations on the use of information technologies and requirements for information security when making funds transfers and in cash operations and their accounting.

As part of implementing formalised and non-formalised approaches to the practical introduction of **consolidated risk assessment in financial groups** and in order to identify systemic risks in the financial market, there were coordinated inspections of 26 CIs (branches thereof) that were members of 12 banking

groups¹ as well as 17 CIs and 26 NFIs that were members of 12 banking groups and holding companies.¹

Coordinated inspections of CIs identified operations (including those involving affiliates) which were probably aimed at redistributing cash flows in the interests of the group's beneficiaries and embellishing the financial indicators of group members (including through non-arm's-length transactions).

Coordinated inspections of CIs and insurance entities established circumstances pointing to non-arm's-length relations between group members (such as when a bank charged an excessive agency fee and/or commission fee of 20% to transfer funds to insurers under insurance agreements concluded by the bank), cases when the activities of group's insurers materially depended on the bank in the context of signs that insurance agreements are being imposed on the borrowers of CIs (such as by restricting borrowers' ability to choose an insurance company on their own, imposing a lump sum payment of the entire insurance premium or a low level of payouts to customers under insurance agreements along with high commission fees of insurance agents).

Coordinated inspections of CIs and professional securities market participants (PSMPs) identified operations aimed at large-scale fundraising to finance the group's activities (in the interests of beneficiaries) using securities as a tool; in a number of cases, such operations were financed by the securities or funds of PSMP customers (under the rights they had granted to the PSMP). Identified fraudulent operations with securities were aimed at embellishing the indicators of CIs (such as by selling low-quality bonds on the eve of the reporting dates to a related PSMP with their subsequent repurchase after the reporting dates) and withdrawing cash.

SUPERVISORY RESPONSE

In 2019, the Bank of Russia's supervisory response was primarily geared toward early

identification of negative trends in the activities of CIs and adoption of adequate measures to prevent the development of those trends. Information on measures applied to credit institutions in 2019 is shown in [Table 34 of Section 5.4 'Statistical Tables'](#).

In 2019, SOBS held 931 meetings with 438 CIs (including with 231 regional CIs). This included meetings with 390 CIs held at the initiative of the supervisors and meetings with 48 CIs held at the initiative of the banks. The owners of CIs participated in 376 meetings with 180 CIs. SIBSD held 64 meetings with 27 credit institutions, including 11 SICIs. Along with current activities and development prospects, meetings with the representatives of CIs and their owners included a discussion of such issues as the achievement of performance targets, peculiarities of debt burden calculation, results of inspections and implementation of measures under ICAAP (in banking groups) as well as activities in the area of internal controls and AML/CFT. To discuss the preliminary results of inspections,² SOBS held 175 joint meetings with CIs attended by supervisors and inspectors.

If the owners failed to take effective measures to eliminate the identified violations and recover financial stability, the Bank of Russia revoked the banking licences of CIs when there were grounds to do so. In 2019, the Bank of Russia revoked the licences of 28 CIs (60 CIs in 2018) in accordance with Article 74 of Federal Law No. 86-FZ and Article 20 of Federal Law No. 395-1.³

In 2019, banking licences were revoked on the following grounds:

- in 27 cases (56 cases in 2018), failure to comply with federal laws governing banking activities and Bank of Russia regulations, if within one year the measures set forth in Federal Law No. 86-FZ had been taken against a credit institution more than once;
- in 14 cases (35 cases in 2018), repeated violation of the requirements set by Federal

¹ Including non-formalised ones.

² Supervisors took part in 181 inspections.

³ Federal Law No. 395-1, dated 2 December 1990, 'On Banks and Banking Activities'.

- Law No. 115-FZ¹ and Bank of Russia regulations issued in accordance therewith;
- in four cases (eight cases in 2018), a decrease in capital adequacy to below 2%;
 - in four cases (eight cases in 2018), a decrease in equity (capital) of CI to below the minimum level of the authorised capital established as of the date of its state registration;
 - in one case (no such cases were reported in 2018), failure to comply with the requirement of the Bank of Russia regarding the amount of authorised capital and equity (capital) within the period established by paragraph 4.1 of Chapter IX of Federal Law No. 127-FZ;²
 - in two cases (no such cases were reported in 2018), failure to comply with the requirements set forth in parts 15 and 16 of Article 11.2 of Federal Law No. 395-1.

Furthermore, in 2019, the Bank of Russia revoked the licences of three banks following the decisions of their shareholders on voluntary liquidation.

Most CIs (19 out of 28) that had their licences revoked in 2019 were regional institutions (in 2018, 29 out of 60 such CIs were registered in the Moscow area).

MONITORING OF CREDIT INSTITUTIONS' USE OF FUNDS UNDER THE RECAPITALISATION PROGRAMME THROUGH THE STATE CORPORATION DEPOSIT INSURANCE AGENCY (DIA)

The Bank of Russia regularly monitored the use of funds received by banks in accordance

with Federal Law No. 451-FZ³ based on Decree of the State Duma No. 5807-6 GD.⁴

Participation of banks in the programme for increasing capitalisation through the DIA enabled significant growth in lending to the economy. The results of monitoring the use of public support funds show that the group of recapitalised banks generally observed the requirement to increase lending by at least 1% per month for three years after recapitalisation,⁵ as set out in the Procedure and Conditions for Investing the Property Contribution of the Russian Federation to DIA Property in the Subordinated Liabilities and Preference Shares of Banks (the 'Procedure'), at all reporting dates. At certain reporting dates, 11 banks were in breach of their obligations to increase lending volumes. In particular, eight banks failed to timely fulfil their obligation, including four banks that had negative lending growth values and four banks that failed to ensure required growth of lending volumes and/or purchased bonds.

Since the beginning of programme implementation (2015), the total amount of loans and investments in bonds of companies engaged in priority economic activities, SMEs, housing mortgage lending and the constituent entities of the Russian Federation grew by ₺3,059 billion, which was 3.7 times more than the amount of funds provided for recapitalisation of these banks (₺838 billion).⁶ The deadline⁷ specified in the Procedure for the banks participating in the recapitalisation programme to fulfil the obligation to increase the amount of lending expired at the end of the second quarter of 2019.

¹ Federal Law No. 115-FZ, dated 7 August 2001, 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'.

² Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)'.

³ Federal Law No. 451-FZ, dated 29 December 2014, 'On Amending Article 11 of the Federal Law 'On the Insurance of Household Deposits with Russian Banks' and Article 46 of the Federal Law 'On the Central Bank of the Russian Federation (the Bank of Russia)'.

⁴ Decree of the State Duma of the Federal Assembly of the Russian Federation No. 5807-6 GD, dated 19 December 2014, 'On Draft Federal Law No. 298254-6 'On Amending Article 11 of the Federal Law 'On the Insurance of Household Deposits with Russian Banks' and Article 46 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'.

⁵ In accordance with the Procedure, one of the main conditions for the receipt of funds for increasing capitalisation was the obligation of banks to increase the total amount of their ruble-denominated lending by at least 1% within three years after recapitalisation, including mortgage (housing) lending and/or lending to SMEs and/or constituent entities of the Russian Federation and/or entities operating in one or several economic sectors. In addition to actual loans, calculations included the investment of banks in ruble-denominated mortgage bonds and ruble-denominated bonds issued by the aforementioned entities, purchased by banks.

⁶ As of 1 January 2020, the total amount of outstanding subordinated liabilities of banks covered by recapitalisation measures was ₺628.6 billion.

⁷ Three years after receiving federal loan bonds from DIA.

2.2.5.2. NON-GOVERNMENTAL PENSION FUNDS

ON-SITE SUPERVISION

In 2019, inspections of 21 NPFs were initiated by the authorised representatives of the Bank of Russia as part of its inspection activities with regard to NPFs.

In a number of NPFs, these inspections identified violations of the procedure for calculating the results from investment of pension savings, the procedure for managing pension accounts, the terms of pension savings payouts to insured persons, the procedure for determining the amount of pension payouts to insured persons and the requirements for information security; violations in the arrangements for the risk management system; risks resulting from investment of pension reserves in the assets of parties related to NPFs and assets of low investment quality; and the provision of inaccurate data in reports submitted to the Bank of Russia.

SUPERVISORY RESPONSE

In 2019, the Bank of Russia took the following measures based on identified violations of the pension laws of the Russian Federation:

- 137 orders to eliminate violations were sent to NPFs and their management companies, including 15 orders based on the review of inspection reports, and 25 letters were sent as part supervisory collaboration with regard to identified violations of the laws of the Russian Federation, including one letter based on the review of inspection report;
- 60 administrative offence reports were prepared in relation to NPFs, and 90 reports were prepared in relation to management companies of NPFs.

The licences of three NPFs were cancelled based on the request of the licensees to give up their licences.

2.2.5.3. INSURANCE ENTITIES

IMPROVEMENTS IN REGULATION OF SUPERVISORY ACTIVITIES

As part of improving bankruptcy prevention mechanisms, in 2019, the Bank of Russia developed and issued regulations aimed, among other things, at adjusting the current procedure for transferring the portfolio in case of signs indicating bankruptcy of an insurance company,¹ at establishing the procedure for monitoring by the insurance company's provisional administration of the activities of the liquidation commission (liquidator) of the insurance company² and at establishing the procedure for forming the compensation fund for compulsory insurance of a carrier's third-party liability.³

Due to changes in insurance laws⁴, the Bank of Russia issued Ordinance No. 5065-U⁵ establishing the procedure for the Bank of Russia to apply measures to insurance entities in the form of an order to eliminate violations of insurance laws, restriction on individual transactions, prohibition of individual transactions and restriction or suspension of the licence.

Requirements for the solvency recovery plan of an insurance company⁶ were adjusted in accordance with amendments to Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)'.⁷

OFF-SITE SUPERVISION

Off-site supervision included monitoring of insurance companies involved in transferring a part of the insurance premium under developer civil liability insurance agreements terminated early to the nominal account of the public company Fund for the Protection of the Rights of Individual Equity Construction Participants (the 'Fund').

Due to adoption of Federal Law No. 153-FZ,⁸ all agreements for the insurance of developers against civil liability for the failure to perform or improper performance of obligations to transfer residential premises under an equity construction agreement for which no insured event had occurred and no claim for payment of insurance compensation under the insurance agreement had been filed were terminated as of 27 June 2019.

In case of early termination of the insurance agreement in accordance with part 2 of Article 3 of Federal Law No. 153-FZ, the insurer is entitled to a part of the insurance premium received under the insurance agreement in proportion to the time during which the insurance was valid. The insurer must transfer the remaining part of the insurance premium received under the insurance agreement to the Fund.

¹ Bank of Russia Regulation No. 688-P, dated 16 July 2019, 'On the Procedure for and Specifics of Insurance Portfolio Transfers, the Procedure and Conditions for Compensating for Asset Deficiency by Professional Insurance Associations, the Procedure for Coordinating Insurance Portfolio Transfers with the Bank of Russia in the Cases Specified in Clause 1 of Article 1849 of the Federal Law 'On Insolvency (Bankruptcy)', the Requirements for the Content of Insurance Portfolio Transfer Agreements and Insurance Portfolio Transfer and Acceptance Certificates'. The document came into effect on 5 November 2019.

² Bank of Russia Ordinance No. 5287-U, dated 14 October 2019, 'On the Procedure for the Provisional Administration of an Insurance Company to Control Activities of Its Liquidation Commission (Liquidator) When a Decision is Made to Liquidate the Insurance Company During the Operation of the Insurance Company's Provisional Administration'. The document came into effect on 22 March 2020.

³ Bank of Russia Ordinance No. 5235-U, dated 22 August 2019, 'On the Requirements for the Amount of the Compensation Fund of the United All-Russian Professional Association of Insurers of Compulsory Motor Third-party Liability of a Transportation Company for Inflicting Damage to Passengers' Lives, Health and Property, and on the Procedure for Creating and Using the Compensation Fund'. The document came into effect on 18 February 2020.

⁴ Federal Law No. 4015-1, dated 27 November 1992, 'On the Organisation of the Insurance Business in the Russian Federation'.

⁵ Bank of Russia Ordinance No. 5065-U, dated 31 January 2019, 'On the Procedure for the Bank of Russia to Apply Measures Envisaged by Article 325-1 of the Federal Law 'On the Organisation of the Insurance Business in the Russian Federation' to Insurance Entities'. The document came into effect on 2 July 2019.

⁶ Bank of Russia Ordinance No. 5060-U, dated 16 January 2019, 'On the Requirements for the Solvency Recovery Plan of an Insurance Company, the Procedure for the Bank of Russia to Control the Implementation of the Solvency Recovery Plan of an Insurance Company and the Cases when the Bank of Russia Decides to Conduct an On-site Inspection of the Activities of an Insurance Company Based on the Analysis of its Solvency Recovery Plan'. The document came into effect on 12 March 2019.

⁷ Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)' (Clause 4 of Article 183.1, as amended by Federal Law No. 87-FZ, dated 23 April 2018).

⁸ Federal Law No. 153-FZ, dated 27 June 2019, 'On Invalidating Certain Provisions of Article 25 of the Federal Law 'On a Public Company for the Protection of the Rights of Individual Equity Construction Participants in the Event of the Insolvency (Bankruptcy) of Developers and on Amending Certain Laws of the Russian Federation' and on Amending Article 62 of the Federal Law 'On State Registration of Real Estate'.

According to the insurers of developer civil liability insurance,¹ as of 31 December 2019, 13 insurers had an obligation to transfer part of the insurance premium under developer civil liability insurance agreements terminated early to the nominal account of the Fund; the total amount to be transferred was about ₹8.3 billion. As of 31 December 2019, the insurers had transferred ₹2.7 billion to the Fund, nine insurers had notified the Bank of Russia of a full transfer of money to the nominal account of the Fund, two insurers were performing their obligation to transfer money to the Fund in instalments, which was recognised as justified by the Bank of Russia, and two insurers were declared bankrupt as of the date of report.

In 2019, PJSC IC Rosgosstrakh, which was included in resolution of PJSC Bank FC Otkritie, demonstrated stable growth of its insurance portfolio and net profit. According to the audited financial (accounting) statements for 2019, collected insurance premiums rose by 30% compared to 2018 and amounted to ₹80 billion, while net profit grew by 32% to ₹7.3 billion. Introduction of advisory supervision elements for PJSC IC Rosgosstrakh contributed to improved quality of the supervision process and interactions with the insurer.

ON-SITE SUPERVISION

In 2019, as part of inspection of insurance entities, the authorised representatives of the Bank of Russia initiated on-site inspections of 50 insurance entities, including 10 coordinated inspections, such as the inspections of four insurance entities conducted in coordination with the inspections of credit institutions.

Certain inspections of insurance entities identified the facts indicating non-compliance with legal requirements for the financial stability and solvency of insurers, submission of inaccurate information to the Bank of Russia with regard to the financial indicators of insurance entities and signs of insurance business models designed not to provide real payouts.

The inspections established a systematic failure of certain insurers to comply with the requirements for the procedure for concluding investment life insurance agreements, which came into force on 1 April 2019, including in terms of informing policyholders about all features of these insurance products, as well as requirements for the procedure and deadlines for insurance payouts and identified risks posed by entry of inaccurate data into the automated information system of compulsory motor third-party liability insurance (AIS CMTPLI)² by major insurers.

¹ According to the data provided by insurers of developer civil liability insurance, as of 30 April 2020, the insurers had transferred ₹3.6 billion to the Fund, 10 insurers had notified the Bank of Russia of a full transfer of money to the nominal account of the Fund, one insurance company was performing its obligation to transfer money to the Fund in instalments, which was recognised as justified by the Bank of Russia, two insurers had been declared bankrupt as of the date of report and the amount of their liabilities to the Fund was ₹4.5 billion.

² The automated information system of compulsory insurance created in accordance with Article 30 of Federal Law No. 40-FZ, dated 25 April 2002, 'On Compulsory Third-Party Liability Insurance of Vehicle Owners'.

2.2.5.4. MICROFINANCE MARKET ENTITIES

OFF-SITE SUPERVISION

In 2019, the Bank of Russia continued its efforts to implement a risk-based approach to supervisory activities and manage the files of microfinance market entities. Each file contains complete information on the institution, including an assessment of its business, financial performance indicators, information on risks and the supervisor's report. As part of implementing the Supervised Institution Consolidated File functional sub-system, the system is being prepared for full-scale use in the supervision of non-bank financial institutions.

The expansion of the technical capabilities of supervision through the introduction of the Supervised Institution Consolidated File functional sub-system along with the standard monitoring of legal compliance by the supervised entities enables the comprehensive assessment of companies.

Supervisory activities are expanding the boundaries of off-site supervision, as they assess not only the financial situation of a non-bank financial institution and its compliance with legislation but also the vector of the company's development and the company's interest in its own business.

ON-SITE SUPERVISION

During its inspection activities in 2019, the Bank of Russia conducted on-site inspections of 56 CCCs, 52 MFOs, seven pawnshops, two housing savings cooperatives (HSCs) and one ACCC. The inspections of six MFOs were coordinated to comprehensively assess the activities of companies within the same group.

In the activities of some microfinance market entities, the inspections revealed failures to ensure financial stability by not complying with financial regulations and requirements

for the minimum amount of MFO equity, and other identified instances revealed a repeated submission of materially inaccurate reporting data by microfinance market participants to the Bank of Russia as well as signs of a financial pyramid in the activities of MFOs. Supervisory response measures were taken to deal with these facts. It is important to note that the identified cases were not systemic in nature.

SUPERVISORY RESPONSE

When exercising its supervisory authority over microfinance market entities in 2019, the Bank of Russia issued 1,813 orders to MFOs, CCCs, ACCCs, HSCs and pawnshops to eliminate violations of the laws of the Russian Federation and 148 orders prohibiting them from raising funds, accepting new members or issuing loans. 97 cases on administrative offences were initiated against MFCs, major CCCs, ACCCs and their officials.

To ensure financial stability and financial market development, the Bank of Russia continued to exclude organisations that did not comply with legislative requirements of the Russian Federation, violated financial consumer rights, failed to comply with requirements for financial stability and reliability, did not join self-regulatory organisations in the financial market for MFOs or did not provide any micro-loans during the year from the state register of MFOs.

In 2019, 657 legal entities¹ were removed from the state register of MFOs, including 278 organisations that ceased operations due to repeated violations of the laws of the Russian Federation during the year and 379 organisations that voluntarily ceased operations and lost their MFO status based on submitted applications.

¹ Removal of an organisation from the state register of MFOs denies it the status of an MFO but does not entail its liquidation as a legal entity and, therefore, does not entail its removal from the Unified State Register of Legal Entities.

2.2.5.5. NATIONAL PAYMENT SYSTEM PARTICIPANTS

Measures to supervise the National Payment System (NPS) were implemented as part of a risk-based approach, taking into account the size of each participant, interconnections between the participants and the most material risks in terms of impact on payment systems and NPS stability in general.

Throughout 2019, the Bank of Russia conducted 137 inspections of credit institutions as well as six inspections of payment system operators¹ and three inspections of operators of payment infrastructure services other than credit institutions to check their compliance with the requirements of Federal Law No. 161-FZ² and Bank of Russia regulations adopted in pursuance thereof.

The identified violations and shortcomings were related to the procedure for payment

services, including those provided through electronic means of payment; failure to meet the requirements for a funds transfers operator when engaging a bank payment agent; non-compliance with certain requirements for the risk management system.

In accordance with the requirements of Federal Law No. 86-FZ, as of 1 January 2020, one payment system operator had its deposit returned in full due to its exclusion from the register of payment system operators.

In 2019, as part of improving its methodological support for supervision of the NPS, the Bank of Russia issued ordinances regulating the receipt of information by the Bank of Russia from payment system operators and operators of payment infrastructure services on various aspects of payment system operation.³

¹ This includes three organisations inspected simultaneously as payment system operators and operators of payment infrastructure services.

² Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System'.

³ Bank of Russia Ordinance No. 5142-U, dated 13 May 2019, 'On the Form and Timeframes for Submission to the Bank of Russia of Payment System Reports by Payment System Operators and the Methodology for Their Preparation'; Bank of Russia Ordinance No. 5110-U, dated 1 April 2019, 'On the Form and Timeframe for Submitting to the Bank of Russia Statements of a Payment Infrastructure Operator and a Payment System Operator on Incidents Emerged (Identified) during the Provision of Payment Infrastructure Services and Indicators of the Smooth Functioning of the Payment System, and the Methodology for Compiling Such Statements'.

2.2.5.6. OTHER PARTICIPANTS

COLLECTIVE INVESTMENT MARKET ENTITIES (BESIDES NPFs)

On-site supervision

When carrying out their inspection activities in 2019, the authorised representatives of the Bank of Russia initiated inspections of two management companies of investment funds, unit investment funds (UIFs) and non-governmental pension funds (NPFs), one specialised depository.

Inspections of these supervised entities mostly revealed violations of the laws of the Russian Federation and Bank of Russia regulations (regulating relevant activity); violations of accounting, reporting preparation and submission procedures and requirements for internal controls; certain instances of increased operational risks in their activities.

Supervisory response

The Bank of Russia took the following measures against collective investment market entities (besides NPFs) in response to identified violations of the laws of the Russian Federation:

- 453 orders¹ (including 67 orders to wind up the activities of UIFs) to provide information and 173 orders (including 60 orders to wind up the activities of UIFs) to eliminate violations were issued;
- six qualification certificates were cancelled;
- 51 orders to extend the term for winding up UIFs were issued;
- 349 cases of administrative offences were initiated;
- Bank of Russia representatives took part in three court sessions where lawsuits of supervised entities were considered.

When exercising supervision of management companies in 2019, the Bank of Russia used its mechanism for ordering a management company to compensate for actual damage for the first time. The grounds for sending the order was damage identified by the Bank of Russia and incurred as a result of deliberate actions related to market manipulation and taken by an employee of the management company with regard to NPF funds.

Due to the active steps taken by the Bank of Russia, the management company in question fully compensated the NPF.

PROFESSIONAL SECURITIES MARKET PARTICIPANTS

Improvement of supervision

2019 saw a continued introduction of risk-based supervision, with supervisors focused on identifying risks in the financial position and activities of major companies. An integrated approach to the automation of supervisory processes reduced the time spent by supervisors on routine procedures and made it possible to build standardised trigger-based supervision of small companies not posing material risks to the industry or customers. This approach and the maximum use of data available to the Bank of Russia helped reduce the supervisory burden on small- and medium-sized market participants.

In addition, the proposals developed for supervisory reporting made it possible to substantially lower the burden on small companies – the frequency of submission of virtually all forms of reports will change from monthly to quarterly. Based on the assessment of results, it will be decided whether to change



For the first time, the Bank of Russia used its mechanism for ordering a management company to compensate for actual damage

¹ Including main directorates.

this frequency for other categories of market participants as well.

A cross-analysis of reports revealed signs of concealed shortage of funds, and subsequent inspection confirmed the fact of inaccurate reporting to the Bank of Russia. Supervisory measures resulted in the restoration of the financial stability of the company, which made it possible to avoid negative consequences for customers and counterparties.

When conducting the analysis of risk management frameworks, the Bank of Russia requested the results of stress testing in the eight largest brokers providing services for opening uncovered positions and using the funds of customers or entering into derivative contracts on behalf of a customer. The analysis of received information made it possible to identify areas requiring additional consideration for the development of risk management.

The emergence of a new activity in the securities market (investment consulting) at the end of 2018 required building of an appropriate control system. As of the end of 2019, 69 investment advisors were included in the unified register, including 38 non-bank financial institutions, 20 credit institutions and 11 independent parties providing investment advisory services, of which six were individual entrepreneurs. In 2019, the Bank of Russia developed and implemented a procedure for supervising investment advisory services, which was used to survey 62 out of 69 investment advisors and hold 36 supervisory meetings with investment advisors. There were 11 off-site supervisory activities and one on-site inspection, resulting in seven recommendations and three orders.

In 2019, the development of the trust management industry and the wide use of standard trust management strategies in the retail segment were also the object of off-site supervision. Supervisory activities with regard to major retail trust managers identified cases when the assets of trustors were invested in financial

instruments (bank deposits, investment units, structural bonds) issued by parties related to (belonging to the same group as) the trust managers. In the absence of other measures taken by the manager to manage the assets of customers, such a business model may indicate that the interests of the manager or group of companies prevail over the interests of trustors. The Bank of Russia held supervisory meetings with the management of companies and sent relevant recommendations.

On-site supervision and supervisory response

During their inspection activities in 2019, the authorised representatives of the Bank of Russia initiated inspections of 20¹ PSMPs.

The inspections of PSMPs identified instances when PSMPs were acting as intermediaries in the creation and circulation of 'technical' assets (low-liquidity bonds) used by other financial market participants for fraudulent operations (including possible withdrawal of assets). Fraudulent operations were discovered that were aimed at creating fictitious assets on the broker's balance sheet (a margin loan) to ensure formal compliance with requirements for the amount of equity; signs of bankruptcy were also identified.

SELF-REGULATORY ORGANISATIONS IN THE FINANCIAL MARKETS

Improvement of supervision

As of 1 January 2020, the microfinance market had three financial market SROs of microfinance organisations (MFOs), five financial market SROs of credit consumer cooperatives (CCCs) and three financial market SROs of agricultural credit consumer cooperatives (ACCs). Members of these SROs included 100% of microfinance companies (MFCs), 95% of micro-credit companies (MCCs), 66% of CCCs (out of active CCCs, excluding those in liquidation) and 89% of ACCCs (out of active ACCCs, excluding those in liquidation).

¹ Two organisations were inspected as professional securities market participants and management companies of investment funds, investment unit funds and non-governmental pension funds, and one organisation was inspected as a professional securities market participant and a specialised depository.

In 2019, to ensure automated analysis of reports submitted by members of SROs, the Bank of Russia provided SROs with information on control ratios and training on how to use them, which improved the quality and completeness of the analysis conducted by SROs.

All SROs of MFOs and SROs of CCCs have approved an internal standard for control activities in order to unify the basic rules and principles for control of their members' compliance with the requirements of relevant legislation. In addition, three financial market SROs of MFOs and five financial market SROs of CCCs approved individual road maps to improve the efficiency of their control function. These road maps provide, among other things, for a process for obtaining the Bank of Russia's approval of the control methods developed by SROs.

In 2019, a working group was established to develop basic or internal standards to establish the key requirements for providing customers with services of reduced collateral and closing the positions of customers in the futures market. SROs also consider it possible to address this issue by developing methodological recommendations.

On-site supervision and supervisory response

As part of its inspection activities in 2019, the Bank of Russia conducted inspections of three SROs of CCCs, one SRO of MFOs and one SRO of stock market participants.¹

When exercising its supervisory authority over SROs of microfinance market entities, the Bank of Russia took supervisory measures in accordance with the requirements of Federal Law No. 223-FZ, dated 13 July 2015, 'On Self-Regulatory Organisations in the Financial Market' to verify the compliance of SROs with the requirements established by federal laws, regulatory legal acts of the Russian Federation, Bank of Russia regulations, basic standards and internal standards.

Based on these measures, the Bank of Russia issued 22 orders to eliminate violations of

the requirements of the laws of the Russian Federation and initiated 10 cases of administrative offences.

In connection with repeated violations of the requirements of the laws of the Russian Federation, the failure to submit information, violation of reporting deadlines and failure of SROs to comply with the procedure for inspections of their members, the Bank of Russia decided to terminate the status of two financial market SROs of CCCs.

In early 2019, as part of assessment of financial stability of SROs of PSMPs, the Bank of Russia confirmed the risk associated with the inability of one SRO of PSMPs to exercise its functions due to the lack of financing (a decrease in incoming membership fees for one of the activities of SRO members). Following the supervisory measures with regard to that SRO, its management decided to give up the status of an SRO in depository activities along with its other existing statuses by 1 January 2020. This decision resulted from the inability of the SRO to comply with the requirement to have at least 26% of its total membership engaged in the relevant activity.

In addition, in 2019, as part of its supervision of SROs of PSMPs, the Bank of Russia conducted one on-site inspection of an SRO and three off-site inspections, which resulted in three recommendations sent to SROs to improve their internal documents (mechanisms) and two orders for bringing activities into compliance with the requirements of the laws of the Russian Federation.

In 2019, the Bank of Russia received 48 notifications as part of information interactions with self-regulatory organisations (with regard to notifying the Bank of Russia of any signs of potential violations of the laws of the Russian Federation in the activities of SRO members). Supervisory activities conducted by the supervisors of the supervised organisations for 10 PSMPs confirmed the signs of violations identified by the SROs of PSMPs.

In 2019, SROs of PSMPs were delegated the authority to accredit individual investment

¹ It unites brokers, dealers, managers, depositories, joint-stock investment funds, management companies of investment funds, unit investment funds and non-governmental pension funds and investment advisors.

advice programmes. Monitoring established that SROs only started accrediting such programmes, but they did not start implementing any control activities in respect of previously accredited programmes.

To eliminate the above-mentioned disproportions, the Bank of Russia sent recommendations to SROs on the need to develop internal documents providing for measures to exercise control over the accredited programmes and to initiate control activities. SROs intend to complete the development and approval of their internal methodology for the inspection of the accredited programmes by 2020 Q2.

In 2019, the Bank of Russia did not conduct on-site inspections of self-regulatory organisations of actuaries. At the same time, the Bank of Russia monitored compliance of self-regulatory organisations of actuaries with the requirements of federal laws, regulatory legal acts of the Russian Federation and Bank of Russia regulations governing relations in actuarial activities on an ongoing basis. In 2019, the Bank of Russia did not apply any other measures to self-regulatory organisations of actuaries.

In 2019, there were no off-site supervision inspections of SROs of collective investment market entities, and no material violations of legislative requirements were identified in the activities of SROs of collective investment market entities.

CREDIT RATING AGENCIES

Improvement of supervision

To improve efficiency of supervision in 2019 Q3 the provisions of the Bank of Russia Supervision Standard for Non-bank Financial Institutions were extended to credit rating agencies.

On-site supervision and supervisory response

Inspection of a credit rating agency revealed instances of inappropriate organisation and implementation of internal controls as well as certain deficiencies in the assignment of credit ratings.

In 2019, following on-site and off-site supervision, the Bank of Russia took enforcement measures with regard to credit rating agencies, including seven orders sent to eliminate violations of the laws of the Russian Federation.

RESPONSIBLE ACTUARIES

Supervisory response

To implement its supervisory activities, the Bank of Russia sent the self-regulatory organisations of actuaries its requirements for inspections of individual members, which resulted, in particular, in a decision to exclude one responsible actuary from the single register of responsible actuaries.

INFRASTRUCTURE ORGANISATIONS OF THE FINANCIAL MARKET

Improvement of supervision

Following the supervisory measures with regard to accounting infrastructure organisations and in addition to supervisory response measures, the companies were given recommendations aimed at minimising their operational risk associated with new services and IT components and at improving the quality of risk management and internal control frameworks, including the level of information security.

In 2019, with regard to trade and clearing infrastructure organisations of the financial market (trade organisers and clearing houses, including those acting as central counterparties), the Bank of Russia carried out risk-based supervisory measures focused on important business processes such as matching of orders, listing of securities, monitoring of trading/clearing venues, including compliance with the rules of organised trading and clearing, and internal accounting by clearing houses. A Concept for Supervision of Clearing Activities was developed and approved.

On-site supervision and supervisory response

During their inspection activities in 2019, the authorised representatives of the Bank of

Russia initiated inspections of three trade organisers,¹ two central counterparties² and one central depository.³

Coordinated inspections of large infrastructure organisations forming a group reviewed the frameworks of risk management, internal control and internal audit of business processes related to the companies of the group, the principles of organisation and functioning of IT architecture, operation of software and hardware of the companies of the group in related areas and assessments of compliance with requirements for information security, including business continuity.

Overall, in 2019, 393 off-site supervisory measures and 268 supervisory meetings were held with regard to professional securities market participants and accounting and trading infrastructure organisations. Based on off-site and on-site supervision, 83 qualification certificates of 39 persons were cancelled, and 271 orders and letters on the elimination of violations were issued, along with recommendations for eliminating the deficiencies.

CREDIT HISTORY BUREAUS

Improvement of supervision

2019 saw completion of a framework for off-site supervision of the activities of credit history bureaus, in particular, introduction of the institute of credit history bureau supervisors and establishment of a system of indicators for early identification of problems in the activities of credit history bureaus. During the year, there were no cases of uncontrolled termination of credit history bureaus' activities without at least a three months' prior report on the relevant risks in the supervisory files of credit history bureaus and without the necessary supervisory response measures.

On-site supervision and supervisory response

Following control measures (including four inspections initiated in 2019) and risk-based on-going supervision, supervisory meetings were held with credit history bureaus, 12 orders to eliminate violations of the laws of the Russian Federation were issued and 15 cases of administrative offences were initiated due to violations of Federal Law No. 218-FZ.⁴

The most common violations identified in 2019 included the following:

- failure to update information received from credit history sources on credit history subjects in the databases of credit history bureaus;
- failure to submit updated information to the Central Catalogue of Credit Histories (CCCH);
- failure to include mandatory information on the borrower in the credit history;
- violation of deadlines for submitting reports on credit history cancellation to CCCH;
- failure to comply with the period for additional verification of information included in the credit history of a credit history subject under the procedure established for the credit history subject to contest that information;
- failure to ensure protection of information during its processing, storage and transmission with certified security devices in accordance with the laws of the Russian Federation;
- late submission of credit reports to credit history subjects and to the Bank of Russia;
- failure to ensure that individuals can receive credit reports, including free of charge, using the Unified Identification and Authorisation System.

The credit history bureaus eliminated the identified violations.

¹ One of the organisations was inspected both as a trade organiser and as a clearing house.

² The organisations were inspected both as clearing houses and central counterparties.

³ The organisation was inspected simultaneously as a clearing house, a professional securities market participant and a central depository.

⁴ Federal Law No. 218-FZ, dated 30 December 2004, 'On Credit Histories'.

2.2.6. FINANCIAL REHABILITATION OF FINANCIAL INSTITUTIONS

In 2019, the Bank of Russia continued its efforts to prevent bankruptcy of financial institutions in accordance with Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)' ('Federal Law No. 127-FZ').

MEASURES TO PREVENT BANKRUPTCY OF CREDIT INSTITUTIONS

When the Bank of Russia decides to take bankruptcy prevention measures or to submit a proposal on its participation in these measures to the State Corporation Deposit Insurance Agency (DIA), it takes into account the systemic importance of the bank both at the level of the financial system as a whole and at the regional level, at the level of certain financial market segments, as well as the potential consequences for the financial market, certain sectors, regions and for Russia's economy in general, if the bank's licence is revoked.

At the beginning of 2019, **measures taken with participation of the Bank of Russia to prevent bankruptcy** were being implemented with regard to five credit institutions, including two systemically important ones.

In 2019, a decision was made to approve a plan for the Bank of Russia's participation in implementation of measures to prevent bankruptcy of **PJSC MInBank** and to guarantee its business continuity during implementation of the plan for the Bank of Russia's participation. Implementation of this plan resulted in recapitalisation of PJSC MInBank in the amount of $\text{R}128.7$ billion; on 25 October 2019, permanent management bodies were established in the bank.

A decision to terminate financial rehabilitation measures involving the DIA was adopted

for **JSC VOVBANK** along with the approval of a plan for the Bank of Russia's participation. JSC VOVBANK, in accordance with the plan for the Bank of Russia's participation in implementation of measures to prevent its bankruptcy, received additional capital in the amount of $\text{R}2.7$ billion and subsequently merged into PJSC MInBank.

It was decided to complete the measures aimed at preventing bankruptcy of **PJSC Bank FC Otkritie**. Implementation of the plan for the participation of the Bank of Russia in the measures for preventing bankruptcy of PJSC Bank FC Otkritie was ended due to achievement of the financial rehabilitation targets. In 2019, PJSC Bank FC Otkritie paid dividends for 2018 to the Bank of Russia in the amount of $\text{R}2$ billion. Following completion of bankruptcy prevention measures, in 2019, the Bank of Russia began to define a strategy for its exit from capital of PJSC Bank FC Otkritie banking group.¹

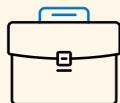
In March 2019, JSC AVB Bank merged with TRUST Bank (PJSC) in accordance with the participation plan, which completed formation of the **Non-core Asset Bank**. During 2019, operations with its assets allowed the Non-core Asset Bank to partially repay the deposits previously raised from the Bank of Russia in the amount of $\text{R}107.2$ billion.

In the first quarter of 2019, the Bank of Russia tested a mechanism for selling shares of credit institutions through an open auction held for the shares of Asian-Pacific Bank (PJSC). The auction was deemed void since none of the admitted bidders took part in the bidding. In April 2019, permanent management



Prevention of PJSC Bank FC Otkritie's bankruptcy was completed after achieving its financial rehabilitation targets; the Bank of Russia is developing a strategy for exiting from capital of PJSC Bank FC Otkritie

¹ In January 2020, investment consultants were invited to prepare proposals for this strategy. Implementation of this strategy should be based on a reasonable balance between the maximum recovery of costs incurred for the financial rehabilitation and the period for exiting from the capital of the group. The main approaches of the Bank of Russia to defining an exit strategy provide for prevention of reduction of competition in each segment of the financial market where the bank and the group members are present and ensuring that the exit of the Bank of Russia from the capital of the group is as transparent as possible for market participants and the public.



The formation of the Non-core Asset Bank was completed

bodies were established in the bank. The bank became profitable in 2019. At the same time, the bank is taking part in court disputes with promissory note holders of LLC Financial Trading Company.¹

In January 2020, the Bank of Russia announced that it would begin to accept notices of interested parties about their intention to participate in the procedures for selling the shares of the Asian-Pacific Bank (PJSC) under the authority provided by Article 189.57-1 of Federal Law No. 127-FZ. After the review of these notices, the Bank of Russia will decide on subsequent ways of selling the shares of the Asian-Pacific Bank (PJSC).

New opportunities provided by Federal Law No. 469-FZ² may be used for selling the shares of Asian-Pacific Bank (PJSC) and PJSC Bank FC Otkritie. The Bank of Russia may sell these shares in full or in part using such methods as a bidding procedure (in the form of a tender or auction), direct sale to one entity, if only one notice about the intention to participate in the selling procedures is received, or exchange trading. Under the previous version of Article 189.57-1 of Federal Law No. 127-FZ, a controlling stake could be transferred to a private investor only through the sale of shares (interests in the authorised capital) at an open auction.

In 2019, the number of credit institutions with regard to which bankruptcy prevention

measures were being taken with the Bank of Russia's participation declined from five to four.

At the beginning of 2019, **measures involving the participation of the DIA** and aimed at preventing bankruptcy were in place for 21 credit institutions.

During 2019:

- JSC Sotsinvestbank, PJSC Krayinvestbank and PJSC Baltiyskiy Bank were merged with the banks acting as their investors – that is, JSC Bank DOM.RF, RNCB Bank (PJSC) and JSC Alfa Bank, respectively;
- DIA decided to terminate its bankruptcy prevention measures with regard to JSCB RUSSIAN CAPITAL (JSC)³ early due to the full implementation of all activities provided for by the participation plan.

With the decision on JSC VOCBANK, in 2019, the number of credit institutions undergoing bankruptcy prevention measures involving participation of DIA declined from 21 to 16.

On 29 January 2020, the Bank of Russia decided to implement measures aimed at improving financial stability of JSC SM BANK. The Bank of Russia Banking Supervision Committee approved the Plan for the DIA's participation in the implementation of measures to prevent the bankruptcy of the bank.

At the end of the reporting period, the balance of DIA's debt to the Bank of Russia on loans received for implementation of bankruptcy prevention measures was ₹1,084.5 billion.⁴ The balance of outstanding deposits provided to credit institutions by the Bank of Russia as part of its financial assistance under the approved plans of the Bank of Russia's participation from FBSC funds was ₹1,706.4 billion (excluding accrued interest). The total value of assets held by banks with approved plans involving participation of the Bank of Russia or DIA in bankruptcy prevention measures totalled ₹7.3 trillion, or 7.5% of the total figure for the entire banking sector.



Bankruptcy prevention measures taken with regard to JSCB RUSSIAN CAPITAL (JSC) have been completed

¹ As of 1 January 2020, 93.5% of decisions were made in favour of promissory note holders. Legal risks associated with these legal disputes are covered by the mechanism created in 2018 for repurchasing assets from the bank through the closed-end mixed unit investment fund Spetsialny under the management of FBSC AMC Ltd.

² Federal Law No. 469-FZ, dated 27 December 2019, 'On Amending Certain Legislative Acts of the Russian Federation'.

³ At the time rehabilitation was completed, the official name of JSCB RUSSIAN CAPITAL (JSC) was JSC Bank DOM.RF.

⁴ Information on the total debt of the DIA to the Bank of Russia is given in [Table 35, Section 5.4 'Statistical Tables'](#).

Loans to non-financial organisations accounted for 7.5% of loans provided by these banks; household loans, for 2.7%; and funds raised from households, for 3.8%. At the same time, the banks in which bankruptcy prevention measures were being implemented with participation of the Bank of Russia accounted for 4.5% of banking sector assets, 5.3% of corporate loans, 1.5% of household loans and 2.2% of household deposits.

In 2019, the Bank of Russia continued its efforts to recover losses caused by the wrongful actions/omissions of persons controlling the credit institution before the start of measures to prevent bankruptcy of the banks through judicial procedures. These efforts were aimed at compensating the Bank of Russia's expenses for the financial rehabilitation of credit institutions as well as at increasing liability of the persons controlling the bank for their decisions. Also, information on operations performed prior to the introduction of provisional administrations to manage the banks which had signs indicating illegal activities that caused damage to the credit institutions was sent to the law enforcement agencies.

An important area of the Bank of Russia's activities in the area of preventing bankruptcy of banks was work of provisional administrations appointed before revocation of banking licences to manage the credit institutions with regard to which there are grounds for taking measures to prevent their bankruptcy.

Overall, in 2019, the Bank of Russia supervised the activities of three provisional administrations appointed to manage credit institutions, two of which were appointed during the reporting period in accordance with the approved plans for the Bank of Russia's participation in implementation of bankruptcy prevention measures, and their functions were assigned to FBSC AMC Ltd.

The activities of three provisional administrations appointed to manage credit institutions were terminated in 2019, two of which were terminated due to the establishment of management bodies and one of which was terminated following reorganisation in the form of a merger.

Moreover, during 2019, 24 credit institutions were eligible for bankruptcy prevention in accordance with Article 189.10 of Federal Law No. 127-FZ; however, neither the Bank of Russia nor the DIA applied any bankruptcy prevention measures to these institutions. Of these:

- seven credit institutions had their banking licences revoked in 2019, and the licences of two credit institutions were revoked in January 2020;
- one credit institution had its banking licence cancelled after obtaining the status of a microfinance company;
- 13 credit institutions independently eliminated the reasons for bankruptcy prevention measures;
- one credit institution reported a reorganisation in the form of the spin-off of two legal entities.

The main reasons why banks were monitored in 2019 for implementation of bankruptcy prevention measures included reduction in the amount of equity (capital) at the end of the reporting month to a level below the amount of authorised capital defined by the founding documents of the credit institution registered in accordance with the procedure established by federal laws and Bank of Russia regulations adopted in accordance therewith (18 credit institutions) and an absolute reduction by more than 20% in the amount of equity (capital) compared to its maximum value achieved over the last 12 months, with simultaneous violation of one of the required ratios set by the Bank of Russia (15 credit institutions) (Clauses 6 and 3 of Article 189.10 of Federal Law No. 127-FZ, respectively).

INFORMATION PROVIDED BY THE BANK OF RUSSIA CHIEF AUDITOR ON THE UTILIZATION EFFICIENCY OF THE FUND OF BANKING SECTOR CONSOLIDATION

In accordance with Article 76.12 of Federal Law No. 86-FZ, the chief auditor of the Bank of Russia evaluates on an annual basis how efficiently the money of the FBSC was used.

For the purposes of this assessment, efficiency means achievement of goals and de-

sired outcomes with the maximum return on available resources at the minimum resource cost.

When determining how efficiently the money of the FBSC was used, the assessment is divided into four stages:

1. Assessing the comparative efficiency of the amount of money allocated by the Bank of Russia vs the extent of damage to the economy if the scenario of the credit institution's bankruptcy materialised;

2. Establishing how optimal the use of resources for the restoration of credit institution's financial indicators was;

3. Assessing how efficiently the resolved credit institution and the Non-core Asset Bank used the funds;

4. Assessing how efficiently the Bank of Russia sold the shares of the credit institution in the existing market conditions.

As of 1 January 2020, ₺2,407.5 billion of FBSC funds was provided for bank resolution, including ₺697.2 billion for the purchase of

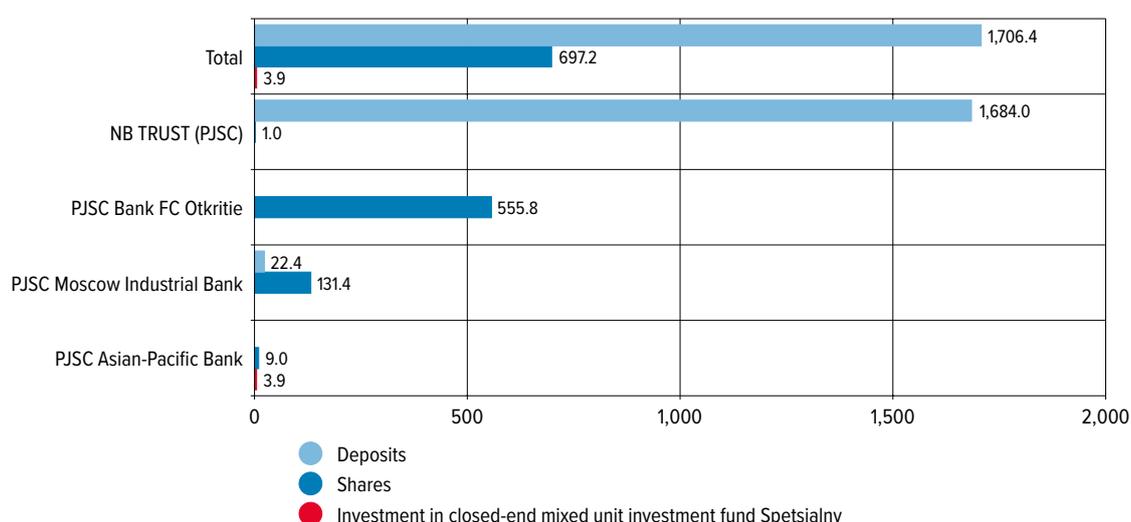
shares, ₺1,706.4 billion for the provision of deposits and ₺3.9 billion for the purchase of units of the closed-end mixed unit investment fund Spetsialny.

Modelling of the bankruptcy scenario for PJSC MInBank and JSC VOCBANK (merged with PJSC MInbank in November 2019), which were placed in 2019 under a bank resolution procedure with the Bank of Russia's participation, demonstrated that the use of FBSC funds in the amount of ₺171.3 billion made it possible to avoid potential damage to the economy in the amount of ₺274.3 billion.¹

Recapitalisation of PJSC MInBank in the amount of ₺128.7 billion and JSC VOCBANK in the amount of ₺2.7 billion (total amount of ₺131.4 billion) enabled compliance of these banks with prudential requirements of the Bank of Russia under the terms stipulated by the plans for Bank of Russia's participation in the resolution of these credit institutions. Financial rehabilitation of PJSC MInBank and JSC VOCBANK involving participation of DIA

**FBSC FUNDS PLACED WITH BANKS
(BILLIONS OF RUBLES)**

Chart 42



¹ The approach to assessment of comparative efficiency is based on examining liabilities of a credit institution as of the date of the decision on its financial rehabilitation based on account balances to analyse potential consequences of default on such liabilities. To calculate direct effect, liabilities of a credit institution were considered in full, excluding liabilities to non-residents, under repo transactions secured by liquid securities, on accounts opened to keep records of money placed in unit investment funds where the sole owner of units is the credit institution and in other similar cases. If the damage for a direct creditor is critical and leads to its bankruptcy, it is necessary to calculate indirect effect, which includes calculation of losses incurred by the creditors of the creditor in accordance with a procedure similar to the one described above. The use of the above approach was limited because the Bank of Russia only had the information received in the course of ongoing supervision of financial institutions, including their reports submitted to the Bank of Russia. This limits the possibilities for analysing the extent of shock for creditors and determining sensitivity of response to it. Therefore, a real shock will be greater, and the actual value of potential losses incurred by economic entities will exceed the value calculated under this methodology.

would have required provision of funds in the amount of ₴267.8 billion on preferential terms for a period of 10 years.

Assessment of efficiency of FBSC funds usage by the resolved credit institutions PJSC Bank FC Otkritie and Asian-Pacific Bank (PJSC) is the professional judgement of the chief auditor's service of the Bank of Russia based on the analysis of known material information on the activities of PJSC Bank FC Otkritie and Asian-Pacific Bank (PJSC) and comparison of their activities with the results of other credit institutions of the Russian Federation to the extent of the comparability of their general conditions of operations (regulatory environment, pace and peculiarities of economic development) in accordance with the methodology used by the chief auditor's service of the Bank of Russia.

As of 1 January 2020, in terms of its total key results, PJSC Bank FC Otkritie was within the limits of standard deviation from the average value for the pool of credit institutions comparable by structure, the 50 nearest banks by assets and the banking sector in general.¹ The results of this assessment provide guidance on the level of opportunities for efficient operations in the Russian banking sector.

Comparison of individual financial ratios of PJSC Bank FC Otkritie revealed that the bank's net interest margin did not reach the median value² for the banking sector. The levels of administrative and personnel costs (the ratio of administrative and personnel costs, respectively, to net income) did not exceed the median value for the banking sector.

Analysis of PJSC Bank FC Otkritie's activities demonstrated that the net interest margin was influenced by the bank's policy of using moderate rates in lending to major and high-grade borrowers amid significant price competition in the market.

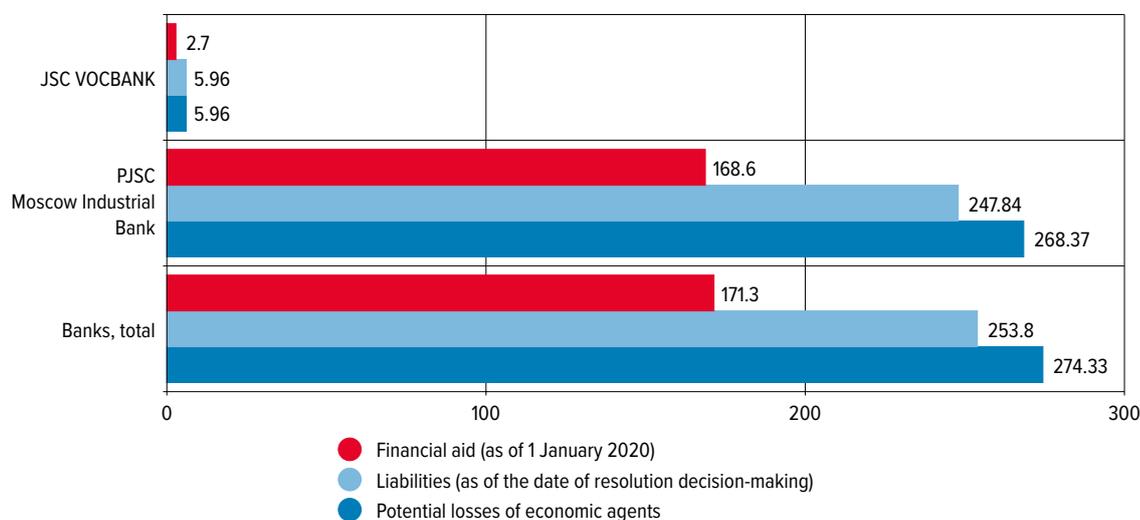
The above considerations allow recognition of activities of PJSC Bank FC Otkritie as efficient in general.

The comparative analysis indicators and key financial ratios of Asian-Pacific Bank (PJSC) were above average and median values in the market, which, in the opinion of the chief auditor's service of the Bank of Russia, indicated the efficiency of the bank's activities.

Annual assessment of efficiency of PJSC MInBank is conducted starting in 2020 due to the fact that the financial indicators of the bank for 2019 were not representative for the analysis because it started financial rehabilitation

**FBSC FUNDS USED AND LIABILITIES OF BANKS. ESTIMATED IMPACT ON THE ECONOMY
IN CASE OF BANK BANKRUPTCY SCENARIO (BILLIONS OF RUBLES)**

Chart 43



¹ Excluding PJSC Sberbank, VEB.RF, NCIs, CIs with a basic licence, CIs undergoing resolution and CIs that are not participants of the deposit insurance system.

² The corresponding figures for the credit institution holding the median position in the ranked list.

and was establishing new business processes and undergoing transformations due to its merger with JSC VOCBANK on 29 November 2019.

The purpose of TRUST Bank (PJSC) (the 'Non-core Asset Bank') is to ensure the maximum possible repayment of funds provided from FBSC through compensation received following resolution of non-core assets, including troubled assets, by the bank on an arm's-length basis.

To assess efficiency of the use of the Non-core Asset Bank's funds provided from FBSC, two essential criteria were applied: maximisation of proceeds from resolution of the assets and minimisation of costs incurred for the maintenance and sale of assets. Assessment of efficiency is a professional judgement by the chief auditor's service of the Bank of Russia driven by the analysis of activities conducted by the Non-core Asset Bank, including assessment of resolution of the most significant assets by the Non-core Asset Bank and justification of key cost items in accordance with the methodology used by the chief auditor's service of the Bank of Russia.

As of 1 January 2019, the book value of assets held by the Non-core Asset Bank before deducting provisions for possible losses was ₹1,797.3 billion; as of 1 January 2020, this figure was ₹2,074.9 billion (taking into account the merger with JSC AVB Bank on 7 March 2019). Based on the quality of assets, the fair value of assets (valuation of assets in accordance with the requirements of IFRS 9 Financial Instruments less provisions¹ and in-

cluding revaluation²) was ₹236.2 billion as of 1 January 2020.³

In view of the identified risks, the resolution of assets by the Non-core Asset Bank provides for the phased collection of funds (proceeds) in the amount of ₹482 billion⁴ by the end of 2023.

It is expected that the surplus of proceeds over the fair value of assets will be achieved through development and implementation of strategies for resolution of assets by increasing the value and economic attractiveness of assets, including through their additional financing,⁵ by maximising the collection of troubled debts and receipts from the sale of assets and minimising costs. Depending on the methods used to recover the funds, the strategies of the Non-core Asset Bank can be divided into default and non-default strategies.⁶

To maximise the recovery of funds from the resolution of assets, the strategies of the Non-core Asset Bank are developed for the assets combined in projects (including the assets of subsidiaries and affiliates) based on the judgement of the Non-core Asset Bank on their interconnectedness (450 projects with a book value of assets exceeding ₹400 million⁷). Strategies include calculations for projected proceeds from each project.

In 2019, the Non-core Asset Bank received ₹108.4 billion in proceeds⁸ from the resolution of assets, and the expenses incurred in the activities of the Non-core Asset Bank amounted to ₹7.6 billion, including ₹5.4 billion in personnel costs; the Bank of Russia's deposits were repaid in the amount of ₹107.2 billion

¹ In accordance with Article 24 of Federal Law No. 395-1, to ensure its financial soundness, a credit institution must create provisions (including for depreciation of securities), the procedure for the formation and use of which is established by the Bank of Russia.

² In accordance with Clause 12.11 of Part I of Regulation on the Chart of Accounts for Accounting Purposes in Credit Institutions and the Procedure for Using It No. 579-P, dated 27 February 2017, assets are entered in the accounts at their initial value and are subsequently measured (revalued) at their fair value, at cost or by creating provisions for possible losses.

³ These figures take into account events after the reporting date.

⁴ According to the approximate schedule of funds (proceeds) to be received by the Non-core Asset Bank as a result of the resolution of troubled assets, which is an addendum to the Plan for the Bank of Russia's Participation in Bankruptcy Prevention Measures for Public Joint-stock Company National Bank TRUST.

⁵ For an existing business and in order to generate the maximum return and maximise the value of its sale in the future.

⁶ The default strategy provides for enforced debt recovery using legally established procedures. Non-default strategies are based on the continuity of the debtor's financial and economic activities, and the debt is usually repaid through cash flows from the debtor's operating activities or by selling property to third parties.

⁷ Projects with a book value of over ₹400 million account for more than 95% of forecasted proceeds.

⁸ Excluding the funds allocated for additional financing and payouts to bankruptcy assets as part of the borrower's bankruptcy proceedings when the borrower's property is entered into the balance sheet in accordance with Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)'.

and the interest paid on these deposits was ₹10.2 billion.

As of 1 January 2020, the Non-core Asset Bank completed 26 projects with a book value of assets exceeding ₹400 million and proceeds amounting to ₹42.1 billion, which was 45% more than the target for 2019. Overall, the assessment of completed projects makes it possible to confirm that the Non-core Asset Bank managed them efficiently.

Selective analysis of the Non-core Asset Bank's expenditures for 2019 based on the relevance of individual cost items and specific costs also confirmed their overall justification.

It should be noted that the Non-core Asset Bank handles the entire asset portfolio, with the proceeds coming mainly from the projects that do not require lengthy court and other proceedings. In the future, the flow of proceeds may decline amid higher costs of asset resolution, including those related to court-enforced collection.

MEASURES FOR PREVENTING THE BANKRUPTCY OF INSURANCE COMPANIES

In 2019, provisional administrations were appointed and operated in three insurance companies. Their appointment was not associated with revocation of licences. These provisional administrations ceased operations during 2019 due to elimination of identified violations.

In 2019, implementation of bankruptcy prevention measures and a solvency recovery plan, as provided for by Article 184.16 of Federal Law No. 127-FZ,¹ was monitored in 18 insurance companies:

- 11 insurance companies fulfilled their solvency recovery plans (later, one of them had its licence revoked due to voluntary withdrawal from insurance activities, as provided for by the solvency recovery plan);
- seven insurance companies had their licences revoked due to their failure to implement the solvency recovery plan.

¹ Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)'.

2.2.7. TERMINATION OF FINANCIAL INSTITUTIONS

CREDIT INSTITUTIONS

As of 1 January 2019, there were 16 operating provisional administrations of credit institutions appointed following the revocation of credit institutions' licences.

In 2019, 28 provisional administrations of credit institutions were appointed following revocation of licences. Activities of 36 provisional administrations of credit institutions appointed following revocation of licences were terminated.

As of 1 January 2020, there were eight operating provisional administrations of credit institutions appointed following revocation of banking licences.

As of 1 January 2020, the Bank of Russia was monitoring termination of 385 credit institutions.

Out of these 385 credit institutions subject to liquidation, 349 credit institutions were deemed insolvent (bankrupt) and had bankruptcy proceedings initiated, including 18 credit institutions deemed bankrupt in 2019 (two of these credit institutions were subject to enforced liquidation under previously adopted arbitration court rulings). Arbitration courts ruled on the forced liquidation of 33 credit institutions, including rulings on the forced liquidation of 18 credit institutions handed down in 2019. Furthermore, three credit institutions underwent voluntary liquidation based on the decisions of their founders.

As of 1 January 2020, liquidation of 368 credit institutions was being carried out by the state corporation Deposit Insurance Agency (DIA), which included 344 credit institutions where DIA acted as a receiver and 24 where it acted as a liquidator.

As of 1 January 2020, liquidation proceedings had been completed in 412 credit institutions which had their banking licences revoked (cancelled) after 2004 when the institution of the corporate liquidator was established. According to the reports submitted to the Bank of Russia, claims of creditors of these credit institutions were satisfied on average in 39.7% of instances, including 61.1% for the claims of

first-priority creditors. In the liquidated credit institutions where the DIA acted as a receiver (liquidator), creditors' claims were satisfied on average in 41.7% of instances, including 60.4% for the claims of first-priority creditors.

In 2019, based on the decisions adopted by the Bank of Russia, the registering authority made entries on the state registration of liquidation in the Unified State Register of Legal Entities with regard to 34 credit institutions.

In 2019, the Bank of Russia conducted 64 inspections in accordance with the Consolidated Plan of Inspections of Receivers of Credit Institutions. In addition, there were seven unscheduled inspections. 66 inspections were focused on the activity of the DIA, while five inspections focused on the activity of receivers duly accredited by the Bank of Russia as receivers in the bankruptcy of credit institutions.

In 2019, 22 receivers were accredited with the Bank of Russia as receivers of bankrupt credit institutions, and accreditation of another 32 receivers was extended. Furthermore, one receiver was denied accreditation due to its incompliance with the terms of accreditation, and one receiver's accreditation was cancelled due to the breach of the terms of accreditation.

As of 1 January 2020, 54 receivers were accredited with the Bank of Russia.

NON-GOVERNMENTAL PENSION FUNDS

In 2019, the Bank of Russia cancelled three licences at the request of non-governmental pension funds (NPFs).

As of 1 January 2020, liquidation procedures were under way in 48 NPFs, including bankruptcy proceedings in 30 NPFs (seven NPFs were recognised as bankrupt in 2019), and forced liquidation procedures were being implemented in 18 NPFs (in 2019, decisions on forced liquidation were made in respect of five NPFs). In 31 NPFs, liquidation procedures were being conducted by the DIA, including 29 where the DIA was acting as a receiver and two where it was acting as a liquidator. In 2019, liquidation procedures were completed in 13 NPFs.

As of 1 January 2020, 39.43% of the Bank of Russia's claims acquired as a result of funds transfers to the Pension Fund of the Russian Federation in 2015–2018, including receipts in 2019, were satisfied (₽26,367,287,300).

INSURANCE ENTITIES

During 2019, the Bank of Russia revoked the insurance licences of 26 insurance entities, including 19 insurance companies (of which nine had their licences revoked in connection with voluntary withdrawal from the insurance business), six insurance brokers (of which three had their licences revoked in connection with voluntary withdrawal from the insurance business) and one mutual insurance company.

As of 1 January 2019, five provisional administrations were operating in the insurance companies after their licences had been revoked.

In 2019, 11 provisional administrations of insurance companies were appointed following revocation of licences. 11 provisional administrations of insurance companies were terminated.

As of 1 January 2020, five provisional administrations were operating in the insurance companies after their licences of these companies had been revoked. DIA acted as a receiver in 28 insurance companies recognised as insolvent (bankrupt).

In 2019, the Bank of Russia conducted seven inspections in accordance with the Consolidated Plan of Inspections of Receivers of Insurance Companies.

INVESTMENT FUNDS

In 2019, the Bank of Russia approved 117 reports on termination of unit investment funds and the exclusion of these funds from the corresponding register.

SPECIALISED DEPOSITORIES

In 2019, the Bank of Russia cancelled two licences upon applications of specialised depos-

itories. One licence of a specialised depository was terminated due to reorganisation.

As of 1 January 2019, two provisional administrations were operating in specialised depositories.

No provisional administration of a specialised depository was appointed or terminated by the Bank of Russia in 2019.

MANAGEMENT COMPANIES

In 2019, the Bank of Russia cancelled eight licences of management companies for violations of requirements established by the laws of the Russian Federation and 14 licences upon applications of management companies; one licence was terminated due to reorganisation.

As of 1 January 2019, three provisional administrations were operating in management companies.

During 2019, after cancelling the licences of management companies, the Bank of Russia appointed two provisional administrations of management companies due to the termination of management of current operations in the management company and one provisional administration due to the failure of the management company to perform its obligation provided for by Sub-clause 1 of Clause 15 of Article 61.2 of Federal Law No. 156-FZ, dated 29 November 2001, 'On Investment Funds'.

Four provisional administrations of management companies were terminated in 2019.

As of 1 January 2020, two provisional administrations were operating in management companies.

PROFESSIONAL SECURITIES

MARKET PARTICIPANTS

In 2019, 162 licences for professional activities in the securities market¹ were cancelled for 80 professional securities market participants (PSMPs), of which 66 PSMPs terminated their professional activities on the securities market.

¹ The Bank of Russia decided to cancel 43 brokerage licences; 49 dealer licences; 32 securities management licences; 35 depository licenses and 3 registrar licences; in particular, Bank of Russia cancelled 67 licences due to violations, 65 licences were cancelled upon applications of their holders, 15 licences for professional activities in the securities market were cancelled due to the revocation of the banking licence, 5 licences were cancelled due to their holders' inactivity for more than 18 months and 10 licences were terminated due to reorganisation or liquidation.

During 2019, the Bank of Russia monitored the termination of operations in 32 non-bank financial institutions acting as professional securities market participants (including five forex dealers). The Bank of Russia worked on regulating the procedures associated with the return of property to the customers of PSMPs whose licences had been cancelled. For 29 PSMPs which provided documentary evidence of the return of property to their customers under their respective professional activity:

- obligations to return securities were fulfilled by 99.7% (489.3 billion items);
- obligations to return cash were fulfilled by 60.4% in rubles (₽1.2 billion) and 42.5% in US dollars (\$514,600).

In 10 PSMPs which failed to fulfil their obligations to customers under professional activities in the securities market within the established period, grounds were identified for forced liquidation following legal actions taken by the Bank of Russia.

In 2019, the Bank of Russia completed its monitoring activities with regard to one provisional administration of a PSMP that had been appointed by the Bank of Russia in 2018, following the recognition of that PSMP as bankrupt and appointment of a receiver by an arbitration court. No provisional administrations were appointed by the Bank of Russia in PSMPs in 2019.

MICROFINANCE MARKET ENTITIES

In 2019, the Bank of Russia appointed two provisional administrations in credit consumer cooperatives (CCCs) which are major participants in the microfinance market and limited the powers of the CCCs' executive bodies. Based on a petition submitted by the provisional administration, one CCC was declared bankrupt by an arbitration court, and bankruptcy proceedings were initiated against it.

Under its authority to monitor and supervise microfinance market entities, in 2019, the Bank of Russia petitioned the courts to recognise as bankrupt one legal entity that had lost its MFO status in the form of a microfinance company and three CCCs, which were major participants in the microfinance market, in accordance with the procedure provided for by Federal Law No. 127-FZ.¹ After considering the petitions of the Bank of Russia, the courts decided to place one legal entity that had lost the status of an MFO in the form of a microfinance company under an observation procedure and to recognise three CPCs as bankrupt and initiate bankruptcy proceedings against them.

One provisional administration of a CPC was operating as of 1 January 2020.

In 2019, 943 microfinance market entities were excluded from the Unified State Register of Legal Entities.

¹ Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)'.

2.2.8. COUNTERING MALPRACTICE IN THE FINANCIAL MARKET

In accordance with the guidelines for the development of the financial market, the Bank of Russia continued its activities of building an environment of trust in the financial market, including by means of countering misconduct and preventing and suppressing legal offences. Considerable attention was given to building a high-quality dialogue with market participants and further developing efficient interagency collaboration.

The Bank of Russia continued its efforts to improve the processes of identifying and **suppressing the misuse of insider information and market manipulation in Russian exchange trading** (see [Table 37 in Section 5.4 'Statistical Tables'](#)). In 2019, the total number of inspections for misuse of insider information and market manipulation declined slightly, but their complexity increased.

As part of developing the Situation Centre for Monitoring Exchange-Trading Markets, a hardware and software system for operational monitoring of the financial market (the 'System') began to operate on a continuous basis using real-time data from PJSC Moscow Exchange. During its test mode operation, the System proved to be highly efficient in quickly identifying non-standard operations with signs indicating potential misuse of insider information or market manipulation. The System makes it possible to receive operational information on exchange trading which is used, in particular, by the management of the Bank of Russia.

In 2019, the Bank of Russia continued to monitor the quality of recognised financial indicators, including the MOEX USD/RUB FX Fixing¹ (administered by PJSC Moscow Exchange, the 'fixing'), to prevent the possible misuse of these indicators. The fixing calculation model

implemented in 2018 by the Situation Centre enabled full daily verification of fixing calculation by the administrator and assessment of the quality of the price process in the fixing calculation interval in 2019, including for signs indicating potential misconduct.

The Bank of Russia also continued to exchange information, including confidential information, with foreign financial market regulators (see [Table 40 in Section 5.4 'Statistical Tables'](#)).

Following the inspections conducted in 2019, there were more cases when the Bank of Russia applied such last-resort measures against supervised organisations and individuals as cancelling financial market participant licences and financial market specialist qualification certificates for legal offences related to market manipulation.

In 2019, a court handed down the first conviction in Russia in a criminal case involving market manipulation.² The Bank of Russia has devoted much attention to identifying and investigating cases of market manipulation and misuse of insider information since it was given the functions of a financial market mega-regulator. It has built efficient collaboration with law enforcement agencies in this area. One more criminal case involving charges of market manipulation is currently being tried in court.

In 2019, for the first time, the Bank of Russia ordered a management company to compensate for actual losses incurred when one of its employees manipulated the markets of a number of financial instruments, as established during an inspection conducted by the Bank of Russia. The money was reimbursed to the non-governmental pension fund by the man-



The first verdict in a criminal case involving market manipulation was handed down by a court based on materials provided by the Bank of Russia

¹ A US dollar to ruble exchange rate fixing.

² Article 185.3 of the Criminal Code of the Russian Federation 'Market manipulation'.

agement company. Inspection materials were submitted to law enforcement agencies.

The Bank of Russia continued to monitor the quality of operations in the Pricing Centre of the Non-bank Credit Institution Joint-stock Company National Settlement Depository (the 'NSD Pricing Centre') for determining the value of ruble-denominated bonds. In 2019, the Bank of Russia deemed the quality of operations of the Pricing Centre in determining the value of eurobonds of the Government of the Russian Federation to be satisfactory.

Amendments to the law on misuse of insider information and market manipulation¹ aimed at improving the system for countering misuse of insider information and market manipulation came into effect on 1 May 2019. In connection with this, one of the most important activity areas of the Bank of Russia was to bring its bylaws into line with these amendments.



The Bank of Russia updated its requirements for countering insider dealing and manipulation

In particular, during the reporting period, the Bank of Russia established requirements for internal control rules for preventing, detecting and suppressing misuse of insider information and market manipulation.² These requirements are intended to contribute to the development of an effective system for countering violations of the laws on misuse of insider information

and market manipulation by the subjects of the relevant law.

To prevent unfair conduct in the Russian financial market, including through the provision of information that may be used for relevant transactions, the Bank of Russia continued its efforts to promote fair conduct in the financial market and recommended that financial market participants adopt codes of ethics for financial analysts.³

The Bank of Russia issued a number of guidelines⁴ so that trade organisers could develop qualitative criteria for material irregularities in the parameters of financial derivatives and securities trading enabling them to efficiently detect cases of market manipulation in the relevant exchange trading.

In 2019, the State Duma passed in the first reading the second draft law required to establish the institution of an agreement with the regulator (the Bank of Russia) as the grounds for release from administrative liability for misuse of insider information and/or market manipulation.⁵ The draft law is aimed at improving collaboration between the Bank of Russia and market participants to counteract the misuse of insider information and market manipulation as well as to reduce the costs on court proceedings in cases of administrative offences.

In developing Bank of Russia regulations aimed at implementing legal provisions on insider trading and manipulation,⁶ the Bank of Russia collaborated extensively with financial market participants by holding meetings at

¹ Federal Law No. 224-FZ, dated 27 July 2010, 'On Countering the Misuse of Insider Information and Market Manipulation and Amending Certain Laws of the Russian Federation'.

² Bank of Russia Ordinance No. 5222-U, dated 1 August 2019, 'On Requirements for Internal Control Rules to Prevent, Detect and Suppress the Misuse of Insider Information and (or) Market Manipulation of Legal Entities Indicated in Clauses 1, 3–8, 11 and 12, Article 4 of Federal Law No. 224-FZ, Dated 27 July 2010, 'On Countering the Misuse of Insider Information and Market Manipulation and Amending Certain Laws of the Russian Federation'.

³ Information letter No. IN-06-39/93, dated 17 December 2019 (see 'Countering Unfair Practices / Legal Acts / Information letter on the development and implementation of codes of ethics for financial analysts' on the Bank of Russia website; see also The Bank of Russia Bulletin No. 1–2, dated 9 January 2020).

⁴ Bank of Russia [Methodological Recommendations](#) No. 6-MR, dated 11 March 2019, on setting criteria for the material divergence of financial derivatives trading volume; Bank of Russia Methodological Recommendations No. 7-MR, dated 11 March 2019, on setting criteria for the material divergence of securities trading volume; Bank of Russia Methodological Recommendations No. 8-MR, dated 11 March 2019, on criteria for the material divergence of price, demand and supply of illiquid securities.

⁵ Draft Federal Law No. 564013-7 'On Amending Article 76.3 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and the Federal Law 'On Countering the Misuse of Insider Information and Market Manipulation and on Amending Certain Legislative Acts of the Russian Federation' (adopted by the State Duma in the first reading on 9 April 2019). The first draft law from that package (draft Federal Law No. 220190-7 'On Amending the Russian Federation Code of Administrative Offences') was passed by the State Duma in the first reading on 10 July 2018.

⁶ Federal Law No. 224-FZ, dated 27 July 2010, 'On Countering the Misuse of Insider Information and Market Manipulation and Amending Certain Laws of the Russian Federation'.

the venues of the Forum Analytical Centre, self-regulatory organisations in the financial market, associations, unions and other societies and infrastructure organisations of the financial market.

For example, to improve the institution of market making, representatives of the Bank of Russia discussed the needs of the market with financial market participants. As a result of that discussion, the Bank of Russia began to develop a regulatory act establishing the procedure and terms for the activities of market makers. In addition, during 2019, the Bank of Russia held regular meetings with financial market participants to explain innovations in the legislation on misuse of insider information and market manipulation.¹

Legislative initiatives on the misuse of insider information and market manipulation were also considered by the Bank of Russia Working Group to streamline the regulatory burden on financial market participants. In particular, as part of these efforts, establishing a correlation between the procedure and period for the disclosure of insider information by the issuers of issue-grade securities and the procedure and period for the disclosure of information on the securities market was deemed expedient.

In 2019, the Bank of Russia continued its activities to **counter illegal activities in the financial market** to protect financial consumers from illegal participants and prevent unfair competition in the financial market.



1,845 illegal lenders and 237 financial pyramid schemes were identified in 2019

After reviewing information received from various sources and identified proactively, the Bank of Russia found signs of illegal activity in 2,600 entities, which was 7% less than the number of such entities identified in 2018

(2,772). The bulk of these illegal financial market participants (1,845, or 19.5% less than in 2018 when there were 2,293 such entities) includes entities that allegedly were engaged in illegal lending activities associated with unlawful lending to households.

In 2019, 41% more financial pyramid schemes were identified compared to 2018 (a total of 237 entities with such attributes; in 2018, there were 168), which was due, among other things, to the launch of the Competence Centre for Counteracting Financial Pyramid Schemes (Khabarovsk). 55 financial pyramid schemes were established in the form of internet projects; 88 as limited liability companies; 39 as credit consumer cooperatives; 21 as consumer cooperatives; 8 as consumer partnerships; 26 in other legal forms. In addition, the Competence Centre helped quickly identify 80 inert internet projects at the initial stage of forming a financial pyramid scheme.

The signs indicating the activities of illegal forex dealers, illegal brokers, pseudo-banks and other unlawful activities in the financial market were detected in 438 entities (40.7% more than in 2018 when there were 311 such entities).

For more information on the types of entities in which the Bank of Russia identified the signs of illegal activities in the financial market in 2019, see also [Table 39 in Section 5.4 'Statistical Tables'](#).

To initiate appropriate response measures, the Bank of Russia sent 5,350 letters to various authorities, almost twice as many as in 2018 (2,783 letters). If necessary, information on the same entity was sent to several authorities. According to available information, the number of response measures taken by various authorities in 2019 following the letters from the Bank of Russia increased almost fourfold to 2,896 (770 in 2018), including:

- nearly 200 criminal cases initiated under the articles 'Fraud',² 'Misappropriation or embezzlement',³ 'Illegal entrepreneurship',⁴

¹ Federal Law No. 224-FZ, dated 27 July 2010, 'On Countering the Misuse of Insider Information and Market Manipulation and Amending Certain Laws of the Russian Federation'.

² Article 159 of the Criminal Code of the Russian Federation.

³ Article 160 of the Criminal Code of the Russian Federation.

⁴ Article 171 of the Criminal Code of the Russian Federation.

- ‘Organisation of activities for raising funds and/or other property’¹ and ‘Illegal use of documents to establish (create, reorganise) a legal entity’² of the Criminal Code of the Russian Federation;
- more than 1,000 cases of administrative offences were initiated under various articles of the Russian Federation Code of Administrative Offences, most of which were under the article ‘Illegal exercise of professional activity for granting consumer loans’³ of the Russian Federation Code of Administrative Offences;
 - nearly 1,400 other response measures were taken (such as excluding legal entities from the Unified State Register of Legal Entities, deregistration of websites, etc.).

It should be noted that one of the responses with regard to illegal financial market participants is deregistration of a website domain name. Information on such websites is forwarded to the Financial Sector Computer Emergency Response Team of the Bank of Russia Information Security Department (FinCERT) to take this enforcement measure. The Bank of Russia Information Security Department provides information on such websites to the Coordination Centre for .RU/.РФ domains to ensure their subsequent deregistration.

Overall, in 2019, FinCERT provided information for deregistration of 1,746 websites of organisations offering financial services in areas of activity being carried out without relevant permits (licences).

In 2019, as part of its combat against fraud in the insurance market, the Bank of Russia continued to implement the [Concept for Counteracting Malpractices in the Financial Market](#) published in 2018.

Efforts were made to improve the use of the unified automated information system ‘Insurance History Bureau’.⁴ Accessibility of the Insurance History Bureau for insurers was increased by lowering the inquiry cost, and

reliability of its data was improved. The period established for submission of data to the Insurance History Bureau is being gradually reduced. Financial penalties have been established for incomplete or unreliable uploads.

In September 2019, regional monitoring was launched with regard to the risks of misconduct in CMTPLI based on the analysis of several indicators in the activities of insurance companies and corresponding risk profiling of the constituent entities of the Russian Federation by the extent and dynamics of adverse factors associated with fraudulent and other illegal activities. The results of regional monitoring are used to take appropriate measures and will be published on the Bank of Russia website on a quarterly basis.

With the assistance of the Bank of Russia, the associations of insurers of Russia (ARIA), Belarus (BIA) and Kazakhstan (KIA) signed a memorandum to set up prompt exchange of information to counter insurance fraud.

In 2019, the Bank of Russia **worked extensively with the law enforcement agencies** to prosecute those guilty of committing unlawful acts identified through the activities of provisional administrations appointed by the Bank of Russia in financial institutions after the revocation/cancellation of their licences. For example, in 2019, the Bank of Russia submitted 41 statements to law enforcement agencies with regard to identified signs of criminal acts committed against 32 financial institutions with revoked/cancelled licences.

To prevent the further operation of entities with an unsatisfactory business reputation in the financial market, in 2019, the Bank of Russia included 1,938 entities in the database maintained under Articles 75 and 76.7 of Federal Law No. 86-FZ, dated 10 July 2002, ‘On the Central Bank of the Russian Federation (Bank of Russia)’. As of 1 January 2020, the total number of entities in the database was 7,504.

¹ Article 172.2 of the Criminal Code of the Russian Federation.

² Article 173.2 of the Criminal Code of the Russian Federation.

³ Article 14.56 of the Russian Federation Code of Administrative Offences.

⁴ A unified automated information system containing information on insurance agreements by type of insurance provided for by Sub-clauses 6 and 14 of Clause 1 of Article 32.9 of Law of the Russian Federation No. 4015-1, dated 27 November 1992, ‘On the Organisation of the Insurance Business in the Russian Federation’, insurance events and other information on insurance.

To improve the quality of **interagency collaboration**, in June 2019, the Bank of Russia organised and held the first all-Russian interagency meeting on the Organisation of Activities to Identify and Suppress Illegal Operations in the Financial Market, which discussed the problems of countering the activities of black market lenders, illegal forex dealers and financial pyramid schemes, as well as potential measures aimed at limiting the advertising of illegal financial services. The meeting was attended by representatives of the Prosecutor's Office of the Russian Federation, the Ministry of Internal Affairs of the Russian Federation, the Federal Tax Service, the Federal Antimonopoly Service, Rosfinmonitoring and Rospotrebnadzor at the level of both head offices and regional representative offices of these agencies. In addition, the meeting was attended by representatives of public and non-profit organisations, such as the Federal Foundation for the Protection of Investors' and Shareholders' Rights, the Association for Financial Literacy Improvement, the All-Russian People's Front and the Russian Banking Association.

Furthermore, in 2019, employees of Bank of Russia divisions counteracting illegal activities took part in 115 various interagency working groups on counteracting illegal activities in the economy and the financial market. Participation of regional units of agencies made it possible to raise issues of regional specifics in the spread of illegal activities in the financial market and share experiences on how to counteract them.

A proposal was submitted to the Office of the Prosecutor General of the Russian Fede-

ration to take additional measures aimed at strengthening collaboration between regional prosecutor's offices and the Bank of Russia's regional branches to identify and suppress offences in the financial market.

Amendments to the laws of the Russian Federation that came into force on 28 January 2019 were aimed, in particular, at counteracting activities of illegal lenders by establishing a new approach to identifying illegal consumer lending activity and by prohibiting legal entities and individuals from requiring borrowers to perform their obligations under a consumer loan agreement, if such loan was provided by an illegal financial market participant.

A law on 'binary options'¹ adopted at the end of 2019 amended current laws to provide for enforcement measures against professional securities market participants who illegally organise and conduct gambling activities and lotteries. The relevant amendments came into force on 28 March 2020.

A draft law providing for restricting access to the websites used to distribute information related to the offer and/or provision of financial services specified in Federal Law No. 135-FZ, dated 26 July 2006, 'On the Protection of Competition' within the Russian Federation by persons not entitled to provide them in accordance with the laws of the Russian Federation as well as information related to financial pyramid schemes,² at the request of the Bank of Russia (out-of-court blocking), was further developed for submission to the State Duma for consideration in the second reading.

¹ Federal Law No. 495-FZ, dated 27 December 2019, 'On Amending Articles 6.1 and 39.1 of the Federal Law 'On the Securities Market' and the Federal Law 'On State Regulation of the Organisation and Conduct of Gambling Activities and Amending Certain Laws of the Russian Federation'.

² Draft Law No. 605945-7 'On Amending the Federal Law 'On Information, Information Technology and Information Protection' and the Code of Civil Procedure of the Russian Federation' (adopted by the State Duma in the first reading on 24 January 2019).

2.2.9. FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

In 2018, the Bank of Russia continued to implement measures to liberalise Russian foreign exchange legislation to simplify foreign exchange control procedures for foreign trade participants.

For example, with the participation of the Bank of Russia, a number of conceptual amendments were introduced to Federal Law No. 173-FZ, dated 10 December 2003, 'On Foreign Exchange Regulation and Foreign Exchange Control' to provide for:

- the Bank of Russia's authority to review the FTS approved a list of residents recognised as compliant with the requirement to repatriate funds to the Russian Federation due to the introduction of restrictive measures against them;¹
- liberalisation of restrictions on foreign currency operations carried out by residents through accounts (deposits) with banks outside the Russian Federation;²
- gradual (from 1 January 2020 to 1 January 2024) abolition of the requirement to repatriate export revenue in the currency of the Russian Federation under foreign trade contracts;³
- the option for residents to use transferable letters of credit as a form of settlement in foreign exchange transactions with non-residents as part of foreign trade activities.⁴

To relieve banks of the obligation to re-submit copies of contracts to the customs authorities during customs inspections if they were previously submitted in accordance with currency legislation,⁵ the Bank of Russia introduced a requirement that electronic messages containing copies of contracts accepted for accounting (service) and amendments thereto, sent to the customs and tax authorities so that such authorities can fulfil the functions of foreign exchange control bodies,⁶ be signed with the authorised bank's enhanced qualified electronic signature.

To provide for accounting of the foreign trade agreements (contracts) exempted from repatriation of the currency of the Russian Federation starting from 1 January 2020 due to the adoption of Federal Law No. 265-FZ,⁷ the Bank of Russia together with the FCS and the FTS informed credit institutions and foreign trade participants of approaches to foreign exchange control maintained in relation to such foreign trade agreements (contracts).⁸

In 2019, the amount of cash foreign currency purchased by households from the authorised banks declined by 24% compared to 2018, totalling \$27.4 billion (hereinafter and until the end of this section, figures are provided in their US dollar equivalent). FX sales to authorised banks decreased by 29% to \$13.5 billion.

¹ Federal Law No. 246-FZ, dated 26 July 2019, 'On Amending Article 19 of the Federal Law 'On Foreign Exchange Regulation and Foreign Exchange Control'.

² Federal Law No. 265-FZ, dated 2 August 2019, 'On Amending the Federal Law 'On Foreign Exchange Regulation and Foreign Exchange Control' Regarding the Liberalisation of Restrictions on Foreign Currency Operations Carried out by Residents through Accounts (Deposits) with Banks Outside the Russian Federation and Repatriation of Funds'.

³ With the exception of foreign trade agreements (contracts) between residents participating in the budget process at the federal level, federal state budget-financed (autonomous) organisations, federal state unitary enterprises and non-residents.

⁴ Federal Law No. 341-FZ, dated 16 October 2019, 'On Amending Article 19 and 23 of the Federal Law 'On Foreign Exchange Regulation and Foreign Exchange Control' Regarding Foreign Currency Operations between Residents and Non-residents with the Use of Transferable Letters of Credit'.

⁵ Pursuant to Article 242 of Federal Law No. 289-FZ, dated 3 August 2018, 'On Customs Regulation in the Russian Federation and on Amending Certain Laws of the Russian Federation', during customs inspections, the customs authorities shall not request documents related to the activities of the organisations being inspected, including certified copies of contracts (agreements), if they have been received in electronic form from banks and other credit institutions in accordance with the foreign exchange legislation of the Russian Federation and signed with the enhanced qualified electronic signature of a bank (or another credit institution).

⁶ Bank of Russia Ordinance No. 5139-U, dated 6 May 2019, 'On Amending Bank of Russia Ordinance No. 4512-U, Dated 30 August 2017, 'On the Scope and Procedure for Authorised Banks Operating as Foreign Exchange Control Agents to Submit Information to Foreign Exchange Control Agencies'.

⁷ Federal Law No. 265-FZ, dated 2 August 2019, 'On Amending the Federal Law 'On Foreign Exchange Regulation and Foreign Exchange Control' Regarding the Liberalisation of Restrictions on Foreign Currency Operations Carried out by Residents through Accounts (Deposits) with Banks Outside the Russian Federation and Repatriation of Funds'.

⁸ Information Letter of the Bank of Russia, the Federal Customs Service and the Federal Tax Service No. IN-014-12/102, No. 01-28/440, No. OA-4-17/26935@ 'On Foreign Exchange Control Requirements for Foreign Trade Contracts in View of Adopted Federal Law No. 265-FZ, Dated 2 August 2019'.



Work on liberalising the foreign exchange legislation of the Russian Federation for foreign trade participants was continued

Net demand for cash foreign currency (the difference between the amounts of cash foreign currency sold to households and withdrawn from their foreign currency accounts and amounts of cash foreign currency purchased from households and credited to their accounts) declined by 34% compared to 2018 and stood at \$13.7 billion. In this context, aut-

horised banks reduced the amount of foreign currency imported into Russia more than the amount of exported foreign currency. Overall, in 2019, \$25.5 billion in cash foreign currency was imported, down by 37% compared to 2018. The export of cash foreign currency by authorised banks declined by 11% compared to 2018 to \$11.6 billion.

2.2.10. COUNTERING THE LEGALISATION (LAUNDERING) OF CRIMINALLY OBTAINED INCOMES AND THE FINANCING OF TERRORISM

In 2019, 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' ('Federal Law No. 115-FZ'). Special attention was given to enhancing effectiveness of the system of countering legalisation (laundering) of criminally obtained incomes and financing of terrorism (AML/CFT).

In 2019, a number of conceptual changes were introduced to Federal Law No. 115-FZ, with the direct participation of the Bank of Russia, to bring national legislation in line with international AML/CFT standards, in particular:

- a mechanism was established for the exchange and use of identification information by organisations forming part of a banking group (bank holding company) engaged in transactions with cash or other property;¹
- insurance companies were granted the right to delegate identification and the right to conduct simplified identification;²
- all microfinance organisations (MFOs) were granted the right to delegate identification of customers and simplified identification of retail customers to credit institutions

(previously only MFCs had this right). In addition, MFOs may now perform remote identification of customers.³

Also, in 2019, the Bank of Russia focused on bringing the AML/CFT regulatory framework in line with the new legislative requirements in this field.⁴

In 2019, the Bank of Russia continued its systematic activities to reduce the amount of dubious transactions⁵ in the financial sector, which included increasing the efficiency of identifying dubious transactions, suppressing them and responding to their transformation as well as improving the methodology and supervision of credit institutions in the area of AML/CFT.

In 2019, the amount of funds transferred abroad on doubtful grounds fell to a record low of ¥63.5 billion.⁶ Compared to 2018, the amount of cash-out transactions in the banking sector fell by a factor of 1.9 (from ¥176 billion to ¥95 billion), and the amount of dubious transit operations declined by a factor of 1.7 (from ¥1.3 trillion to ¥0.7 trillion).

Cash-out transactions in other sectors of the economy, for example, in retail and tourism, also continued to decline.

¹ Federal Law No. 32-FZ, dated 18 March 2019, 'On Amending the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' Regarding Regulation of the Exchange of Information and Documents Obtained through Identification between Organisations forming part of a Banking Group or a Bank Holding Company, and the Use of Such Information and Documents'.

² Federal Law No. 250-FZ, dated 26 July 2019, 'On Amending Article 7 of the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'.

³ Federal Law No. 271-FZ, dated 2 August 2019, 'On Amending Certain Laws of the Russian Federation'.

⁴ Bank of Russia Ordinance No. 5075-U, dated 22 February 2019, 'On Requirements for Internal Control Rules of Credit Institutions and Non-bank Financial Institutions Designed to Counter the Proliferation of Weapons of Mass Destruction'; Bank of Russia Ordinance No. 5083-U, dated 27 February 2019, 'On Amending Bank of Russia Regulation No. 375-P, Dated 2 March 2012, 'On Requirements for a Credit Institution's Internal Control Rules Designed to Counter the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'; Bank of Russia Ordinance No. 5084-U, dated 27 February 2019, 'On Amending Bank of Russia Regulation No. 445-P, Dated 15 December 2014, 'On Requirements for Internal Control Rules of Non-bank Financial Institutions for the Purpose of Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'; Bank of Russia Regulation No. 698-P, dated 24 October 2019, 'On the Requirements for Target Internal Control Rules, on Qualification Requirements for Special Officials Responsible for the Implementation of Target Internal Control Rules and on the Procedure for Informing Organisations (Participants of a Banking Group or a Bank Holding Company) Conducting Operations with Money and Other Property about the Imposition of the Ban Specified in Part Two, Article 13 of the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'; Bank of Russia Ordinance No. 5351-U, dated 10 December 2019, 'On Requirements to Credit Institutions, Which May be Tasked with Identification or Simplified Identification, and Microfinance Organisations, Which May Task Credit Institutions with Identification or Simplified Identification'.

⁵ Transactions performed by customers of financial institutions which have an ambiguous character, no apparent economic expediency or evident legal purpose, which may be conducted in order to divert capital outside the country, finance 'grey' imports, cash-out funds to avoid taxation, and to support corruption and pursue other unlawful objectives.

⁶ Excluding transfer of funds abroad under enforcement documents (via the Federal Bailiff Service).



The transfer of funds abroad on doubtful grounds fell to a record low

As part of its supervisory functions, the Bank of Russia completed 59 inspections of credit institutions (their branches) regarding AML/CFT issues, or 17.8% of all scheduled and unscheduled inspections of credit institutions (their branches) in 2019, including two inspections terminated following revocation of the credit institutions' banking licences.

For violations of legislative requirements, including in the area of AML/CFT, 14 credit institutions had their banking licences revoked in 2019 (overall in 2019, the licences of 28 credit institutions were revoked).

In 2019, following violation of AML/CFT-related regulations and Federal Law No. 115-FZ,¹ supervisory measures were applied to 182 credit institutions in accordance with Article 74 of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)', including fines (imposed on 149 credit institutions), restriction of certain transactions (14 credit institutions) and requirements to eliminate violations of AML/CFT regulations (108 credit institutions).

Furthermore, as part of advisory supervision, the Bank of Russia took measures in the form of written information sent to the management and/or the board of directors of a credit institution on deficiencies in its activities and recommendations for their correction with regard to 243 credit institutions and in the form of meetings with management with regard to 20 credit institutions.

As part of its supervisory functions, in 2019, the Bank of Russia completed 21 inspections of non-bank financial institutions' compliance with AML/CFT legislation of the Russian Federation (9.1% of all inspections of NFIs in 2019).

In 2019, following violation of AML/CFT legislation of the Russian Federation, in accordance with Article 76.5 of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)', supervisory measures were applied to 3,111 NFIs, including issuing orders to eliminate violations and/or to take measures aimed at preventing similar violations in the future; banning certain transactions for three NFIs; revoking the licences of 4 NFIs; taking measures in the form of recommendation letters on deficiencies in their activities or meetings with management with regard to 2,086 NFIs.

In 2019, the Bank of Russia initiated 559 cases of administrative offences under Article 15.27 of the Russian Federation Code of Administrative Offences² against officers of 218 credit institutions. Throughout 2019, it completed the review of 531 cases of administrative offences (including those initiated in 2018), which resulted in 112 decisions to impose fines, 81 decisions to issue warnings and 338 decisions to terminate administrative offence proceedings against the officials of credit institutions.

In 2019, the Bank of Russia initiated 7,034 cases of administrative offences under Article 15.27 of the Russian Federation Code of Administrative Offences with regard to NFIs (including 3,353 cases against NFI officials). It completed the review of 6,831 cases of administrative offences (including those initiated in 2018), which resulted in 743 decisions to impose fines (including 306 decisions with regard to NFI officials), 4,068 decisions to issue warnings (including 1,978 decisions with regard to NFI officials) and 2,020 decisions to terminate administrative offence proceedings (including 996 decisions with regard to NFI officials).

In 2019, assessment of the Russian Federation under the fourth round of mutual evaluations of the Financial Action Task Force (FATF) was successfully completed.

¹ Except for Clause 3 of Article 7 of Federal Law No. 115-FZ.

² According to the data of Section 3 of reporting form O409028 'Report on the work to monitor the compliance of credit institutions and non-bank financial institutions with the requirements of foreign exchange legislation of the Russian Federation and regulations of the foreign exchange regulation and foreign exchange control authorities and laws of the Russian Federation on countering legalisation (laundering) of criminally obtained incomes and financing of terrorism'.

The Bank of Russia played an important role in the evaluation, including in the presentation of the mutual evaluation report on the Russian AML/CFT system at the FATF plenary meeting in October 2019 in Paris.

Following presentation of the mutual evaluation report, Russia was recognised as having regular FATF monitoring, meaning a high

level of technical compliance with the FATF Recommendations and effectiveness of the Russian AML/CFT system as well as the best result for the country in terms of subsequent reporting to FATF on progress in improving the national AML/CFT system (three years after the approval of the mutual evaluation report).

2.2.11. IMPROVING FINANCIAL AND COMMODITY MARKET INSTRUMENTS AND INFRASTRUCTURE

In 2019, the Bank of Russia played an active role in developing federal laws, aimed, among other things, at improving the toolkit and infrastructure of the financial market.

In accordance with the adopted law,¹ professional securities market participants engaged in management of securities may now take investment shares of a unit investment fund under its trust management into trust management (and/or acquire them at the expense of property in trust management).

The list of documents of infrastructure organisations subject to registration (approval, ratification) by the Bank of Russia was reduced.² Verification of compliance of such documents with the requirements of the current legislation will now be carried out by the Bank of Russia as part of monitoring and supervision of infrastructure organisations. This approach will optimise the administrative burden of infrastructure organisations.

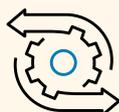
In addition, in 2019, as part of the transition to independent qualification assessment of financial market specialists, the Bank of Russia and the Financial Qualifications Council approved the Action Plan (Roadmap) for Transition from a Certification System to an Independent Qualification Assessment System. The roadmap includes a number of operational measures aimed at ensuring the functioning of the infrastructure and building up key processes of the required quality as well as a block for strategic development of the independent qualification assessment system providing for automation

of assessment processes and international recognition of documents issued as a result of independent qualification assessments.

The legislation was improved³ to prevent gambling and lotteries under the guise of professional activity in the securities market. As a result, the Bank of Russia now has the right to revoke the licences of professional securities market participants for illegal organisation of gambling. A licence may be revoked if administrative sanctions are imposed on a professional securities market participant for illegal organisation and/or conduct of gambling or for violation of Russian legislation on lotteries in terms of conducting lotteries without authorisation from the Government of the Russian Federation. In addition, the Bank of Russia now may delist investment advisers from the unified register of investment advisers on the same grounds. The law also introduced additional requirements for the organisation and conduct of certain types of gambling to be carried out exclusively in casinos and slot machine halls located in gambling zones.

Federal Law No. 507-FZ⁴ establishes the option of using the close-out netting mechanism for several liabilities arising out of various master agreements (unified contracts) between the same parties and/or under the rules of exchange trading and/or under the rules of clearing. In addition, the law eliminates unjustified contestation of close-out netting as well as certain financial contracts as transactions with preference on the grounds provided for in Article 61.3 of the Federal Law 'On Insolvency (Bankruptcy)'.⁵

To implement the provisions of the G20 Pittsburgh Summit Declaration (September 2009) providing for the introduction of a regulatory requirement for the transfer of OTC de-



The close-out netting mechanism now may be used in relation to several liabilities

¹ Federal Law No. 248-FZ, dated 26 July 2019, 'On Amending Certain Laws of the Russian Federation'.

² Federal Law No. 484-FZ, dated 27 December 2019, 'On Amending Certain Laws of the Russian Federation'.

³ Federal Law No. 495-FZ, dated 27 December 2019, 'On Amending Articles 6.1 and 39.1 of the Federal Law 'On the Securities Market' and the Federal Law 'On State Regulation of the Organisation and Conduct of Gambling Activities and Amending Certain Laws of the Russian Federation'.

⁴ Federal Law No. 507-FZ, dated 27 December 2019, 'On Amending Article 20 of the Federal Law 'On Banks and Banking Activities' and the Federal Law 'On Insolvency (Bankruptcy)' Regarding the Development of Financial Market Instruments'.



A law on raising funds through investment platforms was adopted

derivatives to a central counterparty, the Bank of Russia submitted Ordinance No. 5352-U¹, which defines cases when derivative contracts can only be concluded if the other party to such contracts is a central counterparty, and not in exchange trading, to the Ministry of Justice of Russia for registration. The new regulation aims to improve financial stability by reducing systemic financial market risks resulting from fewer bilateral transactions between major participants as well as reducing the credit risk of participants through its redistribution to a central counterparty compliant with increased requirements for the risk management system.

The adopted Federal Law No. 259-FZ² defines investment platforms as online information systems used for entering into agreements for investment via information technologies and technical tools. Such investments can be made through the acquisition of securities or digital rights or the provision of loans. Federal Law No. 259-FZ establishes requirements for platform operators,³ for persons attracting investments and for investors. Under the authority provided for by Federal Law No. 259-FZ, the Bank of Russia has adopted Bank of Russia Ordinance No. 5337-U,⁴ which defines the requirements for information to be included in internal document(s) on managing conflicts of interest of investment platform operators, and Bank of Russia Ordinance No. 5342-U,⁵ which establishes the procedure for maintenance of

the register of investment platform operators by the Bank of Russia.

The following draft laws have been passed in the first reading in the State Duma:

- draft law on the Marketplace⁶ (dated 19 July 2019), which regulates the conclusion of financial transactions between retail consumers and financial institutions via electronic platforms and establishes the legal framework for the activities of electronic platform operators. According to the draft law on the Marketplace, electronic platforms can be used for providing banking, insurance and securities market services; transactions with financial instruments; asset trust agreements; transactions for the provision of other financial services. The draft law on the Marketplace also provides for the creation of a unified register of financial transactions to accumulate data on all financial transactions concluded via electronic platforms and on settlements thereon;
- draft federal law⁷ (dated 22 January 2019) introducing regulation of the activities of leasing companies and their classification as non-bank financial institutions, providing for the registration of leasing entities (leasing companies, banks, State Development Corporation VEB.RF) in the register of leasing entities of the Bank of Russia as well as introducing self-regulation in the leasing market;
- draft federal law⁸ (dated 20 March 2019) aiming to optimise legal regulation of the institute of mortgage securities, which, among other things, proposes prohibiting the issuance of mortgage participation

¹ Bank of Russia Ordinance No. 5352-U, dated 16 December 2019, 'On Cases When Contracts That Are Derivatives Shall Be Concluded Only if the Other Party to Such Contracts Is a Person Performing the Functions of a Central Counterparty'.

² Federal Law No. 259-FZ, dated 2 August 2019, 'On Attracting Investments Using Investment Platforms and Amending Certain Laws of the Russian Federation' ('Federal Law No. 259-FZ').

³ The Bank of Russia will maintain a register of investment platform operators. The operators will have to submit reports on their activities to the Bank of Russia.

⁴ Bank of Russia Ordinance No. 5337-U, dated 2 December 2019, 'On Requirements for the Internal Document(s) Designed to Manage the Conflict of Interests of an Investment Platform Operator'.

⁵ Bank of Russia Ordinance No. 5342-U, dated 4 December 2019, 'On the Procedure for Maintaining the Register of Investment Platform Operators'.

⁶ Draft Federal Law No. 617867-7 'On Electronic Platform Transactions' and its companion Draft Federal Law No. 617880-7 'On Amending Certain Laws of the Russian Federation With Regard to Electronic Platform Transactions'.

⁷ Draft Federal Law No. 586986-7 'On Amending Certain Laws of the Russian Federation for Regulating the Activities of Special Leasing Entities'.

⁸ Draft Federal Law No. 564306-7 'On Amending the Federal Law 'On Mortgage Securities'.

certificates and calls for the Bank of Russia to register the rules for trust management of mortgage coverage as well as changes and additions to such rules related to the extension of the term of agreements for trust management of mortgage coverage, the addition of new requirements and/or mortgages to the composition of mortgage coverage and proportionate issuance of additional mortgage participation certificates.

To improve the awareness of entrepreneurs and managers of small- and medium-sized companies of an available option for replenishing working capital and avoiding cash gaps, on 30 December 2019, the Bank of Russia published a [Brief Guide on Factoring for Russian Businesses](#). This document was drawn up by the expert community with the support of the Association of Factoring Companies as part of the implementation of the Roadmap for the Development of Funding for Small- and Medium-Sized Enterprises. The Brief Guide focuses on the specifics and fundamental principles of factoring and is primarily meant for businesses with little to no knowledge of factoring seeking to expand their range of funding options.

As part of improving financial and commodity market instruments and infrastructure, on 24 September 2019, the Bank of Russia published consultation paper '[On Financial Indicators](#)' on its official website. Based on the proposals submitted following the report's publication, the Bank of Russia plans to adjust its recommendations to the professional community on reforming existing financial benchmarks and creating new ones that would meet international standards as well as on changing the existing practice of using interest rate indicators (including existing loan documentation) due to the planned LIBOR retirement.

Based on consideration of the NSD Pricing Centre's petition, in a decision dated 24 October 2019, the Bank of Russia declared the quality of the NSD Pricing Centre's operation in determining the cost of eurobonds of the

Government of the Russian Federation to be satisfactory.

In connection with the situation in 2018 in the organised market for petroleum products, the Bank of Russia presented proposals on improving exchange trading rules to JSC Saint Petersburg International Mercantile Exchange and the FAS for a report to the Government of the Russian Federation. The proposed improvements were partially implemented in exchange trading documents ('the first package of measures'): in particular, a ban was introduced on submitting bids for the sale of fuel using cash collateral for one of the categories of bidders ('trade visitor'); cash collateral selling rates on the bases of oil refineries were increased for non-manufacturer bidders; fines were introduced for terminating obligations under non-deliverable contracts as well as for submitting bids without intending to enter into contracts. These measures have already had a positive impact on the actions of exchange trading participants; this is visible in increased discipline in the execution of exchange contracts and decreased speculative effect on fuel pricing in exchange trading. In general, the pricing situation in the exchange market for petroleum products in 2019 can be described as stable.

In 2020, the Bank of Russia will continue to monitor implementation of the remaining proposals ('the second package of measures'): introduction of a code of professional business ethics for bidders as part of the practices of the exchange commodity market, oversight of the movement of exchange goods to end consumers and regulation of the transactions of intermediaries (traders).

On 13 June 2019, the Ministry of Justice of Russia registered Bank of Russia Ordinance No. 5102-U,¹ aimed at developing the institution of commodity delivery operators in the organised (exchange) commodity market and establishing a number of requirements subject to which commodity delivery operators may open commodity accounts without a storage agreement, allowing for the accounting of

¹ Bank of Russia Ordinance No. 5102-U, dated 26 March 2019, 'On Cases for Commodity Delivery Operators to Open Trading Commodity Accounts and Clearing Commodity Accounts if the Accounting of Assets Used to Fulfill Obligations Accepted for Clearing Is Based on Grounds Other Than the Agreement for Storage of These Assets'. The document came into effect on 8 July 2019.

goods for the purpose of fulfilling/securing obligations accepted for clearing not only by commodity delivery operators using storage facilities to perform their functions but also by commodity delivery operators carrying out deliveries through transport facilities (for example, pipeline transport in the markets of natural gas and petroleum products).

As part of implementation of the Concept of Supervision of Commodity Delivery Operators, JSC SPIMEX and LLC Gazprom Mezhrefiongaz Postavka signed a cooperation agreement providing for the accumulation at the exchange of a list of documents/data necessary to monitor the activities of commodity supply operators. These documents and data will be periodically submitted by SPIMEX to the Bank of Russia.

November 2019 saw the start of trading in deliverable futures for Russian FOB¹ Primorsk export EURO-5 diesel fuel. Bidding is held in accordance with the specification of deliverable futures contracts and the rules of exchange trading registered by the Bank of Russia. The main supplier, a PJSC Lukoil Group company, joined trading after a series of meetings with representatives of the Bank of Russia where the oil company received necessary clarifications on participation in the trading of commodity derivatives. On 6 December 2019, the first tanker with Russian export diesel was shipped to the EU market as part of the execution of a new futures contract. This project is aimed at creating a direct price quotation for Russian diesel fuel.

¹ FOB — 'free on board'.

2.2.12. IMPROVING THE ACCOUNTING AND THE ACCOUNTING (FINANCIAL) STATEMENTS OF FINANCIAL INSTITUTIONS

To achieve its strategic goal of ensuring financial market resilience, the Bank of Russia adopted measures to improve accounting in credit institutions and non-bank financial institutions.

Due to a change in the procedure for credit institutions to deposit required reserves, the Bank of Russia issued Bank of Russia Ordinance No. 5087-U¹ amending the Chart of Accounts and Bank of Russia Regulation No. 677-P² establishing a procedure for reflecting operations related to compliance with reserve requirements in accounting.

Bank of Russia Ordinance No. 5147-U³ introduced certain easings in the accounting procedure for property of credit institutions, including:

- regarding the disposal of long-term assets held for sale not only through sale but also in other cases, for example, in the case of obsolescence or physical depreciation, destruction in emergency situations, etc.;
- providing the option for recognising real estate, including land, obtained under lease contracts or as collateral which the credit institution does not plan to use as fixed assets or in any other capacity in the category of property with undetermined purpose.

This regulation of the Bank of Russia also establishes a requirement to amortise the value of positive goodwill by accruing depreciation over a period to be determined by credit institutions independently, but not more than 10 years.

In 2019, due to amendments in the legislation of the Russian Federation, the Bank of Russia issued Ordinance No. 5315-U,⁴ which sets 1 January 2023 as the date for the Bank of Russia regulations governing accounting for non-bank financial institutions to become applicable to investment platform operators.

Bank of Russia Ordinance No. 5149-U⁵ and Bank of Russia Ordinance No. 5148-U⁶ introduce amendments to Bank of Russia regulations for non-bank financial institutions to provide for:

- the option of recognising real estate, including land received under lease agreements or as collateral, that meets the criteria for the recognition of inventories defined by the International Financial Reporting Standard (IAS) 2 'Inventories' as inventories;
- the option of recognising right-of-use assets as part of investment property.

The Bank of Russia continues its efforts aimed at supporting and developing collection and processing of statements in XBRL (eXtensible Business Reporting Language) format.

Starting from 2018, reporting in the new electronic XBRL format, including filing of accounting (financial) statements, is mandatory for insurance entities and mutual insurance companies (IEs), non-governmental pension funds (NPFs), professional securities market participants (PSMPs), trade organisers, clearing organisations and entities acting as central counterparties, joint-stock investment funds

¹ Bank of Russia Ordinance No. 5087-U, dated 28 February 2019, 'On Amending Bank of Russia Regulation No. 579-P, Dated 27 February 2017, 'On the Chart of Accounts at Credit Institutions and the Procedure for Using It'.

² Bank of Russia Regulation No. 677-P, dated 28 February 2019, 'On the Procedure for Credit Institutions to Reflect Operations Related to Compliance with Reserve Requirements'.

³ Bank of Russia Ordinance No. 5147-U, dated 22 May 2019, 'On Amending Bank of Russia Regulation No. 448-P, Dated 22 December 2014, 'On Credit Institutions' Accounting of Fixed Assets, Intangible Assets, Real Estate Temporarily Unused in Operational Activity, Long-Term Assets Held for Sale, Inventories and Means and Objects of Labour of Undetermined Purpose Obtained under Compensation or Pledge Agreements'.

⁴ Bank of Russia Ordinance No. 5315-U, dated 15 November 2019, 'On the Application of Certain Bank of Russia Regulations Related to Accounting and Accounting (Financial) Statements'.

⁵ Bank of Russia Ordinance No. 5149-U, dated 22 May 2019, 'On Amending Bank of Russia Regulation No. 612-P, Dated 25 October 2017, 'On the Procedure for Non-bank Financial Institutions to Record Accounting Items'.

⁶ Bank of Russia Ordinance No. 5148-U, dated 22 May 2019, 'On Amending Bank of Russia Regulation No. 492-P, Dated 22 September 2015, 'Sectoral Standard for Accounting Fixed Assets, Intangible Assets, Investment Assets, Long-Term Assets Held for Sale, Inventories, Means and Objects of Labour of Undetermined Purpose Obtained under Compensation or Pledge Agreements and Assets and/or Estimated Balances Thereof Obtained Following Insurer's (Beneficiary's) Waiver of the Ownership of Insured Assets, in Non-bank Financial Institutions'.

(JSIFs) and management companies of investment funds, unit investment funds and non-governmental pension funds (MCs).

In 2019, the Bank of Russia organised two pilot filings of test statements in order to test the taxonomy structure, the implemented control ratios and the IT systems of the supervised organisations for compliance with the updated requirements.

The first pilot filing of test statements prepared by supervised organisations in accordance with version 3.0 of the Bank of Russia XBRL taxonomy (taxonomy 3.0) took place from 26 December 2018 to 20 March 2019. Based on the results of the pilot filing, the Bank of Russia developed and published version 3.1 of the XBRL taxonomy (taxonomy 3.1) on the Bank of Russia website in the '[Open XBRL Reporting Standard](#)' section.

Taxonomy 3.1 includes:

- changes related to amended provisions of Bank of Russia Regulations No. 526-P,¹ No. 527-P,² No. 532-P³ and No. 613-P;⁴
- reporting requirements for insurance brokers and credit rating agencies;
- updated supervisory requirements as well as amendments to federal laws on categories of non-bank financial institutions already filing statements in XBRL format: IEs, NPFs, PSMPs, trade organisers, clearing organisations, entities acting as central counterparties, JSIFs and MCs.

The second pilot filing of accounting (financial) statements in accordance with taxonomy 3.1 took place from 31 May 2019 to 15 June 2019. Based on the results of the filing, the structure of the accounting (financial) reporting module of taxonomy 3.1 was analysed for the necessary changes in architecture. On 21 October 2019, the Bank of Russia published version 3.2 of the taxonomy on the Bank of Russia website in the '[Open XBRL Reporting Standard](#)' section.

In addition to the updated accounting (financial) reporting module, taxonomy 3.2 was amended in accordance with changes in regulations regarding the timing of supervisory and statistical reports by IEs, NPFs, PSMPs, trade organisers, clearing organisations, entities acting as central counterparties, JSIFs and MCs as well as reporting requirements for insurance brokers and credit rating agencies.

Bank of Russia Ordinance No. 5331-U⁵ establishes the requirements of taxonomy 3.2 for IEs. Draft Bank of Russia regulations establishing the requirements of taxonomy 3.2 for NPFs, PSMPs, trade organisers, clearing organisations, entities acting as central counterparties, JSIFs and MCs have been also developed.

In September 2019, the Bank of Russia began developing an accounting (financial) reporting module based on the requirements of the Bank of Russia Regulation No. 614-P⁶ in the XBRL taxonomy of the Bank of Russia.

¹ 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'.

² 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'.

³ Bank of Russia Regulation No. 532-U, dated 3 February 2016, 'Sectoral Accounting Standard 'Procedure for Compiling Accounting (Financial) Statements of Professional Securities Market Participants, Joint-stock Investment Funds, Trade Organisers, Central Counterparties, Clearing Companies, Specialised Depositories of Investment Funds, Unit Investment Funds and Non-governmental Pension Funds, Asset Management Companies of Investment Funds, Unit Investment Funds and Non-governmental Pension Funds, Credit History Bureaus, Credit Rating Agencies, and Insurance Brokers'.

⁴ Bank of Russia Regulation No. 613-P, dated 25 October 2017, 'On the Forms for Disclosing Information in Accounting (Financial) Statements of Non-bank Financial Institutions and the Procedure for Grouping Accounts in Accordance with Accounting (Financial) Statement Data'.

⁵ Bank of Russia Ordinance No. 5331-U, dated 26 November 2019, 'On Amending Bank of Russia Ordinance No. 4584-U, Dated 25 October 2017, 'On the Form, Timeframe and Procedure for Insurance Companies to Compile and Submit to the Bank of Russia Statements, Required for Control and Supervision Purposes, and Statistical Statements, as well as on the Form, Timeframe and Procedure for Insurance Companies to Submit Accounting (Financial) Statements to the Bank of Russia'.

⁶ Bank of Russia Regulation No. 614-P, dated 25 October 2017, 'On the Forms for Disclosing Information in Accounting (Financial) Statements of Microfinance Organisations, Consumer Credit Cooperatives, Agricultural Consumer Credit Cooperatives, Housing Savings Cooperatives and Pawnshops, and the Procedure for Grouping Accounts in Accordance with the Accounting (Financial) Statements Data'.

2.3. Expanding financial inclusion for households and businesses

2.3.1. FINANCIAL CONSUMER AND INVESTOR PROTECTION

In 2019, the Bank of Russia fully employed preventive supervision tools for the first time. Consumer complaints were analysed to identify problem areas, and efforts were taken to eliminate them in cooperation with market participants.



The Bank of Russia launched the Single Communication Centre. It received more than 242,000 calls over the year

On 1 January 2019, the Bank of Russia launched the operations of the Single Communication Centre, which includes complaint processing units, a call centre and the Public Reception Office.

The call centre accepts calls 24/7, and 20% of its employees are people with disabilities. The call centre has Russian and English lines. It received more than 242,000 calls over the year.

The Public Reception Office served more than 2,000 visitors over the year, including borrowers for mediation procedures. 75% of visitors reported satisfaction with the work of the Public Reception Office; for their convenience, access to the Bank of Russia website and online reception office was provided.

The Bank of Russia is constantly improving its approaches to the protection of consumer rights. In 2019, the Bank of Russia opened the Design Thinking Laboratory, a space for providing customer-oriented solutions.

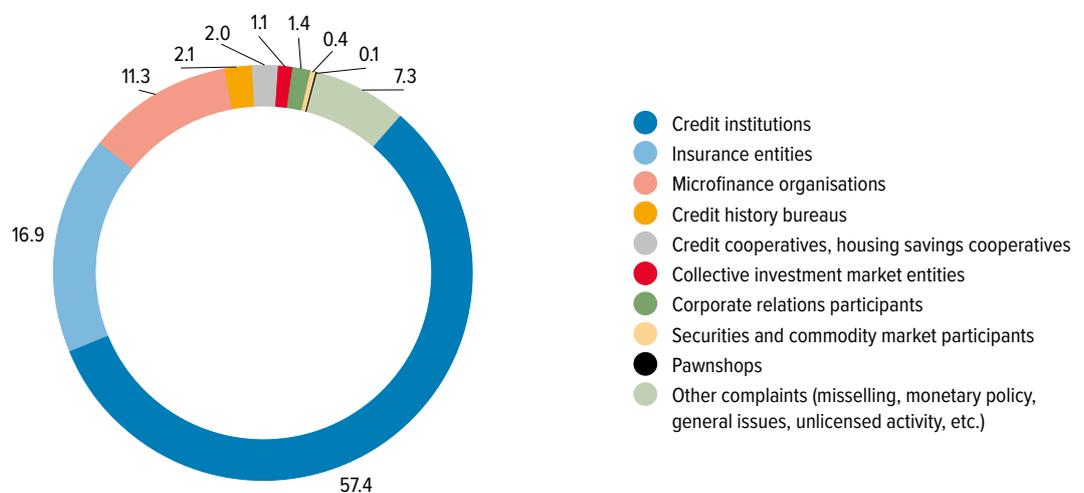
CONDUCT SUPERVISION MEASURES AND RESULTS

In 2019, the Bank of Russia received 246,600 complaints from financial consumers, which is 2.8% fewer than in 2018.¹

There were 141,600 complaints about credit institutions (0.6% fewer than in 2018) and

BREAKDOWN OF COMPLAINTS BY PRINCIPAL FINANCIAL MARKET SECTOR (PARTICIPANT CATEGORY) IN 2019 (PER CENT)

Chart 44



¹ In 2019, the methodology for recording the number of complaints was adjusted to better reflect the situation in the field of conduct supervision. The new approach takes into account the fact that a single consumer letter may contain complaints against several organisations supervised by the Bank of Russia, and in this case several consumer complaints will be registered. The data on the number of complaints received by the Bank of Russia in 2018 was revised according to the new methodology to ensure comparability of annual dynamics. If the previously used methodology had been maintained, the reduction in the number of complaints would have been more substantial, amounting to 5.4% (from 243,500 in 2018 to 230,500 in 2019).

MEASURES TAKEN AGAINST FINANCIAL MARKET PARTICIPANTS

Credit institutions	Insurance entities	MFOs, CCCs, pawnshops	Corporate relations participants, professional participants, collective investment entities
38 instructions to remove/prevent violations 356 administrative offence reports	1,074 instructions to remove/prevent violations 1,862 administrative offence reports	1,159 instructions to remove/prevent violations 409 administrative offence reports	439 instructions to remove/prevent violations 758 administrative offence reports

CONDUCT SUPERVISION RESULTS*

Credit institutions	Insurance entities	MFOs, CCCs, pawnshops	Corporate relations participants, professional participants, collective investment entities
196 internal procedures and business processes improved ₽76.3 million returned to consumers 41.5 thousand credit histories corrected 38 control activities in the sphere of PFCR** conducted to check for hard-selling of additional services as part of a consumer loan issuance	62 internal procedures and business processes improved 21 hardware and software improvements made 21 websites of supervised entities corrected 126 control activities in the sphere of PFCR** conducted to check for compliance with the law in force when entering into a CMTPLI agreement in the electronic form 36 control activities in the sphere of PFCR** conducted to check for compliance with the obligatory requirements for information disclosure to consumers when selling ILL in the office of the insurance company or agent	77 internal procedures and business processes improved 31 hardware and software improvements made ₽17.5 million rubles returned to consumers 29.1 thousand credit histories corrected 13 MFOs removed from the state register of MFOs 17 control activities in the sphere of PFCR** conducted to check for hard-selling of additional services as part of a consumer loan issuance	33 internal procedures and business processes improved 8 agreements corrected with regard to conditions for consumers 10 websites of supervised entities corrected 105 control activities in the sphere of PFCR** conducted to check for compliance with the procedure for transferring pension savings between NPFs

* The number of control activities includes only such activities that concern protection of financial consumers' rights, which does not cover the whole range of control activities conducted by the Bank of Russia in accordance with Bank of Russia Instruction No. 195-I, dated 18 December 2018, 'On the Procedure for the Bank of Russia to Organise and Conduct a Control Exercise in Respect of Credit Institutions and Non-bank Financial Institutions, and the Procedure for Sending a Copy of the Statement of Control Exercise to a Credit Institution or a Non-bank Financial Institution, in Respect of Which the Control Exercise was Conducted'.

** PFCR means protection of financial consumers' rights.

81,900 complaints about non-bank financial institutions and parties to corporate relations (16.5% fewer than in 2018).¹

Credit institutions

In 2019, about a third of the total number of complaints about credit institutions were related to the matters of loan repayment (a decrease of about 25% compared to 2018), violations of the requirements of the legisla-

tion of the Russian Federation on collecting overdue debts (an increase of about 23%) and hard-selling of additional services (a decrease of about 28%).

The main efforts of preventive conduct supervision were focused on issues of consumer and mortgage lending as the most important ones for households.

In 2019, the Bank of Russia received 55,500 complaints related to consumer lending. Com-

¹ Detailed information on complaints received by the Bank of Russia in 2018 and 2019 from financial consumers is presented in the [Report on Complaint Management \(January–December 2019\)](#) available on the Bank of Russia website.

pared to 2018, the number of such complaints decreased by 2,500, or 4.3%. Out of the main categories of complaints related to consumer lending, the greatest reductions were in the number of complaints about the hard-selling of additional services accompanying loan agreements (by 26% compared to 2018) and loan repayment issues, including refusal to restructure and refinance debt (by 9.9%).

The number of complaints related to mortgage lending in 2019 compared to the previous year decreased by 27.4% to 14,900. The number of complaints in the most common category (inability to fulfil obligations under loan agreements) decreased by 42.9%. Another significant factor that influenced the overall dynamics of the number of complaints in 2019 was a reduced number of complaints about refusals to provide a mortgage loan (by 40.1%).

An adjustment in credit institutions' procedure for charging penalties, abolition of fees for certain services and discontinuation of services provoking consumer complaints are among the most significant results of the Bank of Russia's conduct supervision.

In 2019, as a result of measures taken by the Bank of Russia as part of preventive conduct supervision, credit institutions returned ₺76.3 million to applicants.

In 2019, the Bank of Russia was granted the authority¹ to carry out control measures in the field of financial consumer protection, enabling, among other things, the identification of cases of imposition of additional services accompanying loan agreements.

Insurance entities

In 2019, the number of complaints about insurance entities decreased by 34% and amounted to 41,600. The number of complaints dropped due to both regulatory innovations and measures of preventive conduct supervision.

The number of complaints about CMTPLI issues accounted for 79.8% of all complaints about insurance entities and decreased by 36.7% YoY. Supervisory measures aimed at

providing the option of entering into CMTPLI agreements in the form of an electronic document helped eliminate obstacles and reduce the number of related complaints by 74%.

Complaints about the use of bonus-malus coefficients (BMCs) amount for over half (53.5%) of CMTPLI-related complaints. The new BMC calculation procedure effective from 1 April 2019 led to a decrease in the number of complaints about its incorrect application by 35.8% YoY. Conduct supervision measures improved BMC values in 79% of cases.

In 2019, the perimeter of preventive conduct supervision was expanded by 73%; supervision measures were taken in respect of 50 insurance entities and two self-regulatory organisations; the number of supervised entities was 2.5 times greater and amounted to 14.

The Bank of Russia approved [basic standards](#)² for financial consumer protection regarding the services provided by members of insurance brokers' self-regulatory organisations in the financial market.

Securities market participants, collective investment market entities and corporate relations participants

The number of complaints about professional securities market participants in 2019 decreased by 30.5%. Consumers' complaints about brokers were the most common, in particular, related to failure to fulfil customers' orders. It should be noted that complaints of this category are caused not by violations on the part of professional participants but rather by consumers' lack of understanding of the specifics of marginal transactions.

The decrease in the number of complaints about collective investment market entities amounted to 17.8% YoY. The most common category of complaints (68.1%) is related to disagreements with transitions from the PFR to NPFs and between NPFs.

The number of complaints about corporate relations participants in 2019 decreased by 7% YoY.

¹ In accordance with the requirements of Federal Law No. 263-FZ, dated 29 July 2018, 'On Amending Certain Laws of the Russian Federation'.

² Available on the Bank of Russia website.

In line with the recommendations of the Bank of Russia¹ and in cooperation with self-regulatory organisations in the financial market, internal standards aimed at improving consumer awareness were developed and approved, and information will be further provided to customers in the form of key information documents. Corresponding internal standards were approved by self-regulatory organisations of professional securities market participants,² collective investment market participants³ and forex dealers.⁴

The Bank of Russia approved [basic standards](#)⁵ for financial consumer protection regarding the services provided by members of forex dealers' self-regulatory organisations in the financial market.

At the end of 2019, 33 non-governmental pension funds were participating in the guarantee system for the rights of insured persons in the system of mandatory pension insurance of the Russian Federation. The total volume of the pension savings guarantee fund amounted to ₹3.2 billion. During the time of the functioning of the guarantee system, no loss events associated with the cancellation of licences of participating funds have occurred.

Microfinance market participants

The number of complaints about MFOs increased by 25.2% YoY. At the same time, 2019 Q4 showed a decrease in the number of complaints compared to 2019 Q3 as a result of the Bank of Russia's work with the 20 largest MFOs in terms of business volume that generated the highest number of complaints.

2019 saw an increase in the number of complaints related to the hard-selling of addi-

tional services. The Bank of Russia sent MFOs recommendations leading to adjustments in business processes for the provision of additional paid services.

In 2019, the Bank of Russia introduced continuous checks of the timeliness and completeness of data submitted to credit history bureaus. The inspections resulted in more than 500 orders that will ensure the updating of credit histories of over 700,000 citizens. In 2019, the measures taken by the Bank of Russia as part of preventive conduct supervision resulted in microfinance market entities returning excessive payments or recalculating debts in favour of consumers in the total amount of ₹17.5 million.

In 2019, Federal Law No. 554-FZ,⁶ developed with the participation of the Bank of Russia, entered into force, setting a 1.5-fold limit on maximum debt under a consumer loan agreement and a maximum interest rate of 1% per day and establishing a lender's right to offer borrowers special products in the PDL⁷ segment. A closed list of entities that may be assigned rights (claims) under consumer credit (loan) agreements was established, and illegal creditors were deprived of the right to demand fulfilment of obligations under consumer credit (loan) agreements from borrowers, including in court proceedings.

Federal Law No. 271-FZ,⁸ developed with the participation of the Bank of Russia, was adopted to establish a closed list of entities with the right to issue mortgage credit facilities (loans) available on the JSC DOM.RF website.

To reduce the household debt burden, effective 1 October 2019, credit institutions and MFOs have an obligation to calculate borrowers' debt burden.

¹ Information Letter of the Bank of Russia No. IN-01-59/69, dated 28 November 2018, 'On the Sale of Financial Products'.

² On 4 December 2019 and on 24 December 2019, NAUFOR and the NSMA, respectively, approved the internal standards 'Requirements for Offering Financial Instruments to Individuals Aimed at Improving Consumer Awareness in Offering Securities Market Instruments'.

³ On 24 May 2019, the Association of NPFs approved an internal standard for the attraction of customers by non-governmental pension funds and for interaction with mandatory pension insurance and non-governmental pension agents, and on 5 September 2019 the ANPF approved the internal standard 'Prevention of Unfair Practices of Interaction between the Members of the Self-regulatory Organisation Association of Non-governmental Pension Funds with Financial Consumers When Concluding Agreements on Mandatory Pension Insurance and Non-governmental Pension Provision'.

⁴ On 12 July 2019, the AFD approved the 'Internal Standard of the Association of Forex Dealers on the Procedure for the Sale of Financial Services'.

⁵ Available on the Bank of Russia website.

⁶ Federal Law No. 554-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On Consumer Loans' and the Federal Law 'On Microfinance Activities and Microfinance Organisations'. The document came into effect on 28 January 2019 (except for certain provisions). The law applies to all professional lenders, including banks.

⁷ PDLs (payday loans) are short-term consumer microloans to individuals (up to 30 days) for a small amount (up to ₹30,000).

⁸ Federal Law No. 271-FZ, dated 2 August 2019, 'On Amending Certain Laws of the Russian Federation'.



The adopted federal law provides for mortgage holidays for borrowers experiencing financial hardships

Informational materials 'What to Do if Your Debt Was Sold, and Debt Collectors Demand More Money' and 'How to Distinguish Honest MFOs from Scammers' are available at fincult.info.

Countering unfair practices

Complaints about the unlawful use of insider information and market manipulation were focused on possible manipulation of financial instruments, goods and foreign currency in exchange trading. These complaints served as material for a comprehensive examination of possible unfair trading practices.

In 2019, the Bank of Russia received more than 4,000 complaints from citizens regarding illegal activities in the financial market, including financial pyramid schemes. Most of the complaints were related to signs of illegal activity when attracting private funds and issuance of household loans by entities not authorised to carry out such lending activities. The complaints were noticeably focused on illegal activities of forex dealers and persons acting under the guise of providing services in the forex market (38%) as well as projects with signs of financial pyramid schemes (over 35%).

DEVELOPMENT AND SUPPORT OF SOCIALLY SIGNIFICANT TYPES OF FINANCIAL SERVICES

Implementation of state mortgage lending support programmes

In 2019, most mortgage loans were restructured under a support programme.¹ During

implementation of the programme for **loans denominated in foreign currency**, total debt decreased by 91.4%, while overdue debt decreased by 73.4%. The Bank of Russia took part in providing support and restructuring debt for 204 loans in 2019.

Federal Law No. 76-FZ,² developed with the participation of the Bank of Russia, was adopted to provide for introduction of **mortgage payment holidays**.³ The Bank of Russia worked continuously to identify difficulties in the exercise of this right by borrowers. Mortgage lenders were asked to provide quarterly reports on requests for mortgage payment holidays and the results of their consideration. Between the time Federal Law No. 76-FZ came into effect and the end of 2019, 30 credit institutions received 15,500 requests, and final decisions were made regarding 80.5% of requests (7,900 requests were satisfied).

To monitor credit institutions' implementation of the Russian Federation Government Resolution on the reimbursement of lost income **on mortgages (loans) provided to families with children**,⁴ a quarterly survey of credit institutions on whether they have carried out transactions under the programme has been conducted since 2019 Q3. The survey helps identify the reasons for credit institutions' refusal to provide/refinance household loans under the state programme and also allows for targeted work with lenders to suppress and prevent infringement of the rights of citizens applying for state support measures. Information and video materials explaining the

¹ Approved by Russian Federation Government Resolution No. 961, dated 11 August 2017, 'On Further Realisation of Targeted Support Programme for Distressed Housing Mortgage Loan Borrowers'.

² Federal Law No. 76-FZ, dated 1 May 2019, 'On Amending Certain Laws of the Russian Federation Regarding Introducing Amendments to Mortgage-Secured Household Credit (Loan) Agreements Not Related to Entrepreneurial Activity at the Request of Borrowers'.

³ Mortgage payment holidays mean a grace period during which the borrower may reduce or suspend, for up to six months, its payments under a loan agreement secured by a pledge of housing facilities. The borrower is fully protected during this period as the lender can neither terminate the contract early nor foreclose on the mortgage. In this case, the maturity of such a loan is extended by the period of the mortgage payment holidays.

⁴ Russian Federation Government Resolution No. 1711, dated 30 December 2017, 'On the Approval of Rules for Providing Subsidies from the Federal Budget to Russian Credit Institutions and the Joint-stock Company DOM.RF to Reimburse the Unearned Income from Extended (Acquired) Housing (Mortgage) Loans to Russian National who Have Children'.

provisions of the programme are available at fincult.info.

Federal Law No. 483-FZ,¹ developed with the participation of the Bank of Russia, was adopted to allow **household borrowers to receive a refund under 'collective insurance' contracts** if such contract is terminated within 14 calendar days. This law also provides for the return of part of the insurance premium paid in the event of early termination of the insurance contract due to early fulfilment of obligations under the consumer credit (loan) agreement.

Bank of Russia Ordinance No. 5350-U² establishes obligation of organisations to lay out the most significant terms of mortgage-secured credit (loan) agreements in an established tabular form starting from the first page of the agreement in clear, well-readable font. The list of such terms is defined by Federal Law No. 353-FZ.³

Bank of Russia Ordinance No. 5112-U⁴ establishes a procedure for the Bank of Russia to determine the categories of consumer credit facilities (loans), including taking into account wages and other regular payments that borrowers receive on their bank accounts, and the procedure for the Bank of Russia to calculate the market average for total cost of consumer credit facilities (loans) in percent per annum, subject to the limitation of the share of the largest lender. Relevant changes have been introduced into the reporting of credit institutions.

Compulsory motor third-party liability insurance (CMTPLI)

Federal Law No. 88-FZ⁵ was adopted in 2019 to improve the accessibility of insurance policies and the quality of claims settlement. The law established the option of issuing a European Accident Statement in electronic form through the UPSS and obliged insurance companies to provide CMTPLI policies in all offices selling motor hull insurance and motor third-party liability insurance policies. In furtherance of this law, the Bank of Russia issued relevant Bank of Russia regulations.⁶

A draft federal law⁷ developed with the participation of the Bank of Russia for the further individualisation of CMTPLI tariffs was submitted for consideration by the State Duma.

Personal accident and health insurance of vehicle owners

In accordance with Bank of Russia Ordinance No. 5192-U,⁸ information on voluntary accident insurance contracts of vehicle owners may be indicated on the other side of CMTPLI insurance policies. The ordinance establishes minimum requirements for the terms and procedure for the provision of voluntary insurance.

Insurance of overland transport vehicles (except for railway transport vehicles)

Bank of Russia Ordinance No. 5385-U⁹ was developed to improve the quality and

¹ Federal Law No. 483-FZ, dated 27 December 2019, 'On Amending Articles 7 and 11 of the Federal Law 'On Consumer Loans' and Article 9.1 of the Federal Law 'On Mortgage (Pledge of Real Estate)'.

² Bank of Russia Ordinance No. 5350-U, dated 10 December 2019, 'On the Tabular Form of the Terms of Credit and Loan Agreements Concluded with an Individual for Purposes Other Than His/Her Entrepreneurial Activities, With the Borrowers' Liabilities Backed by Mortgage and Contractual Terms Determined by Clauses 1–13, 15 and 16, Part 9, Article 5 of Federal Law No. 353-FZ, Dated 21 December 2013, 'On Consumer Loans'.

³ Federal Law No. 353-FZ, dated 21 December 2013, 'On Consumer Loans'.

⁴ Bank of Russia Ordinance No. 5112-U, dated 1 April 2019, 'On the Procedure for the Bank of Russia to Define Consumer Loan Categories and the Procedure for Quarterly Calculation and Publication of the Market Average of Full Cost of Consumer Loan in Per Cent Per Annum'.

⁵ Federal Law No. 88-FZ, dated 1 May 2019, 'On Amending Certain Laws of the Russian Federation'.

⁶ Bank of Russia Ordinance No. 5283-U, dated 8 October 2019, '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'; Bank of Russia Ordinance No. 5284-U, dated 8 October 2019, 'On Amending Bank of Russia Ordinance No. 4190-U, Dated 14 November 2016, 'On Requirements for the Use of Electronic Documents and the Procedure for Electronic Information Exchange in the Process of Compulsory Third-Party Liability Insurance of Vehicle Owners'. The document came into effect on 10 November 2019.

⁷ Draft Federal Law No. 840167-7 'On Amending the Federal Law 'On Compulsory Third-Party Liability Insurance of Vehicle Owners'. The draft law passed in the second reading at the State Duma on 12 March 2020.

⁸ Bank of Russia Ordinance No. 5192-U, dated 8 July 2019, 'On the Minimum (Standard) Requirements for the Terms and Procedure to Provide Voluntary Accident and Health Insurance as it Pertains to Accident Insurance of Individuals Owning Motor Vehicles'. The document came into effect on 7 October 2019.

⁹ Bank of Russia Ordinance No. 5385-U, dated 10 January 2020, 'On the Minimum (Standard) Requirements for the Terms and Procedure to Provide Voluntary Insurance of Overland Transport Vehicles (Except for Railway Transport Vehicles)'. The document came into effect on 8 March 2020.

convenience of services allowing vehicle owners to enter information on motor hull insurance agreements into their CMTPLI insurance policies. The ordinance establishes minimum requirements for the terms and procedure for the provision of motor hull insurance.

Compulsory third-party insurance of carriers against liability for causing harm to passengers' life, health and property during transportation

Bank of Russia Ordinance No. 5384-U¹ was developed in 2019 to improve tariff-setting procedures in compulsory third-party liability insurance of carriers. The document reduces the minimum insurance tariffs for most types of transportation. For the most popular type, bus transportation, tariff reductions can reach 20%.

Insurance of residential premises

Federal Law No. 320-FZ² came into effect in 2019, providing for the right of the constituent entities of the Russian Federation to develop regional insurance programmes for residential premises owned by citizens against destruction as a result of emergency situations and other risks. The law is aimed at increasing the economic interest of citizens and insurance companies in entering into contracts for the insurance of residential premises and reducing the budget expenditure of the budgetary system of the Russian Federation for the restoration of residential premises damaged as a result of emergency situations.

Developer civil liability insurance

Federal Law No. 153-FZ,³ developed by the Ministry of Finance of Russia together with the Bank of Russia, was adopted to provide for the termination of security for developers' obligations in the form of civil liability insurance under equity construction agreements or a bank guarantee for the proper performance of obligations and the transfer of a portion of the payment received under such agreements by insurers and banks to the compensation fund of the public company Fund for the Protection of the Rights of Individual Shared-equity Construction Participants.

Life insurance

Bank of Russia Ordinance No. 5055-U⁴ establishes disclosure requirements for the sale of life insurance policies with policyholders' participation in the investment income of insurers. Starting from 1 April 2019, insurers and their agents are required to provide customers with information about the main risks of proposed insurance products and essential terms of contracts.

Agricultural insurance

In 2019, the Bank of Russia's interdepartmental working group on developing a joint position on the development of agricultural insurance with government support approved 'scripts' (a step-by-step sequence of actions of insurers and policyholders) for resolving losses on crop insurance and perennial planting insurance.

Bank of Russia Regulation No. 681-P⁵ is aimed at improving the practice of the Bank

¹ Bank of Russia Ordinance No. 5384-U, dated 10 January 2020, 'On the Marginal (Minimum and Maximum) Insurance Rates Applied in Compulsory Carrier Third Party Liability Insurance for Causing Harm to Passengers' Life, Health and Property During Transportation, and on the Maximum Amount of Expenditure on Compulsory Carrier Third Party Liability Insurance for Causing Harm to Passengers' Life, Health and Property During Transportation, and on the Amount of Payments to the Compensation Fund'. The document came into effect on 8 March 2020.

² Federal Law No. 320-FZ, dated 3 August 2018, 'On Amending Certain Laws of the Russian Federation'. The document came into effect on 4 August 2019 (except for certain provisions).

³ Federal Law No. 153-FZ, dated 27 June 2019, 'On Invalidating Certain Provisions of Article 25 of the Federal Law 'On a Public Company for the Protection of the Rights of Individual Shared-equity Construction Participants in Case of the Insolvency (Bankruptcy) of Developers and on Amending Certain Laws of the Russian Federation' and on Amending Article 62 of the Federal Law 'On State Registration of Real Estate'. The document came into effect on 27 June 2019.

⁴ Bank of Russia Ordinance No. 5055-U, dated 11 January 2019, 'On Minimum (Standard) Requirements for the Conditions and Procedure to Provide Voluntary Life Insurance with Periodic Insurance Payments (Rents, Annuities) and/or Participation of a Policyholder in the Investment Income of an Insurer'. The document came into effect on 1 April 2019.

⁵ Bank of Russia Regulation No. 681-P, dated 30 March 2019, 'On the Procedure for the Bank of Russia to Supervise the Activities of the Association of Insurers, Including the Creation of Compensation Fund and Compensation Payments, and on the Forms and Timeframes for the Association of Insurers to Submit to the Bank of Russia Data Specified in Clause 2 of Part 4 of Article 9 of Federal Law No. 260-FZ, Dated 25 July 2011, 'On State Support for Agricultural Insurance and Amending the Federal Law 'On Agricultural Sector Development'. The document came into effect on 12 July 2019.

of Russia's supervision of the professional association of agricultural insurers. The regulation contains updated forms for the reports of the unified association of agricultural insurers to the Bank of Russia for improving control, including control of the formation and use of the compensation fund.

Compulsory insurance of hazardous facilities

In connection with the new requirements for registration of facilities in the state register of hazardous production facilities and the

introduction of the state register of hazardous production facilities (Rostekhnadzor Order No. 495¹), in 2019, the Bank of Russia issued Ordinance No. 5052-U.² It establishes the minimum and maximum values of the basic rates of insurance tariffs for typical categories of hazardous production facilities in accordance with the specified order and also introduces a tariff range for hazardous facilities that underwent re-registration from 1 January 2018 to 8 May 2018, resulting in certain types of hazardous facilities being consolidated into separate groups.

¹ Rostekhnadzor Order No. 495, dated 25 November 2016, 'On Approval of the Requirements for the Registration of Facilities in the State Register of Hazardous Production Facilities and the Maintenance of the State Register of Hazardous Production Facilities' (as amended on 9 April 2018).

² Bank of Russia Ordinance No. 5052-U, dated 9 January 2019, 'On Insurance Tariffs or Their Marginal (Minimum and Maximum) Values, Structure of Insurance Tariffs, Including Maximum Charges Used to Finance Compensations, on the Procedure for Insurers to Apply Insurance Tariffs to Calculate an Insurance Premium under a Contract for the Compulsory Third Party Liability Insurance of the Owner of a Hazardous Facility for Inflicting Damage as a Result of an Accident at Such Hazardous Facility'. The document came into effect on 26 March 2019.

2.3.2. INCREASING FINANCIAL LITERACY OF INDIVIDUALS AND SMALL- AND MEDIUM-SIZED ENTERPRISES

Public confidence in the financial system and how in line expectations are with the services provided depend on the level of financial literacy. In its educational activities, the Bank of Russia focuses on developing a responsible attitude toward money, effective personal finance management skills and the ability to adequately assess risks among the public and seeks to expand knowledge of financial products and services. First and foremost, this applies to schoolchildren as well as the least protected and most vulnerable categories of individuals, such as pensioners and people with disabilities. Considerable attention is paid to improving the financial and entrepreneurial literacy of small- and medium-sized businesses.

In December 2019, a draft federal law was submitted for consideration by the State Duma and adopted in April 2020.¹ The law establishes increasing the financial literacy of citizens and small- and medium-sized businesses and ensuring financial inclusion in the Russian Federation as some of the main functions of the Bank of Russia.

FOR CHILDREN AND YOUNG PEOPLE

In 2019, the Bank of Russia and the Government of the Russian Federation continued to implement the Strategy for the Improvement of Financial Literacy in the Russian Federation for 2017–2023.

To introduce the promotion of financial literacy to all levels of education, in 2019, the Bank of Russia prepared and submitted proposals to the federal educational and methodological association for general education and the Ministry of Education of Russia for amending the Federal State Educational Standards (FSES) and the suggested basic educational programmes for pre-school and general education.

41 FSESs with common competency of 'Using Financial Literacy and Planning Business Activities in the Professional Field' were approved for secondary vocational education.

In 2019, the Ministry of Justice of Russia registered the first FSES for higher education with the universal competency of 'Economic Culture, Including Financial Literacy'.

The Bank of Russia supported more than 2,000 teachers in improving their qualifications for teaching the basics of financial literacy. The Bank of Russia also initiated the introduction of teacher training programmes in the area of teaching the basics of financial literacy into the government objectives for regional education development institutions and institutions of higher education. More than 2,300 teachers were trained under these programmes.

In 2019, the number of online financial literacy classes for high school students increased to 161,000 (from 87,000 in 2018). Online classes were held in almost 19,000 schools (48% of the total number of schools). The classes reached an audience of 1.2 million. The most popular modules were 'Personal Finance' and 'Financial Instruments'.

The Bank of Russia releases methodological and educational materials for teachers and makes them freely available on the Financial Culture website (fincult.info).

An educational game on financial literacy called 'The Secret of the Lost Money Box' was developed for schoolchildren. In 2019, it reached an audience of over 30,000.

An action plan for increasing the financial literacy of orphans and children left without parental care as well as guardians, trustees and foster parents in the Russian Federation was approved for 2019–2021. Eight pilot regions tested educational modules on the basics of financial literacy (the topics 'Money' and 'Financial Fraud'), and testing of modules on the basics of financial literacy was launched by methodologists of schools for foster parents. Over 6,000 students took part in events (lectures, master classes, business games, etc.) for orphans, children left without parental care and orphans on post-children's home support.

¹ Federal Law No. 106-FZ, dated 3 April 2020, 'On Amending the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and Certain Laws of the Russian Federation with Regard to the Specifics of Changing the Terms of a Loan Agreement'.



Almost half of schools in the country participate in online financial literacy classes

In the field of additional education, in 2019, all federal districts organised both separate events and specialised financial literacy sessions in children's summer camps under the additional general educational programme 'Finance at Your Fingertips'. The Bank of Russia staff held more than 1,000 events on increasing financial literacy in children's summer camps as well as 16 specialised sessions. The total number of participants amounted to about 55,000 children.

FOR ADULTS

An important role in financial education is also played by the Financial Culture website (fincult.info). In 2019, it attracted an average of 258,000 visitors per month, an increase of 167,600 compared to the previous year. The materials of the website are used by financial consumers as well as by financial education teachers and volunteers.



The Financial Culture website (fincult.info) attracted an average of 258,000 visitors per month

By the beginning of 2020, the number of followers of the Bank of Russia's social networks amounted to 7,792 on Facebook, 9,144 on VK, 10,365 on Twitter and 14,500 on YouTube. Counting the followers of the social networks of the Financial Culture website (fincult.info) and the website on economics and finance research econs.online, the total number of regular readers amounted to 58,300.

In 2019, Bank of Russia educational videos were broadcast at 26 airports of Russia; in Lastochka, Strizh, Sapsan, Tavria and Grand Express trains; on the multimedia portal of Russian Railways; at multifunctional centres in Moscow and the Moscow Region; on electronic

billboards in Moscow and on 9,500 multimedia displays of the Moscow Metro. Financial literacy videos and posters are regularly posted on displays and billboards in all regions of the Russian Federation.

More than 1,600 various events (lectures, training seminars and webinars, master classes) with an audience of over 100,300 students were held for adults and people of retirement age.

In addition, in 2019, the Bank of Russia issued 85,000 copies of printed materials (brochures, leaflets). The information materials pay special attention to financial fraud, in particular, social engineering.

Together with the Agency for Strategic Initiatives, the Bank of Russia organised the second Russian Financial Literacy Online Test. The test was taken by 226,000 participants (67,000 of them below 23 years of age).

Implementation of the Action Plan of the Russian Ministry of Defence and the Bank of Russia for Increasing Financial Literacy of Servicemen of the Russian Armed Forces in 2017–2019 was completed. In 2019, the Bank of Russia staff held 1,136 events with more than 115,000 military and civilian participants, including 14 together with the staff of the Federal Office of the Savings and Mortgage System of Housing for Servicemen (FGKU Rosvoenipoteka).

The military authorities received instructions on holding biannual uniform events for increasing financial literacy of military and civilian personnel with the help of Bank of Russia staff and financial institutions in all military units and institutions of the Ministry of Defence of Russia.

The Bank of Russia provided the Ministry of Defence of Russia with a distance-learning course for officials responsible for public training in military units. The course consists of training modules and test questions and is available on the internal portal of the Ministry of Defence of Russia.

The websites of the Ministry of Defence of Russia and Rosvoenipoteka now have Financial Literacy sections with links to the Financial Culture website (fincult.info).



All military units and institutions of the Ministry of Defence of Russia will hold biannual events for increasing financial literacy

FOR SMALL- AND MEDIUM-SIZED BUSINESSES

The Bank of Russia staff held more than 350 educational events for SMEs, including on the use of stock market instruments. More than 20,000 visitors attended the events.

Five webinars on issues relevant for SMEs had more than 2,000 views.

Employees of the Bank of Russia's regional branches took part in WorldSkills Russia events as lecturers and jury members and in Skolkovo Innovation Centre events as lecturers (more than 50 events).

A five-section training module on the use of financial market instruments was developed for SMEs.

Cooperation agreements were signed with:

- JSC Russian Export Centre to coordinate efforts on increasing financial literacy of SMEs as well as development and implementation of their export potential;
- the Government of the Moscow Region for increasing financial literacy of entrepreneurs and individuals planning to start entrepreneurial activities.

FINANCIAL EDUCATION VOLUNTEERS

In 2019, volunteers held more than 4,000 events with about 100,000 participants.

In April 2019, the Bank of Russia launched a financial education volunteer training pro-

gramme, including a distance-learning course in Financial Literacy and an in-person training course. The distance-learning course is available at the online training portal of the Bank of Russia Corporate University. More than 5,000 people registered for it, and over 1,600 of them expressed a desire to become volunteers. 300 participants completed the course. A regional infrastructure involving the staff of Bank of Russia regional branches was developed to carry out the in-person training stage.

To promote financial education volunteering, the Bank of Russia assisted in the establishment of the Association for Financial Literacy Improvement (AFLI) aiming to provide support for private and public initiatives for increasing financial literacy in the Russian Federation and coordination for financial education volunteers.

The Bank of Russia entered into a cooperation agreement with the Federal Agency for Youth Affairs and the Association of Volunteer Centres (AVC). A pilot project with the participation of AVC members resulted in the development of a model for attracting volunteers via volunteer and resource centres. The model was passed on to the AFLI to be included in the Concept of the Volunteer Resource Centre for financial education volunteers as well as for further use and scaling.



The Association for Financial Literacy Improvement (AFLI) was created to support private and public initiatives for increasing financial literacy and promoting financial education volunteering

2.3.3. EXPANDING FINANCIAL INCLUSION

In 2019, the Bank of Russia continued to implement the [Financial Inclusion Strategy of the Russian Federation for 2018–2020](#) and the national project 'Small- and Medium-Sized Enterprises, Support for Individual Entrepreneurs'. The importance of improving financial inclusion for households and small- and medium-sized businesses was reflected in the [Guidelines for the Development of the Russian Financial Market in 2019–2021](#).

ANNUAL MONITORING OF FINANCIAL INCLUSION

The results of annual measurement of financial inclusion presented, in particular, in the [Report on Financial Inclusion in the Russian Federation](#),¹ re-affirm the important and growing role of remote access to financial services in improving financial inclusion across Russia. For example, more than half of Russia's adults (55.2%) used remote access to their bank accounts (compared to 45.1% a year earlier). Moreover, the share of people who can instantly (within 15 minutes) make funds transfers using a mobile phone or satellite communication rose from 35.9% to 54.7%.

In 2019, the Bank of Russia conducted its second annual survey of small- and medium-sized businesses (legal entities) to assess regional demand for corporate financial services, satisfaction with these services and operations of Russian financial institutions. Starting in 2019, the results of this survey are provided, in particular, to regional government authorities to monitor the state and development of competition in the commodity markets

of the constituent entities of the Russian Federation as part of implementing the Standard for Promotion of Competition in the Constituent Territories of the Russian Federation.²

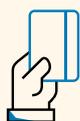
The Bank of Russia also conducted a second total survey of credit institutions to determine the number of stationary remote points of service with agents and employees located outside the offices of credit institutions. The results showed that in 2019 their number increased by 3% to 230,500. For the first time, the survey determined the number of stationary points of service with partners of credit institutions;³ at the end of 2019, there were 120,000 such points of service in Russia.

IMPROVING FINANCIAL INCLUSION AND QUALITY OF FINANCIAL SERVICES IN REMOTE, SPARSELY POPULATED AND HARD-TO-REACH TERRITORIES

The main objectives in this area include the following:

- expanding the presence of financial institutions in various service formats
- developing remote channels for access to financial services while substantially expanding Internet penetration.

The Working Group on improving financial inclusion in remote, sparsely populated and hard-to-reach territories, which includes representatives of state-owned credit institutions with wide regional networks, continued its activities. These credit institutions devote much attention to preserving and developing their regional networks. For example, despite an overall decline in the number of credit institution units



A pilot project was implemented in 2019 to provide the holders of payment cards with cash withdrawal services in retail and service outlets using POS terminals

¹ Published on the Bank of Russia website.

² Approved by Directive of the Government of the Russian Federation No. 768-r, dated 17 April 2019, 'On Approval of the Standard for Promotion of Competition in the Constituent Territories of the Russian Federation'.

³ Such points of service may include, for example, a point of service in a retail and service outlet, where it issues POS loans or targeted consumer loans provided by transferring the borrowed funds to the retail and service outlet as payment for goods/services, subject to a corresponding agreement with the retail and service outlet and without collateral.



Improved availability of financial services for business entities was established as a goal of the Standard for Promotion of Competition in the Constituent Territories of the Russian Federation

by 2.7% in 2019, coverage of rural communities, where some banking services are provided at post offices, increased by more than 35%.

In 2019, we continued to implement a pilot project to improve financial inclusion in remote, sparsely populated and hard-to-reach territories in the Russian Far East. A similar project was launched in spring 2019, with an expanded range of objectives in the Southern and North Caucasus Federal Districts, which contributed to accelerated development of regional infrastructure for provision of financial services. For a number of indicators, the dynamics in these regions exceeded the Russian average, and effective collaboration with government authorities was established.

In April–November 2019, a pilot project involving credit institutions and major payment system operators was implemented with the support of the Bank of Russia to provide cash withdrawal services to holders of payment cards using POS terminals, and a working group for this project has been operating since May 2019. Over the past year, the number of cash withdrawal points of credit institutions participating in the working group increased from about 90 to 3,700. Moreover, almost all these points of service are in rural areas.

At the proposal of the Bank of Russia, the agency-level target-oriented programme 'The Modern Image of Rural Areas' of the state programme 'Integrated Development of Rural Areas' was augmented with the option of establishing 'Window to the World of Finance' financial service centres in rural areas.

At the initiative of the Bank of Russia, a measure was included in the plan for the implementation of the Spatial Development Strategy of the Russian Federation for the period until 2025¹ for preparation of a report to the Govern-

ment of the Russian Federation in 2020 by the Ministry of Finance of the Russian Federation, interested federal executive authorities and the Bank of Russia with proposals for expanding the network of financial services outlets in small and rural communities in priority geo-strategic territories with the option of state support for credit and non-bank financial institutions if the prices of their financial services are below the cost of such services.

The Bank of Russia believes that further development of the Faster Payments System and the remote identification mechanism will improve financial inclusion, and it actively promotes the Marketplace project, which will enable consumers to have equal access to banking services wherever they live.

In 2019, at the proposal of the Bank of Russia, improved availability of financial services for business entities was established as a goal² of the Standard for Promotion of Competition in the Constituent Territories of the Russian Federation. The Standard enables regional government to include measures aimed at improving the availability of financial services, public satisfaction with the operations of financial institutions and the financial literacy of households and SMEs in their plans of systemic measures for the development of competition.

FINANCIAL INCLUSION FOR PERSONS WITH DISABILITIES, ELDERLY AND OTHER LOW-MOBILITY PERSONS

Implementation of the Action Plan to improve financial inclusion for persons with disabilities, low-mobility persons and the elderly in 2017–2019 was completed.

A draft Action Plan was developed for 2020–2021, with a special focus on improving availability of remote service channels for

¹ Approved by Directive of the Government of the Russian Federation No. 3227-r, dated 27 December 2019.

² Approved by Directive of the Government of the Russian Federation No. 768-r, dated 17 April 2019, 'On Approval of the Standard for Promotion of Competition in the Constituent Territories of the Russian Federation'.

persons with disabilities, the elderly and other low-mobility persons and improving financial inclusion for persons with mental disabilities and other groups that face challenges in representing their interests.

A number of recommendation documents were issued for financial institutions,¹ including, among other things, recommendations for face-to-face and remote services for persons with disabilities, the elderly and other low-mobility persons, on improving the qualifications of specialists in financial institutions providing services to them and on employing such categories of persons in financial institutions.

During its second stage, the annual monitoring of how the credit institutions were implementing the Bank of Russia's recommendations² to create a barrier-free environment for persons with disabilities, the elderly and other low-mobility persons showed that 58% of credit institutions had completely or nearly implemented these recommendations (20 pp more than in 2018), and, net of the recommendations for technical re-equipping of infrastructure, this figure reached 83% (15 pp more than in 2018).

The Bank of Russia participated in the development of updated national standard GOST R 52872-2019³ that contains provisions for a barrier-free digital environment, including internet resources for persons with disabilities, the elderly and other low-mobility persons.

IMPROVING FINANCIAL INCLUSION FOR SMEs

The Bank of Russia continued to implement its [Roadmap for the development of SME financing](#) approved in September 2018. The main areas of the Roadmap include improving the availability of various financial instruments

(bank lending, stock market instruments, leasing, factoring, microfinance) and implementing the concept of a 'digital customer' aimed at improving the quality and speed of banking services to SMEs by increasing the share of electronic interactions.

To stimulate lending to SMEs, in 2019, the Bank of Russia eased its regulations,⁴ including for banks with a basic licence.

For banks with a basic licence, the threshold of loans, other assets and contingent credit liabilities which may be included in portfolios of homogeneous loans was increased from 1.5% to 3% of equity (capital), and the minimum number of individual SME borrowers was halved (from 100 to 50), while requirements for such borrowers may be included in the so-called 'regulatory retail portfolio', where a reduced rate of 75% will be applied to SME borrowers for calculation of required ratios.

For banks with a universal licence, internal bank methodologies of risk assessment may be used without using official accounting reports of SME borrowers when assessing loans to such borrowers in an amount of up to ₹10 million on a portfolio basis.

Retail loans, including loans to individual entrepreneurs, may be included in the portfolio of other homogeneous loans with reduced provision rates when such borrowers are identified by biometric personal data.

For portfolios of bank guarantees and sureties not exceeding ₹10 million provided to SMEs as collateral on bids for participation in the contract system regulated by Federal Law No. 44-FZ⁵ or as collateral on obligations of the principal to the beneficiary prior to the occurrence of these obligations, the minimum size of provisions was set at 0.3%.⁶

¹ Bank of Russia Information Letter No. IN-01-59/5, dated 28 January 2019, and Methodological Recommendations of the Bank of Russia No. 12-MR, dated 26 April 2019.

² Bank of Russia Information Letter No. IN-03-59/20, dated 12 May 2017.

³ GOST R 52872-2019 'Internet resources and other information presented in electronic digital form. Applications for stationary and mobile devices and other user interfaces. Requirements for accessibility for persons with disabilities and other persons with limitations on daily activities' (approved by Order of Rosstandart No. 589-st, dated 29 August 2019).

⁴ The innovations were introduced by Bank of Russia Ordinance No. 5211-U, dated 18 July 2019, 'On Amending Bank of Russia Regulation No. 590-P, Dated 28 June 2017, 'On the Procedure for Credit Institutions to Make Loss Provisions for Loans, Loan and Similar Debts' and Bank of Russia Ordinance No. 5212-U, dated 18 July 2019, 'On Amending Clauses 4.1 and 4.4 of Bank of Russia Regulation No. 611-P, Dated 23 October 2017, 'On the Procedure for Credit Institutions to Make Loss Provisions'.

⁵ Federal Law No. 44-FZ, dated 5 April 2013, 'On the Contract System in State and Municipal Procurement of Goods, Works and Services'.

⁶ Introduced by Bank of Russia Ordinance No. 5212-U, dated 18 July 2019, 'On Amending Clauses 4.1 and 4.4 of Bank of Russia Regulation No. 611-P, Dated 23 October 2017, 'On the Procedure for Credit Institutions to Make Loss Provisions'.



The volume of loans granted to small- and medium-sized businesses was the highest in the last five years

The loan quality category may be upgraded by one classification category if the borrower uses the loan to finance its operations.¹

With regard to loans issued under project financing, the option was given of using a preferential approach to provisioning which provides for classifying loans and determining their estimated provisions on the grounds of a borrower's creditworthiness level assigned on the basis of compliance with the maximum number of criteria established with consideration for the specifics of project financing.²

Two securitisation transactions were conducted in 2019 Q4 in accordance with the securitisation standards for portfolios of SME loans.

In 2019, new loans in the amount of ₹7.8 trillion were provided to SMEs, which was 14.8% more than in 2018. The growth of SME lending in 2018 was lower than in 2017 and amounted to 11.4%.

As of 1 January 2020, the outstanding loans (loan portfolio) provided by the banking sector and State Development Corporation VEB.RF to SMEs amounted to ₹4.7 trillion, an increase of 12.4% compared to 1 January 2019. A year earlier (1 January 2019 vs 1 January 2018), the growth of the SME loan portfolio was substantially lower and amounted to 1.1%.

The Bank of Russia continued to participate in the implementation of the national project 'Small- and Medium-Sized Enterprises, Support

for Individual Entrepreneurs', as part of which the Bank of Russia coordinates the development of instruments enabling SMEs to raise financing from the stock market.

In 2019, a system of measures was established with the methodological support of the Bank of Russia to support SMEs in raising financing through bonds,³ and, as a result, the volume of financing raised in the Growth Sector of PJSC Moscow Exchange amounted to ₹3.12 billion, exceeding the national project targets more than threefold. According to SMEs, these support measures enabled them to raise financing with cost-effectiveness comparable to bank lending.

In 2019, as part of the national project, more than 250 regional events were held on using financial market instruments for business development, with a total audience of more than 13,000 people. In addition, seminars on SME financing through the stock market were held in the administrative centres of six federal districts.⁴

Also, as part of the national project, the Bank of Russia took part in the development of programmes for state support to leasing⁵ and crowdfunding⁶ instruments for SMEs. Decrees on subsidising the use of these financing instruments were adopted by the Government of the Russian Federation.

To develop SME financing instruments, the Central Bank of the Russian Federation con-

¹ Subject to compliance with conditions regarding the quality of debt servicing and the borrower's financial position as well as the indicators of the borrower's operations.

² These innovations in the classification of loans extend to loans to SMEs and were introduced by Bank of Russia Ordinance No. 5288-U, dated 16 October 2019, 'On Amending Bank of Russia Regulation No. 590-P, Dated 28 June 2017, 'On the Procedure for Credit Institutions to Make Loss Provisions for Loans, Loan and Similar Debts'.

³ Decree of the Government of the Russian Federation No. 532, dated 30 April 2019, 'On the Approval of the Rules for Subsidies from the Federal Budget to Russian Small- and Medium-Sized Businesses to Compensate Part of the Costs of Issuing Shares and Bonds and Payment of Coupon Yield on Bonds Placed on a Stock Exchange' (as amended by Decree of the Government of the Russian Federation No. 1845, dated 26 December 2019).

⁴ Except for the Central and North Caucasian Federal Districts.

⁵ Decree of the Government of the Russian Federation No. 1920, dated 27 December 2019, 'On Approval of the Rules for Subsidies from the Federal Budget to Leasing Organisations for State Support of Leasing Transactions of Small- and Medium-Sized Businesses'.

⁶ Decree of the Government of the Russian Federation No. 1898, dated 27 December 2019, 'On Approval of the Rules for Subsidies from the Federal Budget for State Support to Russian Companies to Compensate a Part of Costs of Access to a Collective Investment Platform'.

ducts quarterly monitoring of crowdfunding sites. In the first 9 months of 2019, the total volume of transactions in the crowdfunding market amounted to ₹5.4 billion,¹ most of which (₹5.3 billion) were in the SME financing segment.

Federal Law No. 259-FZ² was adopted to regulate relations arising from investing and raising investments through investment platforms. A section on the activities of [investment platform operators](#) was created on the Bank of Russia website.

¹ Based on voluntary reports from crowdfunding sites participating in the Bank of Russia Working Group for monitoring, consumer risks assessment and proposal development for the regulation of crowdfunding sector.

² Federal Law No. 259-FZ, dated 2 August 2019, 'On Attracting Investments Using Investment Platforms and Amending Certain Laws of the Russian Federation'.

2.3.4. IMPROVING CORPORATE RELATIONS

In 2019, the Bank of Russia made efforts to improve corporate legislation, including under the action plan 'Business Climate Transformation',¹ aimed at enhancing protection of minority investors and the quality of corporate governance in Russian economic entities.



The Bank of Russia continued its efforts to protect the rights of shareholders

An important event was adoption of Federal Law No. 55-FZ,² aimed at protecting shareholders against dilution of their interest in the authorised capital of the company and infringement of dividend rights. Shareholders of public companies are now vested with the pre-emptive right to purchase new categories of shares and issue-grade securities convertible into such shares. The law also establishes that for shares admitted to circulation in organised trading the price of redemption by the issuer at the request of shareholders must in all cases be based on the weighted average value of such shares.

Federal Law No. 356-FZ³ was adopted to clarify the procedure of voting for consent to enter into related party transactions. This removed legal uncertainty with regard to the votes of entities controlled by a party with an interest in the transaction; such votes will not be considered in a vote to approve the transaction in question.

Bank of Russia Ordinance No. 5182-U,⁴ aimed at regulating relations related to shareholders' exercise of the right to access information on the company's activities, was adopted to improve the procedure for provision

of information (documents) by joint-stock companies to shareholders upon their request.⁵ In particular, this addressed the relations that arise when several shareholders, acting jointly, simultaneously exercise their right to access documents and information of a joint-stock company and when such right is exercised by a shareholder whose rights to shares are recorded on a personal account opened in the register of company shareholders and on a depository account opened with a depository.

The Bank of Russia continued to develop regulations aimed at enhancing the requirements for information disclosure by the issuers of issue-grade securities, including those established in accordance with the authority granted to the Bank of Russia by the Federal Law 'On the Securities Market' as amended by Federal Law No. 514-FZ.⁶ The regulation of information disclosure by the issuers of issue-grade securities is based on an approach that makes it possible, without any prejudice to information transparency of the securities market, to reduce the administrative burden on issuers associated with excessive information disclosure requirements, as a result of which the details that are important for investment decisions may be lost in the flow of repeated and insignificant information (information noise).

To ensure stability of the Russian financial market, work was done to introduce mechanisms that help overcome pressure from unfriendly measures imposed by foreign states and protect the rights and freedoms as well as the legitimate interests of citizens and resident legal entities of the Russian Federation. With the participation of the Bank of Russia, the Government of the Russian Federation

¹ Approved by Directive of the Government of the Russian Federation No. 20-r, dated 17 January 2019.

² Federal Law No. 55-FZ, dated 15 April 2019, 'On Amending Articles 40 and 75 of the Federal Law 'On Joint-stock Companies'.

³ Federal Law No. 356-FZ, dated 4 November 2019, 'On Amending Article 83 of the Federal Law 'On Joint-stock Companies and Article 45 of the Federal Law 'On Limited Liability Companies'.

⁴ Bank of Russia Ordinance No. 5182-U, dated 28 June 2019, 'On Additional Requirements for Joint-stock Companies to Provide Documents or Their Copies in Compliance with Article 91 of the Federal Law 'On Joint-stock Companies'.

⁵ Federal Law No. 233-FZ, dated 29 July 2017, 'On Amending the Federal Law 'On Joint-stock Companies' and Article 50 of the Federal Law 'On Limited Liability Companies'.

⁶ Federal Law No. 514-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation with Regard to Improving the Legal Regulation of Securities Issuance'.

defined¹ the rules for restricting disclosure and provision of information by issuers under the Federal Law 'On the Securities Market' and the Federal Law 'On Joint-stock Companies'. In such cases, the issuer shall notify the Bank of Russia of the relevant circumstances in accordance with the established procedure.²

Also, to preserve the unimpeded exercise of rights under securities and minimise the risk of unfriendly measures against accounting system institutions, the Government of the Russian Federation with the participation of the Bank of Russia defined³ the cases and conditions when payouts and/or the exercise of rights under securities may take place without compliance with the provisions of Articles 8.7 and 8.9 of the Federal Law 'On the Securities Market'.

In furtherance of the provisions of Federal Law No. 514-FZ, Bank of Russia Regulations governing the following procedures were issued:

- notification of the persons specified in Clauses 19–22 of Article 30 of the Federal Law 'On the Securities Market';⁴
- release of an issuer from the obligation to disclose information;⁵
- familiarisation of the interested parties with the registered decision on the issuance of issue-grade securities⁶.

The Bank of Russia continued to monitor how public joint-stock companies implement the provisions of the Corporate Governance Code (the 'Code')⁷ as well as the quality of explanations provided for deviations from the

practices recommended by the Code. Analysis of annual reports for 2018 disclosed in 2019 by the companies included in the quotation lists of PJSC Moscow Exchange showed a steady trend toward improved corporate governance practices. According to the self-assessment of companies, the average level of implementation of the Code's principles had risen by 5 pp compared to 2017 and amounted to 76%. In 2018, almost three-quarters of public companies from the first-level quotation list implemented more than 75% of all the Code's principles. The average quality of explanations for deviations from the Code's principles also increased by 7 pp in 2018 and amounted to 60%. The results of monitoring corporate governance practices were published in the [Review of Corporate Governance Practices at Russian Public Companies for 2018](#).⁸ In 2019, the Bank of Russia expanded its monitoring perimeter with regard to the implementation of principles and recommendations of the Code, and this review presented for the first time an analysis of annual reports of companies from the third-level list of securities admitted to trading by PJSC Moscow Stock Exchange. As expected, the implementation of the Code's principles in such companies was not at a very high level (about 49%), and the average quality of explanations for deviations from the Code's principles was 30%. It should be noted that such companies are not subject to the requirements of the listing rules regarding corporate governance,⁹ and, so far, the Bank of Russia has not been

¹ Decree of the Government of the Russian Federation No. 400, dated 4 April 2019, 'On the Peculiarities of Disclosure and Provision of Information Subject to Disclosure and Provision in Accordance with the Federal Law 'On Joint-stock Companies' and the Federal Law 'On the Securities Market'.

² Bank of Russia Ordinance No. 5096-U, dated 21 March 2019, 'On the Form and Procedure for Issuers to Submit to the Bank of Russia Notifications Regarding Information Which Cannot Be Disclosed and/or Provided'.

³ Decree of the Government of the Russian Federation No. 1538, dated 30 November 2019, 'On Defining the Cases and Conditions When Payouts and/or the Exercise of Rights under Securities May Take Place without Compliance with Certain Provisions of the Federal Law 'On the Securities Market'.

⁴ Bank of Russia Ordinance No. 5178-U, dated 27 June 2019, 'On the Form (Format) of, Requirements for Content, Procedure and Time-frame for Submitting Notices with Information Required by Clauses 19–22 of Article 30 of the Federal Law 'On the Securities Market' by Persons Listed in Clauses 19–22 of Article 30 of the Federal Law 'On the Securities Market' to the Issuer and the Bank of Russia'.

⁵ Bank of Russia Ordinance No. 5254-U, dated 12 September 2019, 'On the Form (Format), Requirements for the Content and Procedure for Consideration of an Application Issued by a Joint-stock Company to Relieve It of the Duty to Disclose Information in Accordance with Article 30 of the Federal Law 'On the Securities Market' and on the List of Documents Which Should be Attached to Such Application'.

⁶ Bank of Russia Ordinance No. 5255-U, dated 12 September 2019, 'On Requirements for the Procedure for Examining Registered Decisions on Issuing Issue-grade Securities'.

⁷ Approved by the Bank of Russia Board of Directors on 21 March 2014 and recommended for use by joint-stock companies whose securities have been admitted to exchange trading by Bank of Russia Letter No. 06-52/2463, dated 10 April 2014.

⁸ Posted on the Bank of Russia website.

⁹ Bank of Russia Regulation No. 534-P, dated 24 February 2016, 'On Securities Admittance to Organised Trades'.

directly involved in improving their corporate governance practices. Given the positive experience of awareness-building activities on implementation of the Code's recommendations among companies from quotation lists, the Bank of Russia will pay close attention to awareness-building in companies from the non-quotation list.

To clarify the methods and mechanisms that can be used to implement the Code's recommendations and focus the attention of public joint-stock companies on current issues in corporate governance, the Bank of Russia has published information letters with recommendations on corporate governance on its official website.¹ These documents describe the main approaches to organising and conducting a self-assessment of the Board of Directors' efficiency and using and disclosing the obtained results as well as recommendations on the participation of the Board of Directors in the development and management of information technologies and management of information security risks aimed at increasing awareness of the importance of the strategic and control functions exercised by the Board of Directors in the area of information technologies.

During the reporting period, considerable attention was paid to the matters of corporate governance in financial institutions. In particular, the guidelines for members of the Board of Directors (Supervisory Board) of a financial institution² were published on the Bank of Russia website to ensure that the members of the Board of Directors understand their functions and responsibilities, the proper adherence to which, in the opinion of the Bank of Russia, will help the members of the Board of Directors, with a diligent and reasonable approach, make decisions within the scope of their authority.

In 2019, the Bank of Russia reviewed more than 2,000 appeals submitted by individuals and legal entities, government authorities and other organisations to clarify issues in the area of corporate relations and information disclosure. It reviewed 572 packages of documents as part of state oversight of the acquisition of large blocks of shares. The regulator reviewed 278 packages of documents on the release of issuers from the duty to disclose information. In the course of the current supervision of corporate relations and information disclosure, the Bank of Russia issued over 6,000 orders and identified more than 5,000 administrative offences.

¹ Bank of Russia Information Letter No. IN-06-28/41, dated 26 April 2019, 'On Recommendations for Public Joint-stock Companies to Organise and Conduct a Self-assessment of Efficiency of Their Boards of Directors (Supervisory Boards)' and Bank of Russia Information Letter No. IN-06-28/45, dated 24 May 2019, 'On Recommendations for a Board of Directors (Supervisory Board) to Participate in Information Technology Development and Management, and in the Management of Information Security Risk at a Public Joint-stock Company'.

² Bank of Russia Information Letter No. IN-06-28/18, dated 28 February 2019, 'On the Guidelines for Members of the Board of Directors (Supervisory Board) of a Financial Institution'.

2.3.5. DEVELOPMENT OF THE BOND MARKET

New financial instruments appeared in 2019 due to changes in the regulation of the securities market:

- the first programmes and issues of structured bonds (a total of 18 issues of structured bonds and two programmes of structured bonds have been registered by the Bank of Russia since the amendments to the Federal Law 'On the Securities Market' came into effect¹);
- a programme and issue of collateralised bonds under a programme of bonds issued by a special-purpose project financing company (a project of the Project Finance Factory established by the State Development Corporation VEB.RF).

In 2019, after an almost 10-year interval, a foreign state placed an issue on the Russian financial market: bonds of the Republic of Belarus were placed and admitted for public circulation under a securities prospectus registered by the Bank of Russia.²

Federal Law No. 261-FZ,³ adopted in 2019, expanded opportunities for securitisation through loans under equity construction agreements, which created additional incentives both for further development of the mortgage bond market and for mortgage lending.

The Bank of Russia defined the procedure for placement of bonds by Russian issuers under foreign law and outside the Russian Federation without obtaining authorisation from the Bank of Russia.⁴

The search for new opportunities to raise financing by issuing bonds requires the continuous improvement of regulation of the issuance procedure and the creation of an issuer-friendly

mechanism for registration of bond issues. In this regard, the Bank of Russia has adopted a new version of the Securities Issue Standards.⁵

Amendments to the regulation for the listing of bonds issued by private partners of concession agreements were adopted which considered the specifics of the business model used in such projects. In particular, these issuers were exempt from the general requirements of break-even operations and collateral for bond issues.⁶

In 2019, following discussions with market participants on matters raised in the Consultation Paper '[On Conceptual Approaches to Regulating the Listing and Inclusion of Bonds in Quotation Lists](#)',⁷ the Bank of Russia developed a concept for reforming the listing of bonds.⁸

The growth of the bond market, the entry of new borrowers from small- and medium-sized companies and the emergence of retail investor demand for high-yield investments presented a new challenge for the Bank of Russia and financial market infrastructure. In collaboration with Russian exchanges, the Bank of Russia worked on raising confidence in the Russian bond market by identifying the bonds of issuers with increased (uncertain) investment risk. In particular, a High Investment Risk Securities Sector was established at PJSC Moscow Exchange, which included 132 bond issues of 66 issuers as of the end of 2019.

Together with the exchanges, the Bank of Russia made extensive efforts to develop responsible investing. In 2019, a new version of the Listing Rules establishing the Sustainable Development Sector was registered for PJSC

¹ Federal Law of No. 75-FZ, dated 18 April 2018, 'On Amending the Federal Law 'On the Securities Market' with Regard to the Regulation of Structured Bonds' (effective since 16 October 2018).

² Before that, the only bond prospectus of a foreign state (the Republic of Belarus) was registered by the FFMS of Russia in 2010.

³ Federal Law No. 261-FZ, dated 2 August 2019, 'On Amending the Federal Law 'On Mortgage-backed Securities' and Certain Laws of the Russian Federation'.

⁴ Bank of Russia Ordinance No. 5113-U, dated 2 April 2019, 'On the Form (Format) of a Notification about Placement or Placement and Circulation Outside the Russian Federation of Securities Issued by Russian Issuers in Compliance with Foreign Law, on Requirements for its Content, and on the Procedure and Timeframes for its Submission to the Bank of Russia'.

⁵ For more details, see [Subsection 2.2.3.7 'Financial Instruments'](#).

⁶ Bank of Russia Ordinance No. 5181-U, dated 27 June 2019, 'On Amending Bank of Russia Regulation No. 534-P, Dated 24 February 2016, 'On Securities Admittance to Organised Trades'.

⁷ Published on the Bank of Russia website on 21 June 2018.

⁸ Public discussion of the concept and draft legislative and regulatory acts aimed at its implementation is scheduled for 2020.

Moscow Exchange. This sector is designed to list the bonds of issuers that raise public funding for projects in the area of ecology and environmental protection or socially important projects.

In November 2019, the first placement of exchange-traded bonds in the green bonds segment of that sector took place; these bonds are meant to raise funds to finance and re-finance loans for energy efficiency projects, renewable energy sources and environmentally friendly transport.

The Bank of Russia registered the first issues of structural bonds, the placement of which was expected to be used for financing a 'green' energy project.

The Securities Issue Standards developed by the Bank of Russia establish conditions and criteria in accordance with which bonds may be called green, social or infrastructure bonds. The institutional separation of such specialised types of bonds will make it possible to create

regulatory incentives for developing responsible investing in the future.

In 2019, regional branches of the Bank of Russia held communication events with professional securities market participants and potential issuers on developing the regional bond market. These events were of an informational and educational nature and sought to generate feedback from market participants on the ability and need to use bonds as an alternative source of borrowings.

As for the development of regional investors, 2019 saw a steady growth in the number of individual investment accounts (IIAs). According to PJSC Moscow Exchange,¹ their growth rate in Russia was 175.7%. Moreover, individuals who opened IIAs increased their share in bonds held by residents by 249% (from ₹11.2 billion to ₹39.2 billion) in 2019. The number of active IIAs in 2019 doubled compared to 2018. The regions demonstrated a similar upward trend in the number of IIAs.

¹ IIA report for December 2019.

2.4. Development of the National Payment System

2.4.1. CASH CIRCULATION MANAGEMENT

The Bank of Russia ensured a continuous supply of banknotes and coins for the payment turnover while improving the efficiency of business processes in cash circulation and minimising risks.

A wider use of non-cash payment instruments caused the share of cash payments in the total turnover of retail trade, public catering and paid services to decline from 44.4% in 2018 to 35.3% in 2019.

At the same time, the amount of cash in circulation¹ was increasing in the reporting year in line with the needs of the economy. This increase (including cash at the cash desks of Bank of Russia divisions) amounted to ₹304.4 billion (2.9% compared to 2018), including ₹299.9 billion in the form of banknotes and ₹4.5 billion in the form of coins.

As of 31 December 2019, the amount of the Bank of Russia's currency units in circulation, including coins made of precious metals, was ₹10,627.5 billion, including banknotes in the amount of ₹10,520.3 billion (6.2 billion units), coins in the amount of ₹106.9 billion (67.8 billion units) and coins made of precious metals in the amount of ₹0.3 billion.

Banknotes accounted for 99.0% of the total value of cash in circulation, and coins accounted for 1.0%. In the total number of currency notes and coins, banknotes accounted for 8.3%, and coins, for 91.7%.

In 2019, the number of banknotes decreased by 0.1 billion units, and the number of coins (excluding coins made of precious metals) increased by 0.9 billion units.

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

In the reporting period, the share of ₹5,000 banknotes in the note structure of cash in circulation increased from 74.9% to 76.8%. At the same time, the share of ₹1,000 banknotes contracted from 16.3% to 14.5%. The respective shares of ₹2,000, ₹500, ₹200, ₹100, ₹50, ₹10, and ₹5 banknotes essentially remained at 2018 levels.

In 2019, cash turnover through the cash desks of Bank of Russia divisions and credit institutions declined by 1.8% compared to the previous year and amounted to ₹98.2 trillion (₹100 trillion in 2018).

In 2019, the Bank of Russia improved its regulations related to the organisation of cash circulation, cash issuance and other cash operations as well as the storage, transportation and collection of cash based on changes in the economy and legislation of the Russian Federation and technology used for handling banknotes and coins.

As of 1 January 2020, the Bank of Russia divisions provided cash services to 3,437 credit institutions and their units as well as 1,451 non-credit institutions. In 2019, the number of credit institutions and their divisions that used the cash services of Bank of Russia divisions decreased by 467 as a result of structural changes in the banking sector. The number of non-credit institutions using the cash services of business units of the Bank of Russia declined by 6,162 due to the closing of bank accounts held by regional branches of the Federal Treasury and the transition of budget-financed organisations to cash services in credit institutions.

The Bank of Russia continued to streamline its network of divisions.

In 2019, the level of counterfeiting remained consistently low, with seven counterfeits per million banknotes in circulation (as in

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.

2018). In the reporting year, 41,355 counterfeit banknotes, including 28,668 banknotes with a face value of ₹5,000 and 8,602 banknotes with a face value of ₹1,000, were detected, withdrawn from payment turnover and handed over to police.

The share of counterfeit ₹5,000 banknotes declined by 2.8 pp to 69.3%. The share of counterfeit ₹1,000 banknotes in the total number of counterfeits amounted to 20.8% in 2019 (24.2% in 2018).

The largest number of counterfeit banknotes was detected in the Central Federal District; the smallest number was detected in the Far Eastern Federal District.

The share of counterfeit banknotes of the Bank of Russia detected in credit institutions declined by 1.6 pp compared to 2018 and amounted to 34.0% of the total number of detected counterfeits.

In 2019, the Bank of Russia divisions and credit institutions detected 2,364 counterfeit banknotes of foreign states (groups of foreign states) and handed them over to police; this was 8.3% less than in 2018.

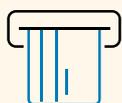
In 2019, Bank of Russia divisions conducted 0.71 million expert assessments of the Bank of Russia's currency units, including 0.42 million expert assessments of suspicious currency units and 0.29 million expert assessments of the accuracy with which banknotes and coins were exchanged.

In 2019, the Bank of Russia issued 36 kinds of precious metal coins (four gold and 32 silver coins) and 19 kinds of commemorative base metal coins into circulation, including one coin with a coloured image in souvenir packaging. The Bank of Russia regularly updates [the list of organisations](#)¹ with signed agreements on the sale of commemorative and investment coins.

¹ Posted on the Bank of Russia website.

2.4.2. DEVELOPMENT OF NATIONAL PAYMENT INSTRUMENTS

In 2019, the Bank of Russia continued to develop the National Payment Card System (NPCS). A priority in this area was promotion of the national payment instrument, Mir cards. As of year-end 2019, 298 credit institutions participated in the Mir payment system, of which 288 accepted the national payment instrument in their infrastructure, and 158 credit institutions issued them.



In 2019, the volume of operations with Mir cards was 1.6 times greater compared to the previous year

By early 2020, credit institutions had issued nearly 73 million Mir cards (1.4 times more than a year earlier), which amounted to 25.2% of total payment cards issued in Russia (in 2018, 53 million Mir cards, or 19.2% of total issuance). In 2019, these cards were used in 9.2 billion transactions for a total amount of ₹17.5 trillion (1.7 times greater in terms of the number of transactions and 1.6 times greater in terms of total amount). The share of Russian domestic transactions with Mir cards in the total payment card transactions rose from 14.5% in 2018 to 19.3% in 2019. Payments for goods and services (73.6%) predominated in the structure of transactions with Mir cards, while, in terms of value, the share of such payments was 26.1%. Compared to 2018, the number and volume of such transactions was 1.8 times and 1.7 times greater, respectively.

In 2019, as required by the laws of the Russian Federation, the Bank of Russia and JSC NPCS together with credit institutions carried out the transition of pensioners to the use of Mir cards.

In the reporting year, projects for placing non-finance services on Mir cards were implemented in Moscow, Saint Petersburg, Sevastopol, Primorye Territory, the Republic of

Mordovia and the Republic of Bashkortostan. In particular, this included the ability to use Mir card to pay for ground public transit and, in seven cities, for transit by metro. A service that enabled direct payments from the Social Insurance Fund of the Russian Federation to Mir cards of insured persons was implemented in 69 Russian regions (50 regions in 2018).

The Mir payment system loyalty programme (cashback service) continued to develop. As of 1 January 2020, 12.2 million Mir cards were registered in this programme (4.5 million cards as of 1 January 2019).

In 2019, customers of 42 credit institutions received the ability to pay for their purchases using Mir Pay, a contactless mobile payment service developed by JSC NPCS. In addition, 28 banks participating in the Mir payment system joined the Samsung Pay service, which made it available to holders of national payment instruments.

To develop national payment instruments in the domestic market, marketing campaigns involving reduced public transit fares when paying with Mir cards were conducted in Moscow, Saint Petersburg, Yekaterinburg, Syktyvkar, Ryazan and Krasnodar. A feature for using Mir cards to pay fines for traffic violations without commission fees was implemented on the Unified Portal of State Services (Functions) (UPSS).

To promote Mir cards outside the Russian Federation, their acceptance was extended to Abkhazia, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Turkey, Uzbekistan and South Ossetia. The first transactions with Mir card were carried out in Tajikistan, the UK, Vietnam and Cyprus.

The 2019–2021 Development Strategy for the National Payment Card System approved in the reporting year defined the goals and key objectives of NPCS to provide new competitive products and services in the area of payments and related non-financial services required by consumers in the Russian Federation.

2.4.3. DEVELOPMENT OF THE BANK OF RUSSIA PAYMENT SYSTEM

In 2019, the Bank of Russia payment system (BoR PS) was used to make 1.7 billion funds transfers in the amount of ₹1,566.5 trillion (1.6 billion transfers in the amount of ₹1,715.1 trillion in 2018). On average, there were 6.9 million daily transfers worth ₹6.3 trillion.

Over the year, the number of BoR PS participants decreased by 10.1% and as of 1 January 2020 amounted to 1,779 organisations, including 1,403 credit institutions (branches), 145 participants other than credit institutions¹ and 231 structural units of the Bank of Russia.² In 2019, the number and volume of funds transfers per BoR PS participant increased by 19.9% and 1.6%, respectively, to 964,400 transfers worth ₹880.5 billion.

Speedy transfers predominated in the volume of funds transfers, with 83.3% (₹1,304 trillion). At the same time, their share in the total number of transfers did not exceed 1% (4.3 million transfers). The average amount per express transfer reached ₹294 million (₹280 million in 2018).

Transfers using the non-speedy service predominated in terms of number (1.7 billion transactions or 99.3%). Their share in the total volume of funds transfers was 16.7% (₹261.9 trillion). Non-express transfers were significantly smaller in terms of volume, with an average amount per transfer of ₹153,600.

The Faster Payments System (FPS) was commissioned in 2019 as part of the development of the BoR PS and enabled individuals to make instant funds transfers 24/7/365 using the mobile telephone number of a recipient in

another bank (C2C operations³) as well as to pay for goods (works, services) using QR codes (C2B operations⁴).

Under the authority provided to the Bank of Russia by Federal Law No. 173-FZ:⁵

- the rules of the BoR PS established a requirement for mandatory use of the FPS by credit institutions participating in the Mir payment system, which came into effect for systemically important credit institutions on 1 October 2019 and will come into force for credit institutions with a universal license on 1 October 2020;
- a decision of the Bank of Russia Board of Directors, dated 30 August 2019, set the tariffs for FPS services, rates (tariffs) of interbank fees and maximum fees that may be charged by credit institutions to their customers for funds transfers to pay for goods (works, services) using the FPS.

To minimise the liquidity risk of credit institutions participating in the FPS, a mechanism for using the intraday loan limit within the FPS at night and on weekends and holidays was developed in 2019 and became available at the beginning of 2020.

In October 2019, the Bank of Russia together with JSC Russian Post⁶ successfully tested payment for housing and utility services through the FPS. The launch of a dedicated solution for paying for housing and utility services is expected in 2020.

As of 1 January 2020, 36 credit institutions (including 10 out of 11 systemically important banks) were connected to the FPS and carried



Bank of Russia Faster Payment System commissioned — 36 credit institutions, including 10 systemically important ones, were connected to the system as of 1 January 2020

¹ The Federal Treasury and its regional branches.

² Main directorates of the Bank of Russia, cash settlement centres, branches, branches that are national banks of the main directorates of the Bank of Russia, structural units of the Bank of Russia head office and field institutions of the Bank of Russia.

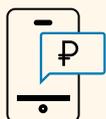
³ C2C (customer-to-customer) operations: funds transfers from individuals to individuals.

⁴ C2B (customer-to-business) operations: funds transfers from individuals to legal entities.

⁵ Federal Law No. 173-FZ, dated 3 July 2019, 'On Amending the Federal Law 'On the National Payment System' and Certain Legislative Acts of the Russian Federation'.

⁶ On 1 October 2019, FSUE Russian Post was transformed into JSC Russian Post.

out 6.8 million transactions worth ₺59.7 billion in the reporting year. The trends point to a significant rise in the popularity of the FPS following its launch; the number of transfers through the FPS was 67 times greater in the fourth quarter 2019 compared to the first quarter 2019, and the volume of transfers was 75 times greater.



The number of financial messages in the FMS increased by a factor of 2.4

As part of improving the efficiency of exchanging payment and financial messages with customers of the Bank of Russia, 1,170 customers of the Bank of Russia were transitioned to the use of a centralised component, the Bank of Russia Transport Gateway, providing a highly available and reliable connection to the Bank

of Russia payment system and ensuring flexible connection schemes.

As of 1 January 2020, the number of users in the Bank of Russia Financial Messaging System (FMS) was 391. In 2019, FMS users sent 12.9 million financial messages (2.4 times more than a year earlier), almost 90% of which were sent in MT103 (Single Customer Credit Transfer) format.

As part of development of the FMS in the reporting year the Bank of Russia ensured 24/7/365 provision of financial messaging services through the FMS and expanded the range of FMS users by connecting banks' corporate customers and foreign credit institutions. In addition, it implemented a new FMS connection scheme which enabled the transfer of third-party financial information and launched a new service for using ISO 20022 messages in communications between banks and their corporate customers through the FMS.

2.4.4. DEVELOPMENT OF OTHER PAYMENT SYSTEMS

In 2019, the volume of funds transfers using payment systems¹ amounted to ₹56.7 trillion.

47.2% of the total volume of transfers in the payment systems were transfers made via the socially important Sberbank payment system.

In accordance with Federal Law No. 161-FZ,² as part of monitoring systemically and socially important payment systems, the Bank of Russia completed assessment of the socially important Visa payment system for compliance with the CPMI-IOSC document 'Principles for Financial Market Infrastructures'³ (the 'FMI Principles'). The results of the assessment confirmed the high level of payment system's compliance with FMI Principles; the results of the assessment were posted on the Bank of Russia website.

To develop and improve reliability of financial market infrastructures, the Bank of Russia developed and approved a Methodology for the assessment of systemically and socially important payment systems and systemically important infrastructure organisations of the financial market (central depository, central counterparties and repositories)⁴ and issued a Bank of Russia information letter.⁵

In 2019, the central (national) banks of the Republic of Armenia, the Republic of Belarus, Kazakhstan, the Kyrgyz Republic, Russia and Tajikistan signed a Memorandum of Recommendations⁶ on ensuring transparency in the market of funds transfer services and consumer protection for financial institutions involved in funds transfers on behalf of individuals without opening a bank account in foreign countries.

The main objectives of the Memorandum of Recommendations are for regulators to provide assistance in the application of these recommendations by the financial institutions of the above countries and as a result to raise the customer awareness of the terms and conditions for receiving funds transfer services without opening a bank account and to protect the interests of customers.

To share experience and align approaches to the regulation, supervision and monitoring of payment systems, efforts have been continued to implement bilateral agreements on payment system supervision/monitoring signed by the Bank of Russia and the central (national) banks of EAEU member states.

¹ The payment systems included in the register of payment systems operators and the Mir payment system (excluding NSD PS).

² Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System'.

³ Document of the Committee on Payments and Market Infrastructures and International Organisation of Securities Commissions 'Principles for Financial Market Infrastructures'.

⁴ Bank of Russia Order No. OD-2551, dated 5 November 2019, 'On the Approval of the Methodology for the Bank of Russia to Assess Systemically and Socially Important Payment Systems and Systemically Important Financial Market Infrastructures (Central Depository, Central Counterparties, and Repositories) and Cancellation of Bank of Russia Orders No. OD-607, Dated 9 April 2014, and No. OD-3118, Dated 6 November 2014'.

⁵ Bank of Russia Information Letter No. IN-04-45/89, dated 2 December 2019, 'On the Methodology for the Bank of Russia to Assess Systemically and Socially Important Payment Systems and Systemically Important Financial Market Infrastructures'.

⁶ The recommendations are based on the General Principles for International Remittance Services developed by CPMI and the World Bank (www.bis.org/publ/cps76.pdf).

2.5. Technology development and innovation support in the financial market

2.5.1. DEVELOPMENT OF FINANCIAL TECHNOLOGIES

The Bank of Russia took an active part in creating regulations providing for the development and implementation of financial technologies.

In March 2019, Federal Law No. 34-FZ¹ was adopted to establish the concept of digital rights (contractual and other rights), the content and conditions for the exercise of which are determined in accordance with the rules of an information system that meets the criteria specified by the law, as well as the concept of smart contracts.

In August 2019, Federal Law No. 259-FZ² was adopted to expand the circle of investors and methods of attracting investments with the provision of certain guarantees from platform operators, who will be obligated to carry out preliminary control of documentation of persons attracting investments.

Draft Federal Law No. 419059-7 'On Digital Financial Assets', aimed at regulating the relations arising from the creation, issue, storage and circulation of digital financial assets, was prepared for the second reading in cooperation with the stakeholder agencies.

The draft law on digital financial assets will provide for the conversion of traditional financial instruments into digital form as well as the expansion of alternative ways for financial and other institutions, including small- and medium-sized businesses, to attract investments.

Draft Federal Law No. 514780-7 'On Amending the Federal Law 'On Countering the Le-

galisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' and Other Laws of the Russian Federation' was finalised in preparation for the second reading. This draft federal law aims to create a Unified Information System for the Verification of Individual Subscribers and Users of Communications Services of Corporate Subscribers to allow financial institutions to:

- ensure the countering of fraud in the financial market when onboarding individuals and legal entities and providing services to them, including funds transfers;
- use the information received from communications operators to improve the quality and reliability of identification of individuals when onboarding individuals and legal entities and providing services to them.

Federal Law No. 476-FZ,³ developed as part of the 'Digital Economy' National Programme, was adopted to provide for the possibility of using the Unified Biometric System for obtaining and using a cloud-based electronic signature along with Federal Law No. 480-FZ,⁴ which provides for the use of the Unified Biometric System by notaries to identify individuals applying for notarial services.

To increase the share of non-cash payments within the Digital Economy Programme, Rospotrebnadzor together with the Bank of Russia has developed a draft law⁵ obligating businesses that sell goods online (including

¹ Federal Law No. 34-FZ, dated 18 March 2019, 'On Amending Part 1, Part 2 and Article 1124 of Part 3 of the Civil Code of the Russian Federation'.

² Federal Law No. 259-FZ, dated 2 August 2019, 'On Attracting Investments Using Investment Platforms'.

³ Federal Law No. 476-FZ, dated 27 December 2019, 'On Amending the Federal Law 'On Electronic Signatures' and Article 1 of the Federal 'On the Protection of Rights of Legal Entities and Sole Proprietorships in the Scope of State Control (Supervision) and Municipal Control'.

⁴ Federal Law No. 480-FZ, dated 27 December 2019, 'On Amending the Fundamentals of the Legislation of the Russian Federation on Notaries and Certain Laws of the Russian Federation'.

⁵ Draft Federal Law No. 861571-7 'On Amending Article 16.1 of the Law of the Russian Federation 'On Consumer Protection' was submitted to the State Duma on 14 December 2019.



Registration in the Unified Biometric System is available at more than 11,000 banking service points of 228 banks

aggregators) to provide consumers with the option of paying with Mir cards. This draft law aims to increase the transparency of remote sales as well as to stimulate the expansion of infrastructure for accepting national payment instruments.

Efforts to develop a **remote identification mechanism** continued. The Bank of Russia worked with banks to streamline collection of biometric personal data for the Unified Biometric System. As of the end of 2019, registration in the Unified Biometric System was available in more than 11,000 banking service points of 228 banks (more than 3.7 times more than at the beginning of the year) and outside of bank offices in all regions (by courier). The number of users registered in the Unified Biometric System increased from 2,317 to 109,987 (over 47 times more than at the beginning of the year).

Customers can remotely open bank accounts, obtain loans and transfer funds after remote identification using desktop computers or mobile devices (phones, tablets). Android and iOS mobile apps were developed and launched for remote authentication via mobile devices.

On 16 July 2019, Draft Federal Law No. 613239-7¹ aimed at further developing the remote identification mechanism passed the first reading in the State Duma. The draft law is expected to establish:

- the obligation of banks with a universal licence to provide the option to remotely open accounts and obtain loans after remote identification;
- the expansion of the use of the Unified Biometric System for any financial and non-financial services;

- information security requirements for biometric systems of banks and other institutions;
- the right of banks with a basic licence to collect biometric data.

Draft Law No. 613239-7 is being prepared for the second reading.

The Bank of Russia together with the Ministry of Communications of Russia and with the participation of PJSC Rostelecom developed the Concept and Architecture of the **Digital Profile** and obtained its approval by the Government of the Russian Federation. Decree of the Government of the Russian Federation No. 710² was adopted to establish the procedure for conducting an experiment to improve the quality and coherence of data contained in state information resources.

As part of this experiment, 20 banks and four insurance entities participated in a pilot project launched in December 2019 aimed at creating and using a digital profile infrastructure in lending and provision of CMTPLI and motor hull insurance.

The platform created as part of the experiment will provide convenient, safe and fast data exchange between consumers and information providers and will improve the range, quality and accessibility of services for end users as well as the speed and transparency of data provision by allowing individuals to manage digital consent for data exchange.

On 5 July 2019, Draft Law No. 747513-7³ was submitted to the State Duma to regulate the creation and use of the digital profile infrastructure.

The following pilot services were tested on the DLT-based masterchain platform developed

¹ Draft Federal Law No. 613239-7 'On Amending Article 7 of the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'.

² Decree of the Government of the Russian Federation No. 710, dated 3 June 2019, 'On the Experiment for Improving the Quality and Coherence of Data in State Information Resources'.

³ Draft Federal Law No. 747513-7 'On Amending Certain Laws (regarding Clarification of Identification and Authentication Procedures)'.

by financial market participants at the FinTech Association:

- an e-mortgage accounting service was launched for commercial use;
- a pilot service for operations with digital bank guarantees was tested and is planned to be commissioned for commercial use in 2020 Q2.

Within the framework of the FinTech Association, a concept for **open interfaces** (open APIs¹) was developed to allow for the transfer and receipt of data between the information systems of financial institutions via standard data exchange protocols.

The introduction of open interfaces in the financial market is aimed at ensuring equal access to information for service providers as well as competitive and secure data exchange between financial market participants by standardising their interactions. The following standards for open APIs were prepared: general provisions, initiating payment and funds transfer, obtaining information about an account or about a company and its products, standards for information security requirements. The standards will be approved in 2020.

The Bank of Russia received 44 applications from banks, fintech companies and other businesses for participation in the **regulatory sandbox**. The main objective of the regulatory sandbox is to create a mechanism for the quick and safe implementation of innovative products, services and technology in the Russian financial market.

The regulatory sandbox makes it possible to verify hypotheses on positive effects of using financial services and technology, identify relevant risks and determine measures needed

to create legal and technological conditions for their implementation. Five services were tested in 2019:

- a lending service for SMEs based on credit risk assessment according to the data from fiscal data operators;
- a lending service for SMEs based on credit risk assessment according to the data from fiscal data operators, information on transactions over borrowers' current accounts and information on borrowers' transactions received from its counterparties;
- a P2P flight delay insurance service;²
- a service for settlements using digital financial assets;
- a service for the issuance and circulation of digital rights secured by services, goods and securities.

A [roadmap for the SupTech³ and RegTech⁴](#) solutions of the Bank of Russia, listing the major projects and initiatives in the field of supervisory and regulatory technologies was approved in October 2019. To further improve SupTech and RegTech solutions, the Bank of Russia is developing a concept for determining potential directions for SupTech and RegTech activities of the Bank of Russia and financial market participants. The technologies will make it possible to reduce the regulatory burden on supervised institutions and to improve internal processes, including internal monitoring.

In accordance with the new reporting format, the Bank of Russia is continuing full-scale acceptance of **supervised entities' reporting in XBRL format** from insurance market participants and mutual insurance companies, non-governmental pension funds, professional securities market participants, trade organisers,



The Bank of Russia received 44 applications from banks, fintech companies and other businesses for participation in the regulatory sandbox

¹ API (application programming interface) defines ways for various computer programmes to interact with each other.

² The service is a P2P insurance platform where individuals acquire insurance against flight delays, with insurance activities carried out by investors (individuals and legal entities) forming a cash pool for insurance payments.

³ SupTech (Supervisory Technology) means technology used by regulators to enhance the efficiency of their regulation and supervision of the activities of financial market participants.

⁴ RegTech (Regulatory Technology) means technology used to facilitate the fulfilment of regulatory requirements by financial institutions.

clearing institutions and entities acting as central counterparties as well as joint-stock investment funds and management companies of investment funds, unit investment funds and non-governmental pension funds.

In 2019, the Bank of Russia collected reporting in XBRL format for the first time in connection with the entry into force of Bank of Russia Ordinance No. 5047-U¹ (reporting in XBRL format is to be submitted starting from the reporting for 2019 Q1) and Bank of Russia Ordinance No. 5059-U² (reporting in XBRL format is to be submitted starting from the reporting for May 2019).

The Bank of Russia continued to refine the XBRL taxonomy by updating reporting requirements for market segments already reporting in XBRL format and by developing new taxonomy modules.

In 2019, two types of software ('Converter' and 'XBRL Questionnaire Editor', which convert reporting data into XBRL format) were regularly updated to provide technological support and in accordance with the comments of NFI market participants.

The Autonomous Non-profit Organisation XBRL Implementation and Development Centre, established by the Bank of Russia on 24 November 2017, developed a procedure for voluntary certification of software by developers of XBRL solutions. The launch of the voluntary certification procedure is planned for 2020 Q2.

On 1 October 2019, the Supreme Eurasian Economic Council approved a **Concept for Shaping the Common Financial Market of the Eurasian Economic Union**, which includes aspects of the development of financial technologies.

As part of implementation of this concept and in preparation for joint pilot projects in financial technologies, the Working Group on Coordination of National Payment Systems of EAEU Member States analysed legislation of the EAEU member states on digital financial

assets, national remote identification systems and regulation of cross-border transmission of personal data of individuals as well as national regulation in the field of digital guarantees and letters of credit.

Proposals for a pilot project on open information APIs providing access to information on businesses and their products were prepared for further development of open APIs in the EAEU.

The Working Group of the pilot project includes representatives of central (national) banks and stakeholder financial institutions of the EAEU member states. The goals, objectives and client scenarios for the pilot project were approved. Based on the results of the pilot project, the Working Group will evaluate the possibility of harmonising standards in the field of open APIs developed by the EAEU member states and form general recommendations for market participants.

During its 8th meeting held in Minsk on 19 November 2019, the Working Group approved road maps for 2020 and subsequent years in 7 areas of cooperation: 'Financial Technologies', 'Digital Letters of Credit, Bank Guarantees and Mortgage Certificates', 'Faster Payment Systems', 'Financial Messages and Settlements', 'National Payment Card Systems', 'Implementation of ISO 20022' and 'Cyber Security'.

The **FinTech Hub of the Bank of Russia** was approved for launch. As part of creation of the FinTech Hub of the Bank of Russia, workshops in Application of Financial Technologies, Innovations in Payments and Cyber Security for schoolchildren in specialised classes hosted by the Sirius Educational Centre (Sirius Centre) were developed and launched.

Educational programmes in Payment Services, Cyber Security, Biometrics and Distributed Ledger Technology hosted by the Sirius Centre were prepared for students of Russian universities.

¹ Bank of Russia Ordinance No. 5047-U, dated 27 December 2018, 'On the Procedure for Non-bank Financial Institutions to Submit to the Bank of Russia Statements on Cash Flows across Accounts (Deposits) at Banks Outside of the Russian Federation'.

² Bank of Russia Ordinance No. 5059-U, dated 15 January 2019, 'On Amending Bank of Russia Ordinance No. 4263-U, Dated 13 January 2017, 'On the Timeframe and Procedure for Non-bank Financial Institutions to Compile and Submit Statements on Operations with Monetary Funds to the Bank of Russia'.

On 9–11 October 2019, the 5th innovative financial technology forum FINOPOLIS was held in Sochi and attended by more than 1,700 participants from 37 countries. The forum became the largest platform for professional discussion of both current and future scenarios for the application of financial technologies with the participation of top managers of major financial and IT companies, as well as representatives of government bodies.

The Forum paid special attention to the FINOdays Youth Programme. In the preliminary stage, 687 students from leading universities of Russia were selected as potential participants. 82 of them reached the final stage of selection and went to Sochi to take part in the FINOdays Youth Programme of workshops, lectures and a 24-hour Hackathon. 17 teams were formed out of the finalists to work out cases provided by partner companies.

2.5.2. DEVELOPMENT OF ELECTRONIC INTERACTION MECHANISMS

The Bank of Russia continued its efforts to develop a mechanism allowing banks to obtain electronic information on the results of provision of certain government and municipal services via the **Unified Portal of State and Municipal Services** (Functions) (UPSS). The mechanism allows banks to obtain information on the status of individual personal accounts in the Pension Fund and data under reporting form 2-NDFL of the Federal Tax Service of Russia. The results of provision of certain government and municipal services are provided to banks subject to the consent of customers expressed through the UPSS.

Order of the Government of the Russian Federation No. 1471-r, dated 15 August 2012, was amended to allow credit institutions access 11 new types of information in the information systems of government bodies and entities, including the Ministry of Justice, the Federal Tax Service, the Ministry of Culture, Rosstat, and the Pension Fund (Order of the Government of the Russian Federation No. 2178-r, dated 28 September 2019). Thus, credit institutions can obtain 46 types of information via the unified system of interagency electronic interaction.

The UPSS also provides the capability to send notifications and obtain Bank of Russia services, including obtaining information on the applicant's presence in business reputation databases and information on the credit history bureau which maintains the applicant's credit history.

On 1 March 2019, Draft Federal Law No. 657361-7¹ on the use and storage of electronic documents was submitted to the State Duma for the first reading. Among other things, the draft law provides for:

- basic terms and definitions in the area of electronic document workflow, including the concepts of electronic duplicate documents and conversion of electronic documents;
- basic standards for replacement scanning to convert paper-based documents into electronic files while preserving their legal status, to significantly reduce the cost of workflow by switching to electronic storage;
- standards for conversion and migration to ensure the safety and continuity of electronic document formats.

On 18 February 2019, gradual migration of personal accounts (PAs) of information exchange participants from the Bank of Russia's External Portal of the Unified System of Data Exchange with External Subscribers (portal4.cbr.ru) to **the External Portal of the Unified Platform for External Interaction** (portal5.cbr.ru) was completed to improve stability of operation, increase the quota for storing the history of the exchange of electronic messages and add the option of 'system-system' interaction via a REST² service.

The Bank of Russia published a specification of a universal REST service enabling electronic document workflow with the Bank of Russia through the External Portal of the Unified Platform for External Interaction through integration with information systems of information exchange participants; the rules for electronic messages (calls, inquiries) to the Bank of Russia and responses to them were provided separately.

Bank of Russia Ordinance No. 5361-U³ was developed to replace the current Bank of Russia Ordinance No. 4600-U⁴ due to the amendment of Federal Law No. 161-FZ⁵ to include Article 35.1 obligating national payment system

¹ Draft Federal Law No. 657361-7 'On Amending the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' and Other Laws of the Russian Federation (Regarding the Use and Storage of Electronic Documents)'.

² REST means Representational State Transfer.

³ Bank of Russia Ordinance No. 5361-U, dated 19 December 2019, 'On the Procedure for the Bank of Russia to Interact with Credit Institutions, Non-bank Financial Institutions and Other Parties to Information Exchange via Bank of Russia Information Resources, Including Personal Accounts'.

⁴ Bank of Russia Ordinance No. 4600-U, dated 3 November 2017, 'On the Procedure for the Bank of Russia to Interact with Credit Institutions, Non-bank Financial Institutions and Other Parties to Information Exchange via Bank of Russia Information Resources, Including Personal Accounts'.

⁵ Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System'.

participants to use PAs and the update of the procedure for information exchange through PAs.

Bank of Russia Ordinance No. 5098-U¹ was issued in 2019 to implement electronic document workflow between the Bank of Russia and self-regulatory organisations of actuaries. It provides for electronic interaction with self-regulatory organisations of actuaries when data in their state register is updated and also establishes an option for non-profit organisations to enter information into the said register by sending documents to the Bank of Russia both by mail and via PAs.

During 2019, more than 18,000 new accounts were created for information exchange participants, including all branches of credit institutions, national payment system participants and respondents providing primary statistical data under federal statistical surveillance reporting forms. This makes it possible to obtain relevant electronic reporting, including through electronic document workflow operators.

When selecting priority areas in the development of electronic interaction technology via PAs, in addition to expanding PA functionality, the Bank of Russia also focuses on informing organisations of current PA functionality (information materials sent via PAs, information published on the Bank of Russia website) as well as providing methodological support for

the information exchange process within the framework of individual PA tasks.

In April 2019, the Bank of Russia conducted a survey of credit institutions with the largest volumes of correspondence with the Bank of Russia to obtain an objective assessment of the level of satisfaction with the current implementation of information exchange via PAs. The survey showed an 8.1 out of 10 level of satisfaction with the transition to electronic document workflow via PAs.

In October 2019, the Bank of Russia also conducted a survey of satisfaction of financial market participants with their awareness and involvement in the development of information interaction with the Bank of Russia as well as satisfaction with the collection and processing of reporting via PAs. The survey showed an 8.8 out of 10 level of satisfaction of non-bank financial institutions supervised by the Bank of Russia.

The Bank of Russia launched a pre-project for the transition of credit institutions (branches), bank holding companies and national payment system participants to reporting via PAs. As part of the pre-project, in 2019, the Bank of Russia developed a description of the target business process for the collection and processing of reporting and prepared a list of required improvements to IT systems and changes to existing Bank of Russia regulations.

¹ Bank of Russia Ordinance No. 5098-U, dated 22 March 2019, 'On Amending Bank of Russia Ordinance No. 3424-U, Dated 27 October 2014, 'On Maintaining the State Register of Self-regulatory Organisations of Actuaries'. The document came into effect on 16 June 2019.

2.5.3. ENSURING INFORMATION SECURITY AND ENHANCING CYBER RESILIENCE

In consultation with the Federal Security Service (FSB) of Russia and the FSTEC¹ of Russia, the Bank of Russia established mandatory requirements for credit institutions to ensure data protection in banking to counter unauthorised funds transfers² and requirements for non-bank financial institutions to ensure data protection in operations in the financial markets³ stipulated by Federal Law No. 86-FZ.⁴

Special requirements were introduced for data protection in the Bank of Russia payment system (in money transfers using the speedy funds transfer service, non-speedy funds transfer service and faster payments service).⁵

The Bank of Russia has developed the Bank of Russia Guidelines on Neutralising Banks' Security Threats relevant to processing, including collection and storage, of biometric personal data, their verification and transmission of information on their conformity with the biometric personal data of a citizen of the Russian Federation.⁶

The Bank of Russia participated in developing draft federal laws aimed at countering fraud in the credit and financial sector.^{7, 8}

In addition, the Bank of Russia plans to introduce new requirements, including those aimed at data protection, into the second reading versions of a number of draft federal laws adopted in the first reading to improve the financial market infrastructure and introduce new financial instruments.⁹

In 2019, comprehensive support and expert assessment of pilot projects were carried out for 9 applications for the regulatory sandbox of the Bank of Russia. This included a comprehensive analysis of information security risks, threat modelling and security assessment of the proposed technologies.

As part of ensuring information security and cyber stability of software, the Bank of Russia has prepared draft methodological document Software Protection Profile of Automated Systems and Applications of Credit Institutions and Non-bank Financial Institutions. The draft document was approved by Subcommittee No. 1 'Safety of Financial (Banking) Operations' of the Technical Committee for Standardisation No. 122 'Standards of Financial Transactions' of Rosstandart and was recommended for adoption and implementation by the Bank of Russia in accordance with the established procedure.

¹ Federal Service for Technical and Export Control.

² Bank of Russia Regulation No. 683-P, dated 17 April 2019, 'On Mandatory Requirements for Credit Institutions to Ensure Data Protection in Banking to Counter Unauthorised Funds Transfers'. The document came into effect on 1 June 2019 (except for certain provisions).

³ Bank of Russia Regulation No. 684-P, dated 17 April 2019, 'On Mandatory Requirements for Non-bank Financial Institutions to Ensure Data Protection in Operations in the Financial Markets to Counter Illegal Financial Transactions'. The document came into effect on 1 June 2019 (except for certain provisions).

⁴ Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)'.

⁵ Bank of Russia Regulation No. 672-P, dated 9 January 2019, 'On Requirements for Data Protection in the Bank of Russia Payment System'. The document came into effect on 6 April 2019 (except for certain provisions).

⁶ No. 4-MR, dated 14 February 2019.

⁷ Draft Federal Law No. 605945-7 'On Amending the Federal Law On Information, Information Technology and Information Protection' and the Code of Civil Procedure of the Russian Federation'.

⁸ Draft Federal Law No. 514780-7 'On Amending the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' and Other Laws of the Russian Federation'.

⁹ For example, Draft Federal Law No. 419059-7 'On Digital Financial Assets and on Amending Certain Laws of the Russian Federation' and Draft Federal Law No. 617867-7 'On Electronic Platform Transactions'.

2.6. Other activities

2.6.1. INFORMATION POLICY

The Bank of Russia's information policy is aimed at building public confidence in the decisions of the regulator, clarifying the position of the Bank of Russia on various issues and warning the public of possible risks of the developing financial market. Amid the rapid development of the media, in 2019, the Bank of Russia focused on introducing integrated communication practices aimed at different target audiences.

In 2019, the Bank of Russia's communication policy was focused on informing the public about the importance of consistently low inflation for economic growth and social well-being and the supervisory policy of the regulator aimed at rehabilitating and stabilising the banking system. Considerable attention was paid to financial consumer protection (including the introduction of mortgage holidays), promotion of new services based on innovative financial technologies and current cybersecurity threats and measures to combat fraud.

the Financial Culture website (fincult.info) and the number of followers of the Bank of Russia's social media significantly increased. In continuation of its communication policy, in 2019, the Bank of Russia launched 'Econs' (econs.online), an internet portal on economic and financial research. The portal publishes reviews of scientific research, interviews with Russian and foreign economists and other materials on topics related to the policies of central banks, macroeconomics, development of financial markets and financial technologies. At the same time, the Bank of Russia continued to develop its academic publication, the [Russian Journal of Money and Finance](#). In the articles published in 2019, the authors investigated the most pressing issues of economic science, including the use of the latest machine learning algorithms for macroeconomic forecasting. The journal paid considerable attention to covering discussions and public events in the scientific and expert community.

To build confidence in the goals and measures of monetary policy as well as to reach a wider audience, the Bank of Russia carried out systematic work in the regions: regular meetings with representatives of business, banks, government bodies and the scientific community, interviews with local TV channels and publications in regional media.

The proactive information policy of the mega-regulator in the banking sector with regard to explaining strategic plans and decisions contributed to increased transparency of its supervisory activities. Regular meetings, conferences and consultations of market participants with management of the Bank of Russia, including in the regions, as well as public speeches and communication with the media enabled the building of mutual interest between the communication participants. Public and media attention remained focused on the mechanism of rehabilitation by the Bank of Russia. The Bank of Russia's information policy in this



The audience of the Bank of Russia's social network accounts increased by 57%

The Bank of Russia continued its efforts to improve the quality of communications with investors and the expert community. In addition to regular meetings with analysts and experts following pivotal meetings of the Bank of Russia Board of Directors on monetary policy, the Bank of Russia began to hold meetings with analysts on current issues in the development of the banking sector. In addition, as an important step toward the development of information transparency, the Bank of Russia transitioned to publishing key analytical materials in strict accordance with the schedule announced on the Bank of Russia website.

In 2019, the Bank of Russia focused on developing its online resources: the audience of

area is aimed at ensuring the transparency of adopted decisions.

One of the major campaigns of 2019 was aimed at supporting the reform of equity construction financing under the Housing and Urban Environment national project. Its main objectives were ensuring an uninterrupted transition to a new financing scheme for business and informing the public about new opportunities for protecting their rights. A special section for publishing the relevant information has been created on the Bank of Russia's website.

In the first half of 2019, the Bank of Russia organised extensive informational support for the law on mortgage payment holidays, which makes it possible to reduce or postpone payments for borrowers in challenging situations. After the law was adopted, communications were aimed at explaining the specifics and mechanisms of the application of the law to the public.

Last year, media attention in the field of banking regulation was focused on such innovations as the accelerated introduction of the new Basel III approaches to credit risk assessment, the so-called ratingless approach. During a large-scale public discussion, the Bank of Russia explained the new opportunities and advantages of this approach for the development of lending to the economy.

In 2019, the Bank of Russia also conducted information campaigns to support introduction of debt burden restrictions on unsecured consumer lending in banking and MFO regulations. In addition, extensive information support accompanied gradual introduction of new limitations on the debt ceiling under short-term loans and reduction of the daily interest rate. Particular emphasis was placed on informing the public about the ban on the issuance of loans and mortgages by anyone- other than professional lenders supervised by the Bank of Russia.

The 2019 implementation of a significant infrastructure project, the Bank of Russia Faster Payments System (FPS), required extensive information support to explain the specifics of the operation of the FPS. The communication policy was aimed at both consumers and financial market participants. Development of the

remote identification mechanism also required extensive work on raising public awareness. Meetings (with project presentations) for media representatives in the regions helped present the features and development prospects of this tool in more detail.

The 2019 surge in cyber fraud via social engineering required the Bank of Russia to conduct a large-scale awareness-raising campaign. It was mainly focused on alerting the public of existing risks of fraud and effective ways to counter them. Considering that all population groups are vulnerable to social engineering, a variety of communication channels and formats were used, including the media, the Bank of Russia's social media, videos on information displays, etc. Open lessons, lectures and seminars in educational institutions across the country also played an important part in this information campaign.

The Bank of Russia's priorities also included informing SMEs of the possibilities for attracting financing using stock market instruments and interaction with banks in accordance with Federal Law No. 115-FZ. Round-table meetings and educational webinars for business representatives were organised in the Russian regions. In collaboration with the business community, the Bank of Russia carried out awareness-raising work regarding the specifics of application of Federal Law No. 115-FZ, including the 'rehabilitation' mechanism provided for by the law. Together with the leading business associations, the Bank of Russia prepared guidelines for entrepreneurs on the most pressing issues regarding anti-money laundering measures of banks in relation to their customers. The guidelines were published on the Bank of Russia website and websites of leading business associations and were explained in a webinar for SMEs and a series of publications in regional media.

As part of suppressing illegal activities in the financial market, the Bank of Russia continued to inform the public about the possible risks associated with investing in such entities. The statistics on identified illegal activities in the financial market and information on the key trends in this area were disclosed quarterly in

media interviews and comments by the Bank of Russia. Moreover, last year a lot of attention was paid to regional issues and publications in local media. The Bank of Russia also continued systematically informing the population about existing fraudulent practices in the financial market (misselling, imposition of services), the Bank of Russia's efforts to prevent them and ways for consumers to protect their rights.

In 2019, the Bank of Russia prepared and conducted information campaigns at the federal and regional levels to clarify proposed innovations and inform car owners about new approaches to determining CMTPLI rates.

In 2019, the Bank of Russia continued to raise public awareness of its proposals on current issues in the financial market regulation,

supervision and development. Over the year, it published 10 consultation papers on its official website. The topics discussed with the professional and expert community included approaches to the development of competition in the financial market, development of self-regulation in the financial market, improvement of the deposit insurance system, the Bank of Russia macroprudential policy in retail lending, individual ratings of borrowers etc.

The format of consultation papers allows feedback from general public, including the professional and expert community. The results of discussing the consultation papers and the comments and proposals received from market participants and stakeholders were published on the Bank of Russia website.

2.6.2. ECONOMIC RESEARCH

In 2019, the Bank of Russia's economic research mainly focused on the following key areas:

- macroeconomics, productivity and the external sector
- inflation and inflation expectations
- optimal policy and financial stability
- developing model apparatus to forecast macroeconomic indicators.

The Bank of Russia's employees prepared reports on these issues which were published in the [Research section](#) of the Bank of Russia's website. A number of papers were also published in peer-reviewed Russian and international academic journals.

In the paper '[Do sterilized foreign exchange interventions create money?](#)', published as a report in the Research section of the Bank of Russia website and then as an article in the *Journal of Asian Economics*, an empirical analysis showed that in emerging economies the accumulation of foreign exchange reserves is highly likely to lead to the creation of money supply even during sterilisation.

The paper '[Deep Integration in the Eurasian Economic Union: What Are the Benefits of Successful Implementation or Wider Liberalization?](#)', published on the Bank of Russia website¹ and then as an article in the academic journal *Eurasian Geography and Economics*, analysed the economic effects of deepening integration for the countries of the Eurasian Economic Union (EAEU). The combination of reduction of trade barriers, including non-tariff ones, liberalisation of labour migration and other specific measures aiming to deepen integration can have a significant positive impact on the macroeconomics of the EAEU member states.

In the paper '[Effects of Terms of Trade Shocks on the Russian Economy](#)' on the effects of changes in the relative prices of export and import goods on the Russian economy, a general equilibrium calculation model was based on cross-sectoral balance data. The study contributed to a better understanding

of industry-specific relationships and the effects of world prices, primarily commodity and energy prices, on the Russian economy and consumer welfare.

The paper '[Idiosyncratic shocks: estimation and the impact on aggregate fluctuations](#)', based on Russian companies' revenue data, found that idiosyncratic shocks (i.e., shocks of individual companies) make a significant contribution to the volatility of total sales due to the size of companies and close ties between them. This result is important for understanding the causes of fluctuations in business activity in the Russian economy and assessing the effects of macroeconomic policies.

The paper '[Productivity Convergence Trends within Russian Industries: Firm-Level Evidence](#)' assessed labour productivity and multi-factor productivity based on the data of Russian companies. Despite the fact that low-performing companies are growing faster than high-performing ones, in recent years the gap between them has widened. This revealed a possible problem of productivity divergence in most sectors of the Russian economy.

Inflation and inflation expectations remained a key topic of research at the Bank of Russia in 2019. The paper '[Disinflation and Reliability of Underlying Inflation Measures](#)' explored the properties of various indicators of underlying inflation amid a steady decline in inflation. The paper also proposed an alternative statistical method for assessing underlying inflation resistant to a permanent decline in inflation. The obtained results were important for the Bank of Russia from a practical point of view as they contributed to the improvement of existing procedures for identifying the most stable components in the dynamics of consumer prices amid the influence of multi-directional short-term factors.

The paper '[What Measures of Real Economic Activity Slack Are Helpful for Forecasting Russian Inflation?](#)' examined whether formal estimates of the deviation of economic activity

¹ Since 2019, the main page for economic research papers is the English version of the Bank of Russia website

dynamics from their potential values helped predict inflation in Russia. The study aimed to improve the quality of medium-term forecasts for inflationary processes in Russia.

In the paper '[A Study of the Asymmetry and Non-linearity of Exchange Rate Pass-through to Inflation](#)', Bank of Russia employees presented a number of models for analysing and decomposing the dynamics of inflation taking into account possible non-linearity and asymmetry of the exchange rate pass-through effect on prices. The obtained results make it possible to explain periods of acceleration and deceleration of inflation.

The paper '[The Role of Global Relative Price Changes in International Comovement of Inflation](#)' explored the role of global changes in relative prices in explaining the international correlation of inflation rates. The study contributed to a better understanding of the role of global prices in the inflation dynamics of individual countries and to the improvement of the Bank of Russia's inflation forecasts.

In 2019, the Bank of Russia continued research on *optimal policy and financial stability*. The paper '[Financial Stability Implications of Policy Mix in a Small Open Commodity-Exporting Economy](#)' empirically proved, based on data of certain emerging economies, that the reaction of monetary policy to export prices can contribute to lending growth. The theoretical part of the study showed that optimal monetary policy for such countries combined inflation targeting with restraining the credit cycle as well as countercyclical fiscal policy.

The paper '[Optimal Monetary and Macroprudential Policies for Financial Stability in a Commodity-Exporting Economy](#)' discussed an optimal combination of monetary and macroprudential policies to achieve financial stability in major commodity-exporting economies. The study aimed to formulate a number of important practical conclusions for monetary and

macroprudential policies in terms of ensuring the stability of the Russian economy amid fluctuations in global commodity prices.

In 2019, the Bank of Russia continued to study high-frequency trading in the Russian financial market and published the second part of the paper '[Assessing the Impact of High-Frequency Trading on the Financial Market of the Russian Federation](#)' in the Combating Unfair Practices / Analytics section of its website. The study assessed the impact of high-frequency trading participants on the volatility of a number of financial instruments. The results contributed to a better understanding of trading activity indicators and development of optimal regulation measures to achieve financial stability.

In 2019, the Bank of Russia continued *improving the model apparatus for forecasting macroeconomic indicators*. The paper '[Truncated Priors for Tempered Hierarchical Dirichlet Process Vector Autoregression](#)' discussed the issue of selecting priors for Bayesian estimation of vector autoregressions with an infinite number of modes. The study aimed to improve the methods of statistical estimation of models with changing modes of economic policy in the conditions of a limited number of observations to improve forecasting of the major macro-indicators.

In 2019, the Bank of Russia continued to collaborate with the Russian and international expert communities at international scientific and practical conferences and seminars. In 2019, Bank of Russia experts presented their papers at international academic conferences with preliminary competitive selection of speakers, which included:

- 'The Credit Cycle and Measurement of the Natural Rate of Interest' at the 5th Henan University and International Network for Economic Research Workshop on Applied Macroeconomics in Kaifeng (China);



The Bank of Russia held an international conference 'Macprudential Policy Effectiveness: Theory and Practice'



According to a leading international research aggregator, in 2019, the Bank of Russia was among the top five of Russian organisations publishing economic research

- ‘Commodity Cycles and Financial Instability in Emerging Economies’ at *Bank for International Settlements Asian Research Network Workshop* in Sydney (Australia);
- ‘Firms’ Efficiency, Exits and Government Procurement Contracts’ at the *2019 Analytics for Management and Economics Conference* in Saint Petersburg;
- ‘Financial Stability Implications of Policy Mix in a Small Open Commodity-Exporting Economy’ at the *17th European System of Central Banks Emerging Markets Workshop* in Vienna (Austria).

At the 20th April International Scientific Conference on the Development of Economics and Society organised in Moscow by the Higher School of Economics on 9–12 April 2019, the Bank of Russia held the session ‘Monitoring and Forecasting Inflation’ as well as the round-table meetings ‘Where Will Inflation Expectations Be Anchored?’ and ‘The Neutral Interest Rate: in Search of a Benchmark’. Bank of Russia employees acted as speakers, discussants and participants in other sessions and round-table meetings of the HSE conference.

In July 2019, on the sidelines of the 28th International Financial Congress (IFC 2019) in Saint Petersburg, the Bank of Russia held an international conference on economic research ‘Macprudential Policy Effectiveness: Theory and Practice’. Researchers from Russian and foreign universities, central banks and applied research institutes presented and discussed

new findings on macroprudential policy theory and practice. The presented papers were mainly devoted to identifying and measuring financial stability risks, optimal monetary and macroprudential policies, the effects of macroprudential policies.

The conference was preceded by the Bank of Russia’s traditional Summer Macroeconomic School for Master’s and Postgraduate Students, Young Researchers and Teachers of Economics. The programme of the event consisted of presentations by management and staff of the Bank of Russia on financial stability, monetary analysis, monetary and macroprudential policies and individual practical cases for participants.

In 2019, the Bank of Russia held seminars with invited experts from representatives of higher education institutions, research organisations and federal executive bodies. The seminars presented the results of studies by Bank of Russia employees and invited experts on topics important to the Bank of Russia’s policy. In total, 19 seminars with invited experts were held in 2019.

It is worth noting that the quality of economic research at the Bank of Russia is acknowledged by the ratings of leading international research aggregators. In particular, according to the authoritative IDEAS/RePEc aggregator, as of the end of 2019, the Bank of Russia was among the top five in the composite rating of Russian organisations publishing economic research.

2.6.3. STATISTICAL ACTIVITIES

In compliance with its Strategy of Statistical Activity for 2016–2020, the efforts of the Bank of Russia in the reporting year were focused on systemic development of its macroeconomic financial statistics to generate and publish new statistical datasets in line with the advanced international standards and initiatives, improving the quality of statistical publications and developing promising areas in data processing.

To implement the recommendations of the second phase of the G20 Data Gaps Initiative, the Bank of Russia expanded its published information by presenting Russia's external debt with a breakdown by remaining maturity.

The Bank of Russia also pursued development of its statistical activities in the external sector through collaboration with Russian ministries and government agencies under the state programmes for increasing exports of services in accordance with the objectives of the 'International Cooperation and Exports' national project (the 'ICE Project') (approved by the Presidium of the Presidential Council for Strategic Development and National Projects, Minutes No. 16, dated 24 December 2018). To meet the needs of its users and to monitor the implementation of the objectives set by the ICE Project, the Bank of Russia started providing more detailed data on the volumes of foreign trade in transport and tourism services, for the first time published with a breakdown by the constituent entities of the Russian Federation. This helped expand the potential for analysis of non-primary exports development and the contribution of the regions to the international trade in services of the Russian Federation.

In addition, new agreements on information exchange with federal executive bodies for the purpose of compiling indicators of the international trade in services of the Russian

Federation and monitoring the achievement of the ICE Project targets were drafted.

In the reporting period, the Bank of Russia held informational and training events for federal executive bodies, executive bodies of the constituent entities of the Russian Federation and the business community on the methodology for generating indicators of statistics on services exports and on the procedure for collecting primary statistical data using federal statistical survey reporting forms to compile indicators of the international trade in services of the Russian Federation and monitor the achievement of the ICE Project targets.

To provide information support for monitoring the achievement of the ICE Project targets, the Bank of Russia published a methodology for compiling indicators of the services exports of the Russian Federation. The information base of external sector statistics was improved and refined. As part of clarifying the authority of the Bank of Russia in collecting external sector statistics stated in Federal Law No. 190-FZ,¹ Bank of Russia Ordinance No. 5328-U² was developed to establish the procedure for collecting primary statistical data using federal statistical survey reporting forms.

In 2019, to provide statistical information to its users more promptly, the Bank of Russia continued the transition to shorter deadlines for publishing statistical information on the Bank of Russia website. The shorter deadlines were introduced for a number of publications on external sector statistics, and some other publications are now to be posted by certain dates.

In the reporting year, the Bank of Russia was actively involved in the expert assessment and adjustment of the regulations on statistical activities. In particular, the Bank of Russia made proposals on draft laws aimed at amending

¹ Federal Law No. 190-FZ, dated 18 July 2019, 'On Amending the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)''.

² Bank of Russia Ordinance No. 5328-U, dated 25 November 2019, 'On Approving Federal Statistical Forms and Procedure Whereby Respondents Compile and Submit to the Bank of Russia Primary Statistical Data, as Part of These Forms, for Preparing the Balance of Payments of the Russian Federation, International Investment Position of the Russian Federation, External Trade Statistics of the Russian Federation, External Debt of the Russian Federation, Foreign Direct Investments in the Russian Federation and Direct Investments from the Russian Federation Abroad'.

Federal Law No. 282-FZ¹ as well as amending the Federal Statistics Plan.²

In 2019, statistics on foreign investment with a breakdown by the constituent entities of the Russian Federation were expanded in the area of information on portfolio investment, which was supplemented with two new publications: the data on accumulated portfolio investments in Russian equity instruments of other sectors and units/shares of investment funds and data on accumulated portfolio investment (excluding central bank and government investment) originating from the Russian Federation. Information on direct investment evolved qualitatively, supplemented by a presentation combining two different methodological approaches: the asset/liability principle and the directional principle.

In 2019, the Bank of Russia began compiling and regularly publishing statistical indicators characterising corporate lending, including information on interest rates, based on detailed credit data submitted by credit institutions in Reporting Form 0409303 'Loans to Legal Entities' established by Bank of Russia Ordinance No. 4927-U.³ Information on the volume and debt on loans provided to legal entities was supplemented by data broken down by classes of the All-Russian Classifier of Types of Economic Activities (OKVED 2).

In 2019, the Bank of Russia also participated for the sixth time in the Triennial Central Bank Survey of Foreign Exchange and OTC Derivatives Markets of the Bank for International Settlements (BIS) along with the central and national banks of advanced and emerging economies. In preparing this survey, the Bank of Russia estimated the structure and size of the Russian FX market and the OTC derivatives market based on detailed data on bank operations, taking into account the improved methodology for evaluating the on-exchange and OTC market instruments.

In 2019, the Bank of Russia provided information support to the Government of the

Russian Federation in connection with the measures taken to provide subsidies for the reimbursement of income lost by credit institutions on loans provided under concessional lending programmes for SMEs under the 'Small- and Medium-Sized Enterprises and Support for Individual Entrepreneurship Initiatives' national project as well as under the 'Housing and Urban Environment' national project and the 'Mortgage' federal project.

To improve information support for users, in addition to the regular publication of [The Financial Accounts and Financial Balance Sheets of the System of National Accounts of the Russian Federation](#), the Bank of Russia began publishing 'from-whom-to-whom' tables of financial stocks and flows and also published a Methodological Commentary on these tables. 'From-whom-to-whom' matrices of financial stocks and flows contain detailed information on the relationship between the lender and the borrower in the context of financial instruments and provide an important information basis for the in-depth study of financial flows and structural analysis as part of macroeconomic research, making it possible not only to evaluate the structure of financial assets and liabilities of economic agents but also to promptly identify emerging risks and accumulation of financial imbalances in various sectors of the economy.

In 2019, the Bank of Russia published the [Methodology of Financial Accounts and Financial Balance Sheets of the System of National Accounts of the Russian Federation](#) (the 'Methodology') on its website. The publication of the Methodology is aimed at ensuring transparency and accessibility of information on the methodological principles of compiling Financial Accounts and Financial Balance Sheets of the System of National Accounts of the Russian Federation, including classification system of institutional sectors and financial instruments and data sources used to compile this information.

¹ Federal Law No. 282-FZ, dated 29 November 2007, 'On Official Statistical Recording and the System of Public Statistics in the Russian Federation'.

² Introduced by Decree of the Government of the Russian Federation No. 671-r, dated 6 May 2008, 'On Approval of the Federal Statistics Plan' (as amended).

³ Bank of Russia Ordinance No. 4927-U, dated 8 October 2018, 'On the List, Forms and Procedure for Preparing and Submitting Credit Institutions' Reporting Forms to the Central Bank of the Russian Federation'.

2.6.4. DATA MANAGEMENT IN THE BANK OF RUSSIA

In 2019, implementation of the data management system continued according to the Data Management Strategy of the Bank of Russia for 2019–2021.

As part of solutions aimed at improving the quality and accessibility of data and the effectiveness of data analysis for developing the Unified Data Warehouse of the Bank of Russia, in the reporting year, the Bank of Russia worked to create unified data models for such subject areas as the Banking Sector, Related Parties, Collateral Registry, Accounting and Operational Data of Securities Market Participants and Macroeconomics.

To ensure unification, coherence and quality of the information used by the Bank of Russia, in 2019, the Methodology for Managing Regulatory and Reference Information and Master Data in the Bank of Russia, approved by the Data Management Committee of the Bank of Russia, was introduced, and its concepts were applied to the initiatives for creating Legal Persons and Securities centralised registries. Unified registers and directories are aimed at simplifying and improving the quality of reporting data and establish the basis for optimisation of reporting by eliminating redundant and duplicate information.

In 2019, the Bank of Russia made consistent efforts to streamline the existing reporting forms, reduce the reporting burden and harmonise regulatory requirements. An important step in this direction was the decision to expand the authority of the Data Management Committee of the Bank of Russia in terms of coordinating initiatives aimed at obtaining new information and considering amendments to reporting regulations. This will help establish a balanced

approach to the expansion of reporting of supervised entities.

In the reporting year, the Bank of Russia discussed with the banking community proposals on transition to a data-driven approach which presumes collecting information and creating a data model for detailed data of supervised entities using unified registers, classifiers and directories. The banking community generally supported the transition to data-driven information collection, which helps reduce the burden on financial market participants by harmonising regulatory requirements for the composition of information and minimising transformation of source data.

In 2019, the Bank of Russia worked at streamlining information flows and improving data quality to meet its information needs and build effective interaction with federal executive bodies. For example, under Federal Law No. 402-FZ,¹ the Bank of Russia concluded an additional agreement with the Federal Tax Service for the Bank of Russia to provide annual accounting (financial) statements of the entities supervised by the Bank of Russia for building a state information resource for accounting (financial) reporting.

In 2019, the Bank of Russia was also focused on improving staff qualifications. To build competencies required for data management, Bank of Russia's management held a strategic session, and Bank of Russia specialists were trained and received international certificates in data management. In 2019, the Bank of Russia created the Big Data Researchers Club to identify and solve analytical problems and exchange experience.

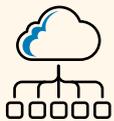
¹ Federal Law No. 402-FZ, dated 6 December 2011, 'On Accounting'.

2.6.5. INFORMATION TECHNOLOGY DEVELOPMENT IN THE BANK OF RUSSIA

In 2019, the Bank of Russia continued to implement its IT Strategy to transform the IT landscape and IT operating model and create a new IT computing infrastructure.

New services were created for target platforms, and the existing services were developed. For personal accounts of financial market participants, the maximum size of a message and the number of messages received and processed daily were increased. The non-relational segment of the Unified Data Warehouse for big data processing and analysing was put into commercial operation. The transition of Bank of Russia Payment System participants to the centralised Gateway of the Bank of Russia was completed, greatly simplifying interaction for financial market participants, including those with a distributed branch network.

Creation of data centres was finished in Saint Petersburg and Krasnoyarsk. This made it possible to further consolidate the Bank of Russia's computing resources and complete the second stage of the Private Cloud of the Bank of Russia, not only expanding the computing resources of the Bank of Russia's IT infrastructure but also increasing their fault and accident tolerance.



Five data centres were completed

To reduce the Bank of Russia expenses for satellite communications, a new functionality of the Bank of Russia's dedicated satellite communications network management system was created and introduced, making it possible to dynamically provide satellite channels on demand only when certain frequencies are needed.

Work on building internal competencies in the established regional IT hubs was continued. The creation of software development and support teams enabled the creation and development of 56% of target IT solutions

using the Bank of Russia's own resources. According to the IT Strategy, the increase in the number of software development specialists is accompanied by a reduction in the number of operating staff due to the use of targeted platforms and reduction of routine repetitive operations. Most development involves flexible processes (agile, scrum) and continuous delivery tools for IT solutions (CI/CD, DevOps). The trend toward transferring key critical services and IT solutions to internal development teams will be preserved in subsequent periods to eliminate dependence on external suppliers.

Along with measures for implementing the IT Strategy, the Bank of Russia created and developed solutions to improve the quality and efficiency of services for financial market participants.

The Bank of Russia Faster Payments Service was created, providing the option for individuals to make instant transfers and pay for goods and services 24/7 via mobile phones.

New data analysis tools were introduced within the created Self-service Analytics application on the Unified Data Warehouse platform. The Self-service Analytics tools make it possible to process unstructured big data using Big Data technologies and predictive analytics; build data processing models, including machine learning models; conduct data research; and perform multi-dimensional and associative data visualisation in self-service mode. The Self-service Analytics application enables supervisory units to increase the efficiency of decision-making when assessing credit risk based on large volumes of primary data and to analyse portfolios of homogeneous loans and individual household loans of any credit institutions, including leaders in the retail lending segment and small- and medium-sized business segments.

In the regulation of compulsory liability insurance, the advanced analytics application 'System of Actuarial Calculations and Modelling of Rates under Compulsory Liability Insurance Agreements' was created on the platform of the

Unified Data Warehouse to store and process data on contracts and losses on compulsory liability insurance, enabling regular monitoring of the appropriateness of compulsory insurance rates.

As part of fulfilling the objectives of the Bank of Russia's supervisory activities, the Bank of Russia put the functional sub-system Supervised Institution Consolidated File, which is designed to maintain files of financial market participants and automate supervisory activities regarding non-bank financial institutions and payment systems, into continuous operation and created the functional sub-system Automation of Control of Information Disclosure by Issuers, which enables full control of issuers' compliance with the legislation of the Russian Federation.

To support the processes of the Bank of Russia's validation of models and methods for assessing the risks of credit institutions used to calculate the Basel II capital adequacy requirements and to supervise their use by credit institutions, the Information System for Validation of Quantitative Risk Assessment Models and Subsequent Oversight application was put into continuous operation on the target platform of main activity support.

To increase the level of information and economic security for payment system operators, funds transfers, payment infrastructure services and credit institutions, the Feed-Antifraud automated system was created as a centralised database of cases and attempts of unauthorised funds transfers providing customers with a mechanism for funds transfer risk assessment.

As part of implementation of the Road Map of the Guidelines for the Development of the Russian Financial Market, the sub-system Operational Monitoring of Financial Markets was introduced to enable prompt situational assessment of the state of the exchange market and proposals for decision-making by the Bank of Russia management regarding its stabilisation.

To optimise the costs of issuing and transporting banknotes, the Bank of Russia developed a system to forecast issuance and plan for the reinforcement of reserve funds within the automated system of the Cash Circulation Department.

For improving electronic interaction with the Bank of Russia, the following services of the Bank of Russia were implemented in the UPSS:

- 'Notifications to the Bank of Russia' for persons obliged to disclose information in accordance with Clauses 19–22 of Article 30 of Federal Law No. 39-FZ,¹ which made it possible to unify and streamline information flows for the Bank of Russia;
- provision of prompt information to individuals and legal entities on the presence or absence of information in the business reputation databases of the Bank of Russia provided for by Articles 75 and 76.7 of Federal Law No. 86-FZ;²
- provision of electronic extracts on financial market participants from registers maintained by the Bank of Russia at the request of individuals and legal entities;
- provision to credit history subjects of access to the list of credit history bureaus maintaining their credit history.

Additionally, as part of optimising electronic interaction of the Bank of Russia with federal executive bodies, the sub-system Registration and Licensing of Credit Institutions was refined to transfer communications with the Ministry of Internal Affairs and the Federal Tax Service pertaining to inspections of the business reputation of founders (participants), governing bodies and officials of financial institutions into electronic format.

Along with the above objectives, the Bank of Russia accomplished the following tasks to increase financial literacy and public awareness of the services provided by financial market participants:

- The Economic Game mobile app was designed to increase public awareness of the

¹ Federal Law No. 39-FZ, dated 22 April 1996, 'On the Securities Market'.

² Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)'.

fundamentals of economics and key terms, goals and principles of monetary policy.

- The Personal Financial Assistant (Central Bank Online) mobile app was created for financial consumers. It provides mobile access to registers of financial institutions, credit and deposit calculators and interaction with the Bank of Russia for receiving feedback on

the quality of financial services, the level of financial institution services and the work of Bank of Russia contact centre operators.

- The Economic Conversations ([econs.online](#)) website and the electronic version of the [Russian Journal of Money and Finance](#) were developed and launched to provide information materials to internet users.

2.6.6. INTERNATIONAL COOPERATION

In 2019, international cooperation was developed in accordance with the Priority Areas of the Bank of Russia's International Activities for 2019–2021.



The EAEU Common Financial Market Concept was finalised

Establishing the common financial market of the **EAEU** member states remained a key area of international cooperation in 2019. The EAEU Common Financial Market Concept was finalised, and development of draft sectoral agreements and plans for harmonising legislation in the financial sector continued. The Bank of Russia continued its efforts aimed at the development of the national payment system, ensuring information security of the financial market and countering cyber attacks in the credit and financial sector, and participated in the preparation of the Strategic Directions for Developing the Eurasian Economic Integration until 2025.

Regarding further development of the bilateral mechanism of information exchange in the EAEU, the Bank of Russia signed an Agreement on Cooperation and the Exchange of Information (Including Confidential Data) on Financial Market Supervision with the Central Bank of the Republic of Armenia.

International cooperation within the **CIS** continued. The Bank of Russia participated in the development of the draft CIS Economic Development Strategy until 2030.

In the context of Russia's presidency of the **Shanghai Cooperation Organisation (SCO)** in 2019–2020, the Bank of Russia made a significant contribution to the development of a questionnaire on increasing the share of settlements in national currencies.

In the area of deepening financial integration set by the Government of the Russian Federation, the Bank of Russia continued to

implement the provisions of the Treaty on the Creation of a **Union State of Russia and Belarus**, dated 8 December 1999.

In 2019, the Bank of Russia together with the expert community and foreign trade participants continued to study options for developing settlements in Russian rubles and the national currencies of trading partners of the Russian Federation.

At two meetings of the Expert Board on Domestic Currency Settlements at the Bank of Russia, the experts discussed:

- the capabilities of international financial institutions as sources of liquidity in national currencies;
- the development of exchange trading in national currencies and long-term financial instruments denominated in national currencies;
- settlements in national currencies in the context of integration processes in the Eurasian Economic Union.

For the first time, the discussion was attended by commercial banks of CIS countries interested in developing trade and economic cooperation and increasing the share of national currencies in settlements.

As part of its cooperation with the **G20**, the Bank of Russia took part in the development of international approaches to limiting the risks associated with structural changes caused by innovations and globalisation (in particular, risks associated with market fragmentation and the use of stablecoins¹ and other cryptoassets).

In April 2019, the Bank of Russia hosted a meeting of the G20 Working Group on Infrastructure Investment dedicated to the development of the principles of high-quality infrastructure investments approved at the meeting of G20 Deputy Ministers of Finance and Central Bank Governors in June 2019.

To implement the recommendations of the second phase of the G20 Data Gaps Initiative² in 2019, the Bank of Russia expanded the list and composition of publications on external

¹ Stablecoins are cryptocurrencies pegged to currency or commodity inventories.

² Data Gaps Initiative, DGI-2.

sector statistics: for the first time it prepared and published a presentation of Russia's external debt with a breakdown by maturity representing a significant contribution to the development of international comparisons of external sector statistics.

In 2019, the Bank of Russia also took part in studies of the G20 Global Partnership for Financial Inclusion.

As part of its cooperation with the **Financial Stability Board (FSB)**, the Bank of Russia took part in the preparation of the 9th annual review of trends and risks of the 'parallel' banking system, a report on progress in implementation of OTC derivatives market reforms, the FSB recommendations on the best wage practices and reports on the impact of innovations on the structure of the financial market, the potential impact of major technology companies on the financial market and the dependence of financial institutions on cloud service providers.

The Bank of Russia participated in the development of a methodology for identifying risks for global financial stability at an early stage within the FSB Working Group on the Financial Stability Monitoring System (SFG). The publication of the final report is planned for 2020.

In 2019, the Bank of Russia continued its cooperation with the **International Monetary Fund**. In particular, during consultations held in accordance with Article IV of the IMF Articles of Agreement, international experts expressed their support for the Bank of Russia's monetary policy, which creates favourable conditions for economic activity by reducing uncertainty, controlling inflation and ensuring confidence in the ruble. The consultations were mainly focused on macroprudential policy issues and ensuring financial stability.

In 2019, the Bank of Russia coordinated the meetings of the **Central Banks Governors' Club of Central Asia, Black Sea Region and Balkan Countries**. It acted as the initiator of the agenda, the author of reports and the chairman and keynote speaker of the sessions on the issues of transforming the mandates of central banks, the pros and cons of concentration of functions in the hands of a single financial market regulator and the role of statistics in central banks' monetary policy decisions.

In 2019, the Bank of Russia participated in the second testing of the **BRICS** Contingent Reserve Arrangement as a party requesting funds. The testing identified areas for improving the mechanism. Work on creating the BRICS Local Currency Bond Fund was also continued. In anticipation of Russia's 2020 presidency in BRICS, the Bank of Russia prepared proposals for new areas of cooperation.

The Bank of Russia was actively involved in sharing experience on the pressing international financial issues at the meetings of central bank governors in the **Bank for International Settlements (BIS)**.¹ The Bank of Russia continued to develop its cooperation with the relevant BIS committees, including the Committee on Payments and Market Infrastructures (CPMI), the Irving Fisher Committee on Central Bank Statistics and the Basel Committee on Banking Supervision (BCBS). The Bank of Russia initiated the expansion of cooperation in research.

Participation in the activities of the BCBS was also carried out on the platforms of a number of specialised groups and their subgroups. One of the meetings of a specialised group of the BCBS was held in Saint Petersburg in July 2019.

In the reporting year, the BCBS published a new market risk standard developed with



The Bank of Russia was actively involved in sharing experience on the most pressing issues on the international financial agenda

¹ Including monetary policy in emerging market economies, staffing strategies of central banks, cyber resilience, development of the international monetary system, the digital economy and financial innovations, reducing the risk of fraud with large-value payments, regulating banks in the era of financial technologies, innovations and the role of central banks in ensuring financial inclusion.

the active involvement of the Bank of Russia. In addition, the Bank of Russia participated in clarifying the standard for calculating the financial leverage ratio and also in refining and approving the procedure for calculating the liquidity coverage indicator (ratio).

In 2019, the Bank of Russia signed a memorandum on joining an international project to create a network to exchange experience on statistical handling of granular (micro) data (the INEXDA Project¹) under the auspices of the Irving Fisher Committee.

In 2019, the Bank of Russia continued its cooperation with the **International Association of Insurance Supervisors (IAIS)**. The Bank of Russia participated in improving the Insurance Core Principles, Standards, Guidance and Assessment Methodology (the 'Insurance Core Principles', or 'ICPs'), revising the ICP assessment guidelines and conducting peer reviews of ICP implementation by IAIS member jurisdictions.

In 2019, the IAIS approved a number of key documents developed with the participation of representatives of the Bank of Russia, including:

- the Common Framework for the Supervision of Internationally Active Insurance Groups;
- the second version of the global capital standard for international insurance groups;
- a holistic approach to identifying and limiting systemic risk in the insurance market. This approach is intended to replace the measures that were developed after the global financial crisis in respect of global systemically important insurance companies.

Representatives of the Bank of Russia participated in preparation of various specialised publications of the IAIS, in particular, a review of key risks and trends in the insurance sector, a report on the global insurance market and a number of other reports and practical recommendations, including on supervision of insurers' compliance with cybersecurity requirements, on the membership and role of the board of directors in insurance compa-

nies, on proactive supervision of the corporate governance of insurers, on wider use of digital technology in insurance and its impact on consumers and on protection of the personal data of consumers and other information affecting the calculation of insurance premium.

In 2019, the Bank of Russia continued its efforts to develop the global LEI² system. A representative of the Bank of Russia participated in the work of an FSB expert group to assess global practices in implementing the LEI. The final report containing recommendations for national authorities and international organisations was published in May 2019.

The main areas of cooperation between the Bank of Russia and the **Organisation for Economic Cooperation and Development (OECD)** included liberalisation of capital flows, foreign investment and foreign trade statistics, competition, corporate governance, responsible business practices and development of financial markets.

The Bank of Russia took part in developing the negotiating position of the Russian Federation with regard to the World Trade Organisation, in particular, on matters of electronic commerce, internal regulation in the services sector and investment facilitation for development purposes.

In 2019, the Bank of Russia participated for the first time in drafting one of the key reports of the APEC Forum financial track, the APEC Economic Policy Report (AEPR). The final version of AEPR-2019 included detailed information on the regulatory sandbox of the Bank of Russia as well as on the Financial Inclusion Strategy of the Russian Federation for 2018–2020. The Bank of Russia actively participated in a project to exchange experience in applying financial technologies to promote financial inclusion. Following presentation of the Financial Sector Computer Emergency Response Team of the Bank of Russia (FinCERT) at the APEC Conference in Beijing (June 2019), a draft road map for the new ecosystem of financial services data was amended to include a recommenda-

¹ The International Network of Exchanging Experiences on Statistical Handling of Granular Data. The Bank of Russia became the 10th participant in the project.

² Legal Entity Identifier.

tion to create financial computer emergency response teams (CERTs) in all countries of the Asia-Pacific region.

In 2019, the Bank of Russia participated in a number of committees of the **International Organisation of Securities Commissions (IOSCO)**¹ and interacted with IOSCO Consultation Networks on financial technologies, initial coin offering and sustainable financing. In addition, the Bank of Russia continued to work on a more comprehensive implementation of the IOSCO Objectives and Principles of Securities Regulation.

In September 2019 in Saint Petersburg, the Bank of Russia together with IOSCO held a meeting of the European Regional Committee (50 member jurisdictions) and an annual meeting and conference of the IOSCO Growth and Emerging Markets Committee (110 member jurisdictions) with discussions on regulatory and supervisory issues in provision of cross-border financial services, market fragmentation, including in the digital environment, and measures to promote the development of sustainable financing. In addition, special attention was paid to current challenges in financial technologies and investor education.

For the third time, the Bank of Russia held World Investor Week in Russia, an information campaign initiated by the IOSCO and aimed at raising awareness of investors regarding their rights, the opportunities and risks of investing, the nature of existing financial products and the activities of the regulator for financial consumer protection.²

In 2019, as part of its work in the specialised committees of the **International Financial Consumer Protection Organisation (FinCoNet)**, the Bank of Russia presented a draft report on regulation of financial services advertising

as well as part of a report on financial product management. The Bank of Russia also took part in the research on the digitalisation of short-term consumer loans issued at an increased interest rate and on risk-based supervision in the digital age. FinCoNet materials are used by the Bank of Russia in the development of financial consumer protection regulation.

In 2019, the Bank of Russia participated in the Global Forum of the **Alliance for Financial Inclusion (AFI)**, which approved a statement on improving financial inclusion for socially vulnerable groups.

In addition, the Bank of Russia joined the **Network of Central Banks and Supervisors for Greening the Financial System** to improve the Bank of Russia's analysis of climate risks and expand tools for sustainable development and responsible investment based on international best practices.

During the meetings of working groups and interbank consultations, the Bank of Russia and financial regulators of Azerbaijan, Vietnam, Germany, India, Indonesia, China, Mongolia, the United Arab Emirates, Tajikistan, Thailand, Turkmenistan, Turkey, Uzbekistan and Japan reached agreements on the development of interbank cooperation in the field of payment systems, financial markets, information security, promoting the development of settlements in national currencies and exchange of experience in various areas of financial regulation.

In 2019, Memorandums of Understanding were signed with the financial regulators of Thailand, Mongolia and Uzbekistan. In addition, the Bank of Russia took active part in the development of bilateral intergovernmental agreements on payments and settlements in national currencies with China and Turkey.

In 2019, the Bank of Russia paid special attention to **cooperation with foreign financial regulators** to strengthen trade and economic ties between the Russian Federation and foreign countries and remove barriers for the international activities of Russian financial institutions.



The Bank of Russia expanded cooperation with foreign financial regulators

¹ The European Regional Committee (ERC), Growth and Emerging Markets Committee (GEMC), Presidents Committee, Assessment Committee, IOSCO MMoU Monitoring Group and seven of the eight IOSCO Policy Committees.

² About 230,000 participants attended and more than 11,000 online and offline events were held in 5,200 educational institutions.

2.6.7. BANK OF RUSSIA STAKEHOLDINGS IN RUSSIAN ECONOMIC ENTITIES

In accordance with Article 8 of Federal Law No. 86-FZ, the Bank of Russia holds a stake in the authorised capital of Sberbank and the authorised capital of organisations supporting activities of the Bank of Russia, such as PJSC Moscow Exchange and JSC SPCEX.¹

In 2019, the Bank of Russia's stake in the authorised capital of Sberbank remained at 50% plus one voting share. The dividends due to the Bank of Russia from PJSC Sberbank for 2018 amounted to ₹180.7 billion and were transferred in full to federal budget revenues² (₹135.5 billion for 2017).³

The Annual General Meeting of Shareholders of PJSC Sberbank for 2018 approved a new version of Sberbank's Charter, the Regulation on the Supervisory Board and the Regulation on the Executive Board. The new version of Sberbank's Charter does not provide for the establishment of an Audit Commission; the matter of electing the CEO and Chairman of the Executive Board and early termination of their powers was transferred from the competence of the General Meeting of Shareholders to the competence of Sberbank's Supervisory Board. In addition, the Supervisory Board of PJSC Sberbank approved a new version of Sberbank Group's Conflict of Interest Management Policy, the Risk and Capital Management Strategy of Sberbank Group and the Regulation on the Internal Audit Service.

In 2019, the Bank of Russia's stake in the authorised capital of PJSC Moscow Exchange remained at 11.78%. The dividends for 2018 paid by PJSC Moscow Exchange to the Bank of Russia in the reporting year totalled ₹1.8 billion (₹1.8 billion for 2017).

The Annual General Meeting of Shareholders of PJSC Moscow Exchange for 2018 ap-

proved a new version of Moscow Exchange's Charter, the Provisions on the Procedure of Preparation, Convocation and Holding of the General Shareholders Meeting and the Provisions on Compensation and Expenses Reimbursement of the Members of the Supervisory Board.

In the reporting year, PJSC Moscow Exchange became a member of the Association for the Development of Financial Technologies.

In 2019, the Bank of Russia's stake in the capital of JSC SPCEX remained at 8.9%. The Annual General Meeting of Shareholders of JSC SPCEX decided not to pay dividends for 2018.

In July 2019, the Bank of Russia completed implementation of bankruptcy prevention measures for PJSC Bank Otkritie FC. In the reporting year, the Bank of Russia's stake in the capital of PJSC Bank Otkritie FC was over 99.99%. The dividends for 2018 paid by PJSC Bank Otkritie FC to the Bank of Russia in the reporting year amounted to ₹2 billion (no dividends were paid for 2017). In the reporting year, Extraordinary General Meetings of Shareholders approved a new version of the Charter, a Regulation on Preparing and Holding General Meetings of Shareholders, a Regulation on the Supervisory Board and a Regulation on the Management Board of PJSC Bank Otkritie FC.

In November 2019, the rating agency Expert RA confirmed the credit rating of PJSC Bank Otkritie FC at 'ruAA-' and raised its outlook from stable to positive.

The Bank of Russia is the sole shareholder of JSC NPCCS.⁴ The authorised capital of JSC NPCCS remained at ₹4.3 billion. The dividends

¹ Participation in these organisations is aimed at implementing the strategic objectives of the state economic policy and the further development of the financial market infrastructure for successful open market operations by the Bank of Russia.

² In accordance with the requirements of Federal Law No. 454-FZ, dated 28 November 2018, 'On the Specifics of Transferring the Income for 2018 Received by the Central Bank of the Russian Federation from Stakeholdings in Sberbank of Russia in 2019'.

³ The amount of dividends increased as a result of higher net profits of Sberbank under IFRS and the approval of a new Sberbank dividend policy in December 2017, providing for a gradual increase of the percentage of dividends paid out of the net profit of Sberbank Group under IFRS to 50% over three years.

⁴ Established in 2014 in compliance with the requirements of Parts 1 and 2 of Article 30.2 of Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System'.

for 2018 paid by JSC NPCB to the Bank of Russia in the reporting year totalled ₹2.4 billion (₹0.8 billion for 2018).

The Bank of Russia is the sole shareholder of JSC RNRC.¹ The authorised capital of JSC RNRC in 2019 remained at ₹21.3 billion. The dividends for 2018 paid by JSC RNRC to the Bank of Russia in the reporting year totalled ₹447 million (₹23.4 million for 2017). The amount of dividends increased as a result of the substantially higher net profit of JSC RNRC under IFRS. In the reporting year, the sole shareholder of JSC RNRC approved, by its annual decision, the new versions of the Regulation on the President and the Regulation on the Management Board.

In April 2019, the credit rating agency ACRA (JSC) confirmed the AAA (RU) rating of JSC RNRC with a stable outlook. In December 2019, the international rating agency Fitch Ratings

raised the financial stability rating of the insurer from BBB– with a positive outlook to BBB with a stable outlook.

The Bank of Russia is the sole stakeholder of FBSC AMC Ltd.² In 2019, the Bank of Russia's participation in the authorised capital of FBSC AMC Ltd. remained at ₹1.5 billion.

The key activities of FBSC AMC Ltd. include the following:

- participating on behalf of the Bank of Russia in measures to prevent the bankruptcy of credit institutions, such as exercising the functions of a provisional administration for credit institutions and insurance companies;
- carrying out trust management of shares/stakes of credit institutions transferred to its management by the Bank of Russia and of unit investment funds established by the Bank of Russia to prevent the bankruptcy of credit institutions.

¹ Established in 2016 in accordance with Part 1 of Article 13.1 of Law of the Russian Federation No. 4015-1, dated 27 November 1992, 'On the Organisation of the Insurance Business in the Russian Federation' to provide the Russian reinsurance market with additional capacity to create a mechanism for protecting the property interests of policyholders sanctioned by foreign governments or international organisations and ensure the financial stability of insurers.

² Established in 2017 in accordance with Article 76.10 of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)'.

2.6.8. BANK OF RUSSIA STAKEHOLDINGS IN CREDIT INSTITUTIONS UNDERGOING FINANCIAL REHABILITATION

At the beginning of 2019, the Bank of Russia held more than 99.99% of shares in PJSC Bank Otkritie FC, PJSC B&N BANK, TRUST Bank (PJSC),¹ JSC AVB Bank and PJSC Asian-Pacific Bank.

On 1 January 2019, PJSC B&N BANK was merged with PJSC Bank Otkritie FC. During 2019, JSC AVB Bank was merged with TRUST Bank (PJSC). This completed the reorganisation of two banking groups — a universal banking group was created on the basis of PJSC Bank Otkritie FC, and the Non-core Asset Bank was established on the basis of TRUST Bank (PJSC). Also in 2019, Joint-Stock Company Russian Direct Investment Fund Management Company acquired 0.99% of shares in the Non-core Asset Bank.

In 2019, the Bank of Russia repurchased shares of PJSC Bank Otkritie FC and Asian-Pacific Bank from their minority shareholders.

Also, in 2019, the Bank of Russia began implementing measures to prevent the bank-

ruptcy of PJSC Moscow Industrial Bank and JSC VOCBANK; as a result, the Bank of Russia acquired more than 99.99% of shares in these banks. In November 2019, JSC VOCBANK was merged with PJSC Moscow Industrial Bank.

During 2019, permanent management bodies were established in Asian-Pacific Bank and PJSC Moscow Industrial Bank, which led to the termination of the provisional administration functions exercised by FBSC AMC Ltd.

Following the completion of bankruptcy prevention measures, the Bank of Russia began to define the strategy for its exit from the banking group of PJSC Bank Otkritie FC, and in January 2020 it invited investment consultants to prepare proposals for such strategy.

In January 2020, the Bank of Russia announced that it would begin to accept notices of interested parties about their intention to participate in the procedures for selling the shares of Asian-Pacific Bank (PJSC).

¹ Including JSC ROST BANK, merged in 2018. With indirect control, over 99.99%, as 97.99% of shares of TRUST Bank (PJSC) were held by the Bank of Russia and 2% by PJSC Bank Otkritie FC.

2.6.9. BANK OF RUSSIA STAKEHOLDINGS IN INTERNATIONAL ORGANISATIONS

Pursuant to Article 9 of Federal Law No. 86-FZ, in 2019, the Bank of Russia held stakes in the capital of such international organisations as the Swiss-based Bank for International Settlements (BIS) (0.57% of the authorised capital) and the Belgium-based Society for Worldwide Interbank Financial Telecommunications (SWIFT) (0.006% of the authorised capital). The Bank of Russia also shows the stakes held by the Russian Federation in the Russia-based Interstate Bank in its balance sheet. The Russian Federation holds 50% of the Interstate Bank's authorised capital and a corresponding percentage of the votes in the bank's Board, which is its highest management body.

In accordance with Article 4 of Federal Law No. 86-FZ, the Bank of Russia is the depository of IMF funds in the currency of the Russian Federation and performs the operations and transactions provided for by the IMF Articles of Agreement and contracts with the IMF. Starting 2011, the Russian Federation's quota with the IMF has been included in the Bank of Russia's balance sheet, which amounted to SDR 12,903.7 million as of 31 December 2019. The stake of the Russian Federation in the aggregate quotas (capital) of the IMF did not change during 2019 and as of 31 December 2019 amounted to 2.71%, representing 2.59% of the total number of its member countries' votes.

2.6.10. IMPROVING LEGISLATION

In 2019, more than 70 federal laws developed with the active participation of the Bank of Russia were adopted to improve the legislative regulation of the financial market.

First, this included federal laws aimed at establishing additional guarantees **to protect the interests of borrowers under mortgage-backed loan agreements**.

Federal Law No. 76-FZ¹ established the right of a borrower in a difficult life situation to request that the lender establish a 'grace period' under the loan agreement secured by a mortgage for a period of up to 6 months, during which the borrower, at their own discretion, may suspend the performance of their obligations or reduce the amount of instalment payments.

In addition, Federal Law No. 271-FZ² restricted the range of entities with legal capacity to provide mortgage-backed loans to individuals, prohibited microfinance organisations from providing loans secured by residential premises to individuals, raised requirements for the business reputation and qualifications of managers and owners of microcredit companies³ and granted microfinance organisations the right to delegate the identification of customers to credit institutions.

Federal Law No. 483-FZ,⁴ which allows the borrower under a consumer loan agreement to receive a refund of both the insurance premium paid by the borrower under a voluntary insurance agreement concluded by the same borrower and the funds paid by the borrower under a so-called 'collective insurance' agreement in the event of early repudiation of the

insurance agreement during the cooling-off period and also allows the borrower to receive a partial refund of the insurance premium under an insurance agreement in the event of early performance of all obligations under the consumer loan agreement secured by that insurance agreement, also fits into this group.

One of the most important areas for improving legislation in 2019 was the **development of the digital economy**. Federal Law No. 34-FZ⁵ addressed the legal status of electronic transactions,⁶ digital rights and smart contracts. Federal Law No. 259-FZ⁷ established a legal framework for using digital technologies to raise financing and expanded the range of investors and ways to attract investments with guarantees from platform operators.⁸ Also, the adoption of Federal Law No. 476-FZ⁹ improved regulation in the area of electronic signatures, raised requirements for certification centres, introduced the institution of a trusted third party and created a certification centre of the Bank of Russia for issuing electronic signatures to credit institutions, payment system operators, non-bank financial institutions and Bank of Russia officials. In addition, this law makes it possible to obtain and use a cloud-based electronic signature through the Unified Biometric System. The development of the cloud-based electronic signature will provide a user-friendly mechanism for legally valid electronic document workflow for all citizens.

Adoption of some federal laws was aimed at **improving the functioning of the Russian financial market** in general.

¹ Federal Law No. 76-FZ, dated 1 May 2019, 'On Amending Certain Laws of the Russian Federation Regarding Introducing Amendments to Mortgage-Backed Household Credit (Loan) Agreements not Related to Entrepreneurial Activity at the Request of Borrowers'.

² Federal Law No. 271-FZ, dated 2 August 2019, 'On Amending Certain Laws of the Russian Federation'.

³ See also ['Legislative support of activities' in Subsection 2.2.4.4.](#)

⁴ Federal Law No. 483-FZ, dated 27 December 2019, 'On Amending Articles 7 and 11 of the Federal Law 'On Consumer Loans' and Article 9.1 of the Federal Law 'On Mortgage (Pledge of Real Estate)'.

⁵ Federal Law No. 34-FZ, dated 18 March 2019, 'On Amending Part 1, Part 2 and Article 1124 of Part 3 of the Civil Code of the Russian Federation'.

⁶ See also [Subsection 2.5.1 'Development of financial technologies'](#).

⁷ Federal Law No. 259-FZ, dated 2 August 2019, 'On Attracting Investments Using Investment Platforms and Amending Certain Laws of the Russian Federation'.

⁸ See also [Subsection 2.2.11 'Improving financial and commodity market instruments and infrastructure'](#) and [Subsection 2.5.1 'Development of financial technologies'](#).

⁹ Federal Law No. 476-FZ, dated 27 December 2019, 'On Amending the Federal Law 'On Electronic Signatures' and Article 1 of the Federal Law 'On the Protection of the Rights of Legal Entities and Sole Proprietorships in the Scope of State Control (Supervision) and Municipal Control'.

To bring legislation on intermediary activities up to date, Federal Law No. 454-FZ¹ established a broker's obligations to provide a customer with all information necessary to make an investment decision before rendering financial services and to execute the customer's order on the terms most beneficial for the customer. In addition, the law extended the protection mechanisms provided for by legislation for the broker's customer to the services provided by such a broker to perform civil law transactions with foreign currency and/or commodities (including precious metals). The law also legally established such a method of the broker's execution of customer orders as 'internalisation'.

Federal Law No. 507-FZ² was adopted to improve the institution of close-out netting for the development of financial market instruments. In particular, it excluded the possibility of unjustified challenging of close-out netting, provided for the defence of close-out netting when the validity of one or more financial contracts concluded under a general agreement (single contract) is challenged, and set forth the possibility of using the close-out netting mechanism for several obligations arising on the grounds of various general agreements (single contracts) concluded between the same parties.

Federal Law No. 77-FZ³ established the obligation of credit institutions, microfinance organisations and other sources of credit history to provide information on the unique identifier of the agreement (transaction) with borrowers, guarantors and principals to credit history bureaus. The introduction of a unique identifier of an agreement (transaction) should ensure the accuracy of identification of agreements reported to credit history bureaus.

An entire set of federal laws was adopted with a view **to improving the activities of non-bank financial institutions**.

To raise the investment attractiveness of unit investment funds (UIFs) and streamline the regulatory burden on market participants, Federal Law No. 248-FZ⁴ established that the mandatory registration of the trust management rules of a UIF for qualified investors with the Bank of Russia was to be replaced by a procedure for obtaining approval for these rules from a specialised depository. In addition, that law established the right of unit holders, if this is provided for by the trust management rules, to receive current income on units of all types of UIFs as well as the right to demand, upon the redemption of investment units, the apportionment of the property constituting the share of such unit holders in the common ownership right to the property constituting a UIF for qualified investors.⁵

To improve the stability of the market for compulsory motor third-party liability insurance (CMTPLI), Federal Law No. 88-FZ⁶ lifted the ban on reinsurance of insurers' obligations under CMTPLI agreements, equalised the status of insurance policies issued on controlled forms and insurance policies in the form of electronic documents and provided the option of filing a road accident notice in the form of an electronic document.

The adoption of Federal Law No. 250-FZ⁷ simplified the access of Russian individuals to financial services in the insurance market by providing insurance companies with the right to simplified identification using state information resources which, in turn, will facilitate the development of online sales and increase the demand for insurance services.

In the area of credit institution activities, to guarantee continuity of a bank's activities within the period of the Bank of Russia's participation in bankruptcy prevention measures,

¹ Federal Law No. 454-FZ, dated 27 December 2019, 'On Amending the Federal Law 'On the Securities Market' and Article 73 of the Federal Law 'On Enforcement Proceedings' to Improve Regulation of Professional Activities in the Securities Market'.

² Federal Law No. 507-FZ, dated 27 December 2019, 'On Amending Article 20 of the Federal Law 'On Banks and Banking Activities' and the Federal Law 'On Insolvency (Bankruptcy)'.

³ Federal Law No. 77-FZ, dated 1 May 2019, 'On Amending Article 4 of the Federal Law 'On Credit Histories'.

⁴ Federal Law No. 248-FZ, dated 26 July 2019, 'On Amending Certain Laws of the Russian Federation'.

⁵ See also '[Collective investment market entities](#)' in Subsection 2.2.4.6.

⁶ Federal Law No. 88-FZ, dated 1 May 2019, 'On Amending Certain Laws of the Russian Federation'.

⁷ Federal Law No. 250-FZ, dated 26 July 2019, 'On Amending Article 7 of the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'.

Federal Law No. 469-FZ¹ ensured that the bank would retain the right to raise funds from the state, state corporations and state-owned companies and issue appropriate guarantees and sureties, while Federal Law No. 470-FZ² established a ban on excluding a bank from the list of banks that meet the established requirements for the acceptance of bank guarantees for taxation purposes. Federal Law No. 469-FZ also set the rules for the Bank of Russia on selling the shares (stakes in the authorised capital) or property (ownership rights) of banks acquired by the Bank of Russia as part of bankruptcy prevention measures at auction.

Federal Law No. 394-FZ³ was adopted **to improve the fight against legalisation of criminally obtained incomes and financing of terrorism**; it established the obligation of entities engaged in transactions with cash or other property to comply with the regime for countering financing of the proliferation of weapons of mass destruction and clarified the existing grounds, or set forth new ones, for holding entities engaged in transactions with cash or other property liable for violating the requirements of Federal Law No. 115-FZ⁴ and the Bank of Russia regulations issued in compliance with that law. In addition, Federal Law No. 74-FZ⁵ stiffened penalties for credit institutions for conducting dubious transactions; as a result, the Bank of Russia modified its procedure for calculating fines to be imposed on credit institutions if they violate the requirements of Federal Law No. 115-FZ and/or Bank of Russia regulations adopted in compliance with it; such penalties will be based on the amount of equity (capital) of the credit institution rather

than on the minimum authorised capital of the credit institution.

Federal Law No. 33-FZ,⁶ which established a ban on withdrawing cash with anonymous prepaid cards to prevent their use in illegal activities, also fits into this group.

In the area of the national payment system, to develop promising Russian technologies and services in the payment market and ensure national security, and in connection with the emergence of new participants in the payment market, Federal Law No. 173-FZ⁷ and Federal Law No. 264-FZ⁸ were adopted. These laws are aimed at developing the payment services market and improving the Bank of Russia's supervision and monitoring of market participants. They establish requirements for the activities of payment application providers, information exchange service operators and foreign payment service providers and for the operation of foreign payment systems in the Russian Federation and expand the functionality of bank payment agents that may be engaged by banks as payment aggregators. In addition, they establish the obligation of foreign payment systems to use the Russian payment infrastructure and prohibit foreign payment systems and information exchange service operators from unilaterally ceasing to provide their services to banks.⁹

Federal Law No. 166-FZ¹⁰ was adopted to ensure uninterrupted transfers of electronic money within the Russian Federation and established the obligation to use the Russian payment infrastructure for transfers of electronic money within Russia, prohibited the transmission of information on such transfers

¹ Federal Law No. 469-FZ, dated 27 December 2019, 'On Amending Certain Laws of the Russian Federation'.

² Federal Law No. 470-FZ, dated 27 December 2019, 'On Amending Article 74.1 of Part One of the Tax Code of the Russian Federation'.

³ Federal Law No. 394-FZ, dated 2 December 2019, 'On Amending Certain Laws of the Russian Federation'.

⁴ Federal Law No. 115-FZ, dated 7 August 2001, 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'.

⁵ Federal Law No. 74-FZ, dated 1 May 2019, 'On Amending Article 74 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'.

⁶ Federal Law No. 33-FZ, dated 18 March 2019, 'On Amending Articles 7 and 7.1 of the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' and Articles 7 and 10 of the Federal Law 'On the National Payment System'.

⁷ Federal Law No. 173-FZ, dated 3 July 2019, 'On Amending the Federal Law 'On the National Payment System'.

⁸ Federal Law No. 264-FZ, 2 August 2019, 'On Amending the Federal Law 'On the National Payment System' and the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'.

⁹ See also [Subsection 2.2.4.5 'National payment system participants'](#).

¹⁰ Federal Law No. 166-FZ, dated 3 July 2019, 'On Amending Article 12 of the Federal Law 'On the National Payment System'.

abroad and made it impossible for a payment infrastructure to unilaterally refuse to perform its functions.

2019 saw the start of activities aimed at phased **liberalisation of the foreign exchange legislation in the Russian Federation**. Federal Laws No. 265-FZ, dated 2 August 2019, and No. 398-FZ, dated 2 December 2019, introduced amendments to the Federal Law 'On Foreign Exchange Regulation and Foreign Exchange Control', which expanded the list of foreign exchange transactions permitted for resident legal entities, including those performed without using bank accounts in authorised banks, and provided for the phased abolition of requirements for residents to repatriate export earnings in the Russian currency under certain foreign trade agreements (contracts).

In addition, work continued in 2019 on a number of draft federal laws, such as No. 419059-7 'On Digital Financial Assets and on Amending Certain Laws of the Russian Federation',¹ No. 613239-7 'On Amending Article 7

of the Federal Law 'On Countering Legalisation (Laundering) of Criminally Obtained Incomes and Financing of Terrorism' (to improve regulation of activities conducted by credit institutions in order to collect biometric personal data and carry out remote biometric identification)² and No. 618877-7 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation' (to introduce regulation of the categories of retail investors).³

Along with participation in preparing and reviewing these federal laws and other draft federal laws, from 1 January to 31 December 2019, the Bank of Russia issued 182 Bank of Russia regulations registered by the Ministry of Justice. In addition, 57 Bank of Russia regulations issued in 2018 were also registered by the Ministry of Justice.

The Bank of Russia prepared 106 information letters and 29 methodological recommendations and sent them to its regional branches for awareness-raising and methodological purposes.

¹ Passed in the first reading by the State Duma on 22 May 2018.

² Passed in the first reading by the State Duma on 16 July 2019.

³ Passed in the first reading by the State Duma on 29 May 2019.

2.6.11. ADDRESSING ADMINISTRATIVE AND LEGAL ISSUES

In 2019, officials of the Bank of Russia initiated 29,072 administrative proceedings.

This included:

- 20,023 administrative offences reviewed by the officials of the Bank of Russia (including cases left unsettled from previous periods);
- 5,132 applications for holding non-bank financial institutions administratively liable under Part 3 of Article 14.1 and Article 14.36 of the Code of Administrative Offences of the Russian Federation reviewed by arbitration courts (including cases left unsettled from previous periods);
- 2,080 protocols on administrative offences prepared in accordance with Part 1 of Article 20.25 of the Code of Administrative Offences of the Russian Federation reviewed by magistrate judges.

In 2019, officials of the Bank of Russia reviewed 582 complaints against rulings in administrative offences and rulings on a refusal to initiate administrative proceedings, which resulted in 126 rulings to sustain the complaints, 386 rulings to dismiss the complaints, and 70 rulings to modify previous rulings in terms of administrative fines imposed on entities subject to administrative liability.

In 2019, administrative fines imposed by Bank of Russia officials and courts following consideration of administrative cases amounted to ₹1,917,750,790. In the same period, the budgets of the Russian Federation received ₹412,158,010¹ as payments of administrative fines, including ₹364,235,450 paid voluntarily by entities subject to administrative liability and ₹47,922,550 collected from entities subject to administrative liability to enforce the adopted decisions.

¹ The difference in the amounts of administrative fines imposed and paid within the said period occurred mainly due to the breach of the deadline for payment of administrative fines by the persons fined. This forms grounds for the Bank of Russia to send the relevant materials to the Federal Bailiff Service of the Russian Federation for the enforcement of rulings ordering administrative sanctions. The difference mentioned also stems from the bankruptcy and/or forced winding up of organisations supervised by the Bank of Russia on which administrative sanctions were imposed.

2.6.12. ADDRESSING JUDICIAL ISSUES

As part of exercising its functions to monitor and supervise credit institutions and non-bank financial institutions, the Bank of Russia filed 750 suits in court, including:

- 33 suits for recognition of credit institutions as insolvent (bankrupt) and forced liquidation of credit institutions;
- 697 suits for recognition of non-bank financial institutions as insolvent (bankrupt) and forced liquidation of non-bank financial institutions;
- 20 suits on disputes associated with supervisory response measures with regard to non-bank financial institutions.

635 suits filed by the Bank of Russia were satisfied in 2019 (including cases left unsettled from the previous periods), including 40 suits against credit institutions and 595 suits against non-bank financial institutions.

In 2019, credit institutions filed 73 appeals against actions and decisions of the Bank of Russia; 17 appeals were sustained in 2019 (including cases left unsettled from the previous periods), of which 15 appeals were against decisions (rulings) in cases of administrative liability, including the liability of officials, among which were rulings on a refusal to initiate administrative proceedings, and two of which were appeals against measures applied under Article 74 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'. During the same period, non-bank financial institutions filed 1,373 appeals against

actions and decisions of the Bank of Russia; 350 appeals were sustained in 2019 (including cases left unsettled from the previous periods), of which 334 appeals were against decisions (rulings) in cases of administrative liability, including the liability of officials, among which were rulings on a refusal to initiate administrative proceedings; seven appeals were against measures applied under Articles 76.2 and 76.5 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'; and nine appeals were against actions (omissions) of the Bank of Russia, including those of its officials.

In 2019, 138 suits arising out of business and other activity were brought against the Bank of Russia, including property-related suits totalling ₹1,007,835,290 and €60 million. Overall, 13 suits were upheld in court (including cases left unsettled from previous periods), including property-related suits for a total amount of ₹4,788,940.

In 2019, the Bank of Russia filed 129 suits arising out of business and other activity, including property-related suits totalling ₹15,560,730 and \$2,151,074.89. Overall, 102 suits were upheld in court (including cases left unsettled from previous periods), including property-related suits for a total amount of ₹10,171,410 and \$243,592.

In 2019, 75 suits arising from employment relations were filed against the Bank of Russia, of which 29 were upheld (including cases left unsettled from previous periods).

3

Organisational development of the Bank of Russia

To successfully achieve its objectives, the Bank of Russia is streamlining its organisational sphere and developing resource management. Particular attention is paid to personnel training and professional development, project management development, organisation of business processes and the development and introduction of modern information technologies.

In 2019, Bank of Russia University worked on developing knowledge and skills of Bank of Russia employees. Training was designed to improve professional, corporate and managerial competencies. Projects were completed to update the model of managerial competencies and create an internal multilevel framework for the development of executives. The programmes implemented under this framework will help build a modern corporate culture within the Bank of Russia.

In 2019, the Bank of Russia continued its collaboration with universities and educational institutions to improve the quality of training for specialists in the financial market, including through internships for students.

12 projects were completed in 2019 under the Bank of Russia Business Process Re-engineering Programme. In particular, non-marketable asset management centres were established in Moscow, Voronezh and Krasnoyarsk. More than 60% of projects in the Bank of Russia's portfolio have an IT component. Over 30 projects implemented in 2019, including a number of strategically important ones, were aimed at improving the efficiency of the Bank of Russia's functions.

In 2019, the Bank of Russia continued its efforts to improve its organisational structure and optimise the number of employees, primarily through centralisation. The reforms were carried out primarily in divisions at the regional level, but also in those with interregional functions.

The Bank of Russia implemented unified approaches to the organisation and performance of procurement procedures along the functional hierarchy line of its procurement system, standardised and unified processes and documents, and developed general principles for establishing requirements for the bidders and assessment of their bids. In its procurements, the Bank of Russia followed the principle of openness and sought to expand the range of suppliers and develop competition. The establishment of equal conditions for all suppliers enabled the participation of small- and medium-sized businesses in procurement procedures.

As part of developing its risk management system, the Bank of Russia continued phased implementation of a uniform methodology for operational risk management into its business processes. In 2019, all key business processes and activities of the Bank of Russia were covered by internal audit procedures, with the findings reported to the Bank of Russia's management and the National Financial Council to ensure the monitoring of decision implementation.

3.1. Personnel development

In 2019, the Bank of Russia Corporate University continued to develop knowledge and skills of the mega-regulator's employees to ensure a high level of their expertise recognised by the international community and to support transformation processes in the Bank of Russia. Almost 40,000 people completed the programmes organised by the Bank of Russia Corporate University, and more than 127,000 distance-learning courses were completed.

Six models of professional competencies and 93 specialised tests were developed in 2019, which was primarily aimed at creating professional training programmes and individual development plans for employees. The level of professional knowledge of more than 9,000 specialists of the Bank of Russia was assessed.

In 2019, considerable attention was paid to further training of employees on the development of modern information technologies, information security and protection, supervision of credit institutions and non-bank financial institutions, countering the legalisation (laundering) of criminally obtained incomes and the financing of terrorism, functioning of the national payment system, application of international financial reporting standards, etc.

A number of important learning projects were launched, including 'IFRS 9 Financial Instruments', 'Macroeconomics and Econometrics for Central Banks', 'Analysis and Assessment of the Financial Condition of Non-bank Financial Institutions', 'Corporate Governance for Credit Financial Institutions' and 'Analysis of Business Models in Credit Institutions. International Best Practices in Approaches to the Analysis of Business Models'.

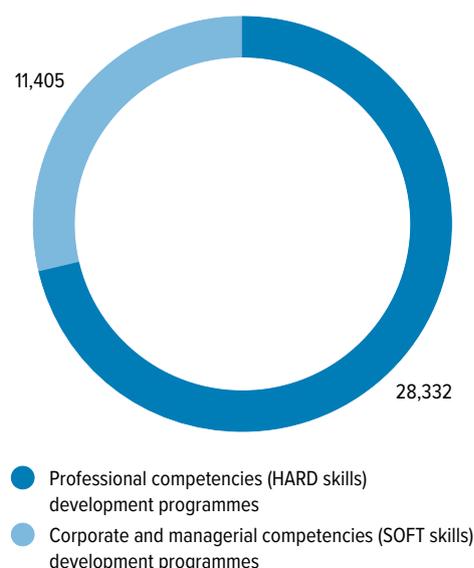
Mandatory training on fire safety and civil defence was conducted in accordance with the

requirements of the laws of the Russian Federation, and certain categories of employees were trained in accordance with their qualification requirements.

In 2019, the Bank of Russia Corporate University organised more than 190 international training events attended by about 800 employees of the Bank of Russia both in Russia and abroad. The most important events included a high-level seminar on information security and the joint seminar 'Financial Markets and Instruments' held with the participation of the International Monetary Fund and the Joint Vienna Institute as well as the central (national) banks of EAEU member states and Uzbekistan. In the reporting year, the geographic distribution of participants attending international training events held at the Bank of Russia expanded to 50 countries.

The Bank of Russia Corporate University continued its efforts to create and develop

BREAKDOWN BY PRINCIPAL TRAINING AREAS *Chart 45*
IN 2019 (PERSONS)



Almost 40,000 people completed the programmes of the Bank of Russia Corporate University, and more than 127,000 distance-learning courses were completed

the talent pool. Such a talent pool for deputy manager positions in the regional branches of the Bank of Russia was established as a result of meetings of HR committees held in all main directorates of the Bank of Russia. The talent pool included 89 executives who had successfully passed a multi-stage selection system and demonstrated at the meetings of HR committees that, in addition to high professional and managerial competencies, they had achieved significant results during their participation in the Bank of Russia’s transformation processes and projects. In 2019, five executives from the talent pool were appointed as branch managers (56% of all appointments). Overall, 29% of those included in the talent pool were promoted during 2019.

In December 2019, a cross-functional working group of the Bank of Russia Corporate University and the Human Resources Department completed a project for updating the model of managerial competencies. The model of managerial competencies will be used in key talent management processes such as selecting candidates for management positions, assessing executives at all levels, training and development programmes and in succession planning and building the talent pool.

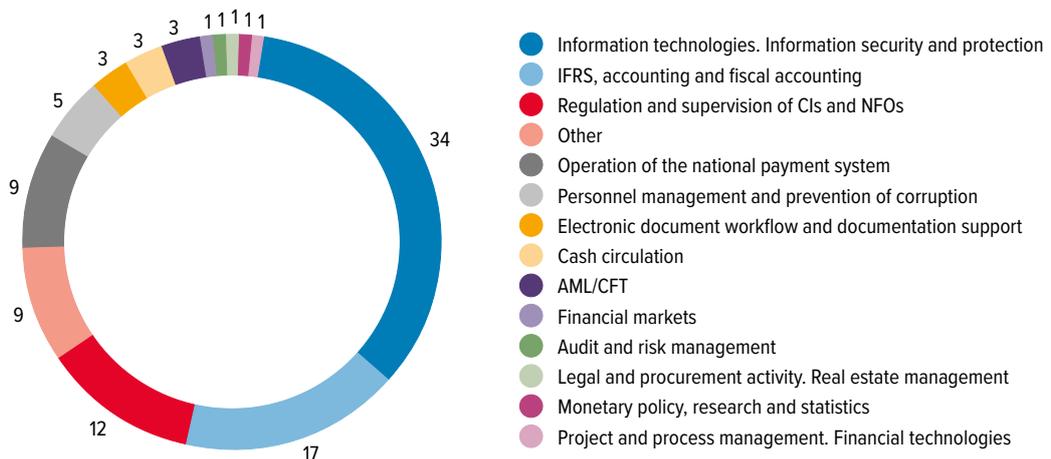
The Bank of Russia Corporate University completed creation of a multi-level development system for executives. In addition to Leadership Steps, a programme for

mid-level executives, two new programmes were launched under this system in 2019: Big Change (for line executives) and Development Momentum (for senior executives). Overall, by 2022, the three programmes will cover nearly 7,000 executives at various levels in the head office and regional branches of the Bank of Russia. The programme actively promotes the concept of leaders developing leaders. In 2019, more than 40 speakers (top managers of the Bank of Russia, international and Russian companies, executives from government agencies, and leading experts from the academic community) made presentations at various modules of the programme.

In 2019, the Bank of Russia continued its collaboration with universities and educational institutions to help improve the quality of training for financial market specialists. The Bank of Russia’s experts regularly held specialised training events for students, participated in research and practice conferences and supervised the preparation of theses. This year, a pilot project was launched at the regional level in the format of a lecture course at the Tver State Technical University to develop the competencies of financial market specialists and university students on the topic of modern technologies for the collection and processing of credit and financial data. The Bank of Russia also supports the Talent and Success Educational Fund in developing a system to identify,

MAIN AREAS OF PROFESSIONAL TRAINING AT THE BANK OF RUSSIA HEAD OFFICE (AS A PERCENTAGE OF TOTAL NUMBER OF TRAINEES)

Chart 46



train and assist the professional self-determination and development of gifted children who received grants from the President of the Russian Federation and winners of Olympiads in specialised areas.

In 2019, students were selected for internship at the Bank of Russia. After the first selection held in April 2019, 32 individuals were invited to take an internship, and 18 of them received a job offer when their internship had been completed (56% of all participants).

Representatives of the Bank of Russia also continued to participate in the development of youth movements in the Coordination Council of Youth Organisations of Federal Executive Authorities. In addition, the Bank of Russia is implementing an initiative to establish its own Youth Council. Young employees of the Bank of Russia will not only be able to realise their potential in the professional sphere but also to take part in social, cultural and educational activities of the Bank of Russia.

3.2. Process management development

In 2019, the Bank of Russia continued to implement its Business Process Re-engineering Programme. This included completion of 12 projects to implement target business processes, such as:

- establishing three non-marketable asset management centres (in Moscow, Voronezh and Krasnoyarsk);
- developing and implementing scenarios to improve the efficiency of the use of the Bank of Russia’s real estate facilities in the North-Western Main Branch. After the completion of planned work, maintenance costs of real estate facilities in the North-Western Main Branch are expected to decline by more than 10% over the next five years;
- implementing electronic document workflow with the Bank of Russia’s counterparties;
- streamlining maintenance and repair costs of the Bank of Russia’s vehicles;
- completing the introduction of modern methods to organise and support business trips in the activities of the Bank of Russia, which made it possible to increase the employee satisfaction index and cut the Bank of Russia’s business trip costs by obtaining special terms for airline tickets and accommodation;
- initiating a pilot project to engage service companies (aggregators) to provide taxi services to Bank of Russia employees in order to improve satisfaction with the quality of services and cut transportation costs;
- implementing continuous monitoring of the efficiency and effectiveness of the Bank of Russia’s business processes through planning and control of key performance indicators;
- completing the next stage of optimisation of the structure and number of the Bank of Russia’s divisions in accordance with the approved road map for the implementation of the target regional model.

3.3. Project management development

In 2019, the project portfolio included 128 projects, of which more than 60% had an IT component.



More than 30 projects were implemented in 2019

Over 30 projects were implemented in 2019, including a number of strategically important ones aimed at improving the efficiency of the Bank of Russia's functions:

1. The Faster Payments System was launched to enable individuals to make online funds transfers to each other using their telephone numbers and pay for goods and services with a QR code.

2. The system 'Optimal Model for the Transportation and Storage of Valuables' was implemented to automatically find transportation routes at the optimal cost and, therefore, cut the expenditures of the Bank of Russia by optimising the vehicle fleet used to transport banknotes and coins of reserve funds.

3. Processing of public complaints and enquiries was automated with the system 'Complaints and Enquiries' to reduce the average response time to non-standard complaints or enquiries and ensure that up to 90% of processing for complaints and enquiries takes place in electronic form using electronic signing of documents.

4. Works were completed to make the Bank of Russia's services available on UPSS, including 'Notification to the Bank of Russia', 'Provision of Information on a Financial Market Participant' and 'Provision of Information on the Availability (Absence) of Information on the Applicant in the Databases of the Bank of Russia'. In 2019, such services of the Bank of Russia were used more than 5,000 times.

5. Off-site supervision functionality was implemented as part of the system 'Supervised Institution Consolidated File', which provides supervisory divisions of the Bank of Russia with a single information space for off-site supervision.

6. A Self-service Analytics application was created. It enables the divisions of the Bank of Russia to conduct large-scale data studies using Big Data tools.

7. An application was created for actuarial calculations by the Bank of Russia as well as for analysis and modelling of insurance tariffs.

8. Kazan innovation lab developed eight software robots for operational business processes; they are currently being prepared to be launched in production, and this technology is expected to be expanded to cover other business processes of the Bank of Russia.

9. A set of tools for cryptographic protection of information to be used in the System of Mobile Access to the Bank of Russia's Information Resources was developed and certified by the Federal Security Service.

10. A database was created to comply with Federal Law No. 161-FZ¹ and inform the Bank of Russia, credit institutions, payment system operators and payment infrastructure service operators about funds transfers made without the customer's consent (Feed-Antifraud automated system).

11. Functionality was improved for the system 'Register of Financial Market Participants' in terms of implementing the provisions of Federal Law No. 514-FZ² on simplifying issuance, which provided for a partial delegation of the functions of registering issues of securities to registrars, and the provisions of Federal Law No. 248-FZ,³ which provided for the delegation of authority to approve the rules of trust management of unit investment funds, whose

¹ Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System'.

² Federal Law No. 514-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation with Regard to Improving the Legal Regulation of Securities Issuance'.

³ Federal Law No. 248-FZ, dated 26 July 2019, 'On Amending Certain Laws of the Russian Federation'.

investment units are restricted in circulation, to specialised depositories.

The Bank of Russia also continued to improve its project management tools. The replication of agile approaches continued. Substantial changes were made to the project management methodology. A set of Scrum tools and techniques were used in a number of projects, which made it possible to respond more efficiently to changes in the requirements

for information systems and improve the satisfaction of project customers.

In addition, in 2019, after successful testing in a number of divisions of the Bank of Russia's head office, the Kanban method gained a widespread use in the Bank of Russia's regional branches, allowing them to manage tasks in complex processes and accelerate their work through better transparency, reduced multi-tasking and improved management of priorities.

3.4. Changes in the organisational structure

In 2019, the Bank of Russia continued to optimise its staff numbers, which was related, among other things, to a new stage of centralisation.

Transformations in the head office implemented in the previous years as part of re-engineering key business processes made it possible to create an organisational structure that meets the objectives of the Bank of Russia. As a result, there were no changes in the organisational structure of the head office during 2019.

sation of functions supervising non-bank financial institutions was completed, and there were continued efforts to centralise financial monitoring and foreign exchange control functions.

Activities started in previous years also continued in 2019. 20 cash settlement centres were liquidated in accordance with the settlement network optimisation programme, and the staff optimisation of social amenities divisions was completed.

Overall, as a result of the work conducted, the staff of the Bank of Russia decreased by 1,200, or 2.4%, to 49,400.

As of 1 January 2020, the Bank of Russia's structure consisted of 361 divisions, including the head office, seven main branches comprising 74 divisions (divisions – national banks), one interregional depository, 55 cash settlement centres, 36 divisions implementing business processes based on the interregional principle, 91 field institutions, the representative office of the Bank of Russia in the People's Republic of China and other ancillary divisions.

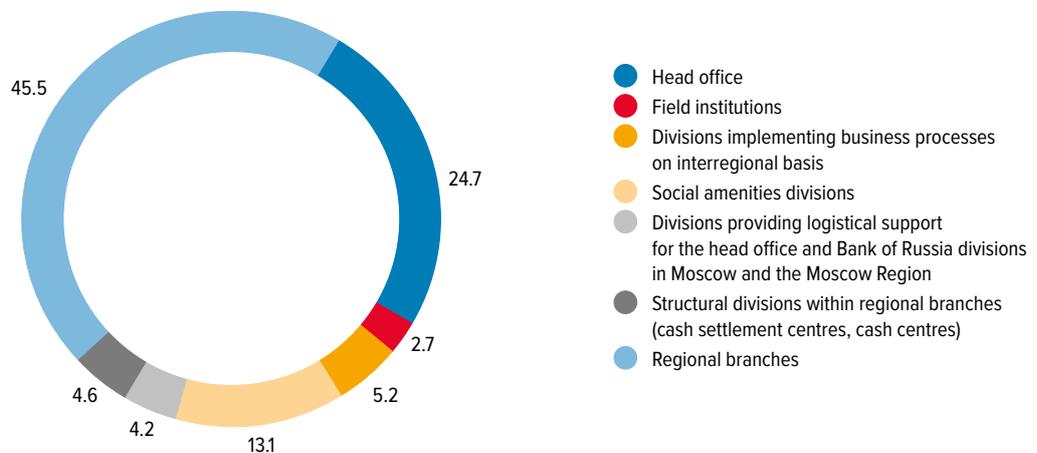


The total staff of the Bank of Russia decreased by 1,200

Organisational development was focused on enhancing processes at the regional level and developing divisions with interregional functions. Staff numbers were optimised in accounting, operations, security, HR, property maintenance and administration. The centrali-

NUMBER OF BANK OF RUSSIA PERSONNEL BY STRUCTURAL DIVISION AS OF 1 JANUARY 2020 (PER CENT)

Chart 47



3.5. The Bank of Russia's procurement activities

The first full cycle of procurement under the centralised model and the new requirements under Bank of Russia Regulation No. 632-P¹ was completed in 2019. Common approaches were implemented with regard to the organisation and performance of procurement procedures along the functional hierarchy line of the Bank of Russia's procurement system; processes and documents were standardised and unified; common principles were established for the requirements for bidders and assessment of their bids. 1,911 contracts for a total amount of ₹16.6 billion were signed as a result of the procurement procedures.

To develop relations and share experience on organisation of procurement activities, in 2019, the Bank of Russia established a discussion platform for representatives of the central (national) banks of EAEU member states and the People's Republic of China. The seminar participants acknowledged that at the current stage the efficiency of procurement could be improved primarily through the use of electronic document workflow and electronic trading platforms as an instrument of open bidding. By promoting transparency in procurement, the Bank of Russia increased the share of procurement made through open tenders to 72%, which exceeded the figure for 2018 in terms of volume.

By using a model of aggregate cost assessment based on the total cost of ownership and economically justified centralisation of procurement as part of category management as well as by combining the design and development phases for various systems it was possible to put the existing potential for price reduction into practice. As a result, savings on procurements made in 2019 amounted to ₹2.3 billion, with an average reduction in the initial (maximum) price of the contract by

more than 12%, which was almost twice as much as in 2018.

To promote open dialogue with market participants, the Bank of Russia held a second conference of suppliers. The format of thematic sessions and round tables made it possible to increase the number of market participants interested in the procurement conducted by the Bank of Russia and gave them an opportunity to present interesting competitive offers.

More than 1,800 new suppliers were accredited by the Bank of Russia, which was comparable to the level of 2018. More than 60% of all suppliers accredited in 2019 submitted offers to participate in procurements conducted by the Bank of Russia, and 1/3 of those signed contracts. The share of procurement procedures with four or more admitted participants increased significantly: for centralised procurement, from 16.5% in 2018 to 32% in 2019, and for local procurement, from 16.3% to 30.7%, respectively.

Participation of additional suppliers in the procurements conducted by the Bank of Russia was achieved by reducing the average time for the review of documents submitted by market participants along with their accreditation application to 5.6 working days compared to the standard 10 working days. Federal information resources managed by the federal executive authorities of the Russian Federation (the Federal Tax Service, the Federal Bailiff Service and the Federal Treasury) were used to speed up the processing of the increased amount of information.

When conducting procurements, the Bank of Russia creates equal conditions for all suppliers and excludes the establishment of unjustified additional requirements to them, which enables small- and medium-sized businesses to participate in Bank of Russia procurement

¹ Bank of Russia Regulation No. 632-P, dated 1 March 2018, 'On Procurement in the Central Bank of the Russian Federation (Bank of Russia)'.

procedures. In 2019, their share in value terms was 40%, which corresponded to the same figure for large customers at the federal level. For certain categories of goods (works, services) in the area of administrative and property maintenance activities, the share of small- and medium-sized businesses participating in the Bank of Russia procurement procedures reached 90%.

During 2019, procurement participants submitted a total of 19 complaints to the independent collective body of the Bank of Russia

established for handling complaints (26 complaints in 2018), of which only one third were recognised as justified. As a result, the share of justified complaints per 100 procurement procedures declined by 10%.

The activities of procurement divisions within the common functional hierarchy line were coordinated on the basis of key performance indicators, which made it possible to achieve the 2019 goals for timeliness of procurement procedures and the share of failed procurement procedures in quantitative terms.

3.6. Internal auditing

The main objective of internal auditing in the Bank of Russia is to report to the National Financial Council and management of the Bank of Russia on compliance of the structural divisions of the Bank of Russia and legal entities established by the Bank of Russia with the laws of the Russian Federation and the regulatory and other acts of the Bank of Russia as well as on the performance of their functions and the condition of their internal control, risk management, process and division management frameworks in order to improve the activities of the Bank of Russia.

In 2019, internal auditing covered the key activities and business processes of the Bank of Russia. When internal auditing was organised, the following factors were taken into account: the criticality of a business process for the functions and objectives of the Bank of Russia, instructions of the Bank of Russia management with regard to specific areas of activity, results of business process re-engineering and the implementation of capital-intensive projects.

In 2019, the Bank of Russia conducted 87 internal audit procedures, including 63 audits, nine monitoring procedures, 11 analytical events and four project audits.

In accordance with the instructions of management, the Bank of Russia audits the forecasting of macroeconomic conditions for conducting monetary policy on an ongoing basis.

Given the continuing high level of uncertainty regarding the impact of external factors on financial markets, the Bank of Russia continued to monitor the management of the Bank of Russia's assets in foreign currency and precious metals on a daily basis and to assess the measures used to respond to emerging risks.

In accordance with the requirements of Article 76.12 of Federal Law No. 86-FZ,¹ the internal audit reviewed the efficiency of using resources provided by the Fund of Banking Sector Consolidation.

In the reporting period, the Bank of Russia continued analysing the organisation and implementation of its business processes to assess the causes for the bankruptcy of individual CIs and evaluated the efficiency of using the financial stability recovery plan as a banking supervision tool.

The internal auditing of activities with regard to NFIs was focused on business processes related to the admission of instruments to the financial market, improvement of corporate governance practices, liquidation and controlled termination of NFIs' activities, maintenance of registers and databases, countering the illegal use of insider information and market manipulation, implementation of financial rehabilitation mechanism for insurance companies as well as assessment of risks for insurance companies and stress testing of the insurance market.

Auditing activities with regard to organising and ensuring cash circulation focused on the efficiency of measures aimed at implementing the objectives of the Strategy for the Development of Cash Circulation in Russia for 2016–2020, such as improving logistics and settlements in the area of transportation and storage of Bank of Russia valuables, developing an innovative environment for processing banknotes and changing approaches to the use of banknote processing parameters, ensuring transition of the Bank of Russia to a partially decentralised model of cash circulation management.

To independently assess the quality of the Bank of Russia's payment system management, an audit was conducted on a wide range of issues related to the essential aspects of the payment system's functioning, including risk management and continuity, efficiency and effectiveness of the payment system. The establishment of the Faster Payments System was audited as part of monitoring the development of the Bank of Russia's payment system.

Given the importance of issues related to the efficiency of the Bank of Russia's expen-

¹ Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)'.

ditures, the results of outsourcing catering and transportation services functions were assessed and expenses on the provision of pensions to Bank of Russia employees were audited. Internal audit procedures assessed the achievement of the goals and objectives in re-engineering the business processes for the preparation of the Bank of Russia's accounting (financial) statements and real estate management.

The internal audit procedures also considered compliance with license agreements for the use of software products in the accounting, information, telecommunication and other systems of the Bank of Russia.

Continued monitoring of implementation of the Bank of Russia IT Strategy for 2016–2020 included an assessment of continuity in the provision of services and prompt response to incidents.

The audit of internal security paid considerable attention to the planning and efficiency of the Bank of Russia's expenditures on setting up and maintaining security equipment.

The cyber security audit of the Bank of Russia reviewed the protection of information and computing resources against malicious code and the operation of systems used to monitor the information security of the Bank of Russia payment system.

The reliability of internal financial controls and the validity of the Bank of Russia's bud-

getary reporting were assessed as part of the exercise of the Bank of Russia's budgetary authority for internal financial audits.

The Bank of Russia continued to monitor the interactions of its divisions with government authorities in countering legal offences in the economic sphere.

The exposure of business processes to the risks of business continuity disruption was examined based on the recommendations of the external auditor of the Bank of Russia's annual financial statements.

The internal audit findings generally confirmed that the audited entities fulfilled their functions and complied with the requirements of the laws of the Russian Federation and the regulatory and other acts of the Bank of Russia, and that the risk management framework of the Bank of Russia was appropriate to the internal and external environment. The internal audit findings were reported to management of the Bank of Russia and the National Financial Council. Appropriate management decisions were taken with regard to identified shortcomings and issues of concern, and their implementation was monitored.

In the reporting period, the Bank of Russia collaborated with the Accounts Chamber of the Russian Federation in its monitoring and expert analysis activities and implemented the findings of these activities.

4

Annual financial statements of the Bank of Russia 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 2019 presented below (hereinafter, the financial statements) are comprised of:

- Annual Balance Sheet;
- Statement of Financial Performance;
- Statement of Profit and its Allocation;
- Statement of Bank of Russia Reserves and Funds;
- Statement of Bank of Russia Management of Securities and Stakeholdings in Organisations Constituting Bank of Russia Property;
- Statement of Volume of Bank of Russia Securities Trading on Organised Trading Venues;
- Statement of Bank of Russia Personnel Costs;
- Statement of Capital Investment Budget Performance.

The principal objectives of the Bank of Russia are:

- to protect the ruble and ensure its stability;
- to upgrade and strengthen the Russian banking system;
- to ensure the stability and development of the national payment system;
- to develop the Russian financial market;
- to ensure the stability of the Russian financial market.

Annual Balance Sheet as of 31 December 2019

(millions of rubles)

	Note	2019	2018
ASSETS			
1. Precious metals	4	6,952,779	6,123,931
2. Funds placed with non-residents and foreign securities	5	25,342,948	24,496,143
3. Loans and deposits	6	3,305,659	3,672,548
4. Securities, of which:	7	1,121,602	1,038,786
4.1. Federal government debt obligations		317,875	179,019
4.2. Shares acquired as part of bankruptcy prevention measures		701,140	565,839
5. Claims on the IMF	8	1,537,338	1,751,536
6. Other assets, of which:	9	2,252,748	2,285,999
6.1. Fixed assets		84,219	83,212
6.2. Profit tax advance payments		131	140
Total assets		40,513,074	39,368,943
LIABILITIES			
1. Cash in circulation	10	10,616,469	10,312,842
2. Funds in accounts with the Bank of Russia, of which:	11	16,951,714	14,526,589
2.1. Federal government funds		10,734,056	7,894,719
2.2. Funds of resident credit institutions		4,273,927	4,381,714
3. Securities issued	12	1,952,884	1,388,252
4. Obligations to the IMF	13	1,363,959	1,616,353
5. Other liabilities	14	190,562	130,623
6. Capital, of which:	15	9,437,486	11,394,284
6.1. Authorised capital		3,000	3,000
6.2. Reserves and funds		10,487,333	12,261,422
6.3. Previous years losses		(870,278)	(435,459)
6.4. Reporting year losses		(182,569)	(434,679)
Total liabilities		40,513,074	39,368,943

Governor of the Bank of Russia



E.S. Nabiullina

Bank of Russia Chief Accountant



I.Yu. Granovskaya

29 April 2020

Statement of financial performance

		(millions of rubles)	
	Note	2019	2018
INCOME			
Interest income	16	363,317	361,695
Income from securities trading	17	28,610	67,751
Income from stakeholdings in credit institutions and other organisations, including income from stakeholdings in Sberbank	18	187,390	137,721
Net income from the recovery of provisions	19	40,632	0
Other income	20	10,841	10,789
Total income		630,790	577,956
EXPENSES			
Interest expenses	21	369,021	354,106
Expenses on securities trading	22	7,608	130,119
Cash turnover management expenses	23	17,176	15,597
Net expenses on the creation of provisions	19	0	198,275
Other operating expenses	24	120,679	64,551
Bank of Russia personnel costs	25	118,179	114,465
Total expenses		632,663	877,113
Financial result before transferring income from stakeholdings in Sberbank at end-year		(1,873)	(299,157)
Income received from stakeholdings in Sberbank at end-year and transferred to the federal budget in line with federal laws		(180,696)	(135,522)
Reporting year loss		(182,569)	(434,679)

Capital, funds and profit allocation

(millions of rubles)

	Authorised capital	Reserves	Social fund	Reserve of unreliaed revaluation of precious metals	Reserve of unreliaed exchange rate differences	Positive revaluation of securities available for sale	Growth in asset value upon revaluation	Reporting & previous years losses	Total capital	Profit for the year
Balance as of 31 December 2016, after tax and allocation of profit for 2016 in 2017	3,000	333,813	3,324	1,994,484	6,260,155	49,382	7,966	0	8,652,124	0
Loss for 2017	0	0	0	0	0	0	0	(435,308)	(435,308)	0
Transferred to funds in 2017	0	0	0	271,286	0	1,795	0	0	273,081	0
Paid from funds in 2017	0	0	(315)	0	(71,659)	(31,435)	0	0	(103,409)	0
Balance as of 31 December 2017, before tax for 2017	3,000	333,813	3,009	2,265,770	6,188,496	19,742	7,966	(435,308)	8,386,488	0
Taxes and duties, including those paid in advance in 2017	0	0	0	0	0	0	0	(151)	(151)	0
Balance as of 31 December 2017, after tax for 2017	3,000	333,813	3,009	2,265,770	6,188,496	19,742	7,966	(435,459)	8,386,337	0
Loss for 2018	0	0	0	0	0	0	0	(434,679)	(434,679)	0
Transferred to funds in 2018	0	0	0	957,437	2,684,230	60,587	0	0	3,702,254	0
Paid from funds in 2018	0	(246,773)	(793)	0	0	(12,062)	0	0	(259,628)	0
Balance as of 31 December 2018, before tax for 2018	3,000	87,040	2,216	3,223,207	8,872,726	68,267	7,966	(870,138)	11,394,284	0

	Authorised capital	Reserves	Social fund	Reserve of unreliaed revaluation of precious metals	Reserve of unreliaed exchange rate differences	Positive revaluation of securities available for sale	Growth in asset value upon revaluation	Reporting & previous years losses	Total capital	Profit for the year
Taxes and duties, including those paid in advance in 2018	0	0	0	0	0	0	0	(140)	(140)	0
Balance as of 31 December 2018, after tax for 2018	3,000	87,040	2,216	3,223,207	8,872,726	68,267	7,966	(870,278)	11,394,144	0
Loss for 2019	0	0	0	0	0	0	0	(182,569)	(182,569)	0
Transferred to funds in 2019	0	0	0	415,780	0	10,935	0	0	426,715	0
Paid from funds in 2019	0	(4,346)	0	0	(2,165,653)	(30,805)	0	0	(2,200,804)	0
Balance as of 31 December 2019, before tax for 2019	3,000	82,694	2,216	3,638,987	6,707,073	48,397	7,966	(1,052,847)	9,437,486	0
Taxes and duties, including those paid in advance in 2019	0	0	0	0	0	0	0	(131)	(131)	0
Balance as of 31 December 2019, after tax for 2019	3,000	82,694	2,216	3,638,987	6,707,073	48,397	7,966	(1,052,978)	9,437,355	0

Information on reserves and funds of the Bank of Russia is disclosed in the Statement of Bank of Russia Reserves and Funds.

Notes to Annual Financial Statements for 2019

1. ACCOUNTING AND FINANCIAL REPORTING

The Bank of Russia's accounting and financial reporting practices are carried out in accordance with the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', Federal Law No. 402-FZ, dated 6 December 2011, 'On Accounting', Bank of Russia Regulation No. 567-P, dated 19 December 2016, 'On the Chart of Accounts for Accounting Purposes at the Central Bank of the Russian Federation (the Bank of Russia) and the Procedure for Using it', Bank of Russia Regulation No. 522-P, dated 21 December 2015, 'Bank of Russia Accounting Policy for Accounting Purposes' (hereinafter, the Accounting Policy), and other Bank of Russia regulatory documents issued in pursuance of the said federal laws.

The financial statements have been compiled on the basis of the annual accounting statements of the Bank of Russia, including its regional and other divisions within the structure of the Bank of Russia as a legal entity; accounting registers; and information set out in the Bank of Russia regulations on the accounting in the Bank of Russia and other Bank of Russia regulations.

These financial statements have been compiled exclusive of the financial statements of credit institutions and other organisations within and outside of Russia in which the Bank of Russia holds a stake and/or whose activities it controls, as well as of legal entities established by the Bank of Russia. Under 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 2019.

Bracketed figures in tables are negative values.

For the purposes of these financial statements, Bank of Russia operations with credit institutions and the State Development Corporation VEB.RU (hereinafter, VEB RF) are jointly referred to as operations with resident banks.

Resident banks with government stakeholdings in their authorised capitals from 50% to 100% are categorised as resident banks with the direct stakeholdings of the Russian Federation represented by the Russian Ministry of Finance or the Federal Agency for State Property Management, constituent territories of the Russian Federation represented by their ministries and agencies, the Bank of Russia, the State Corporation Deposit Insurance Agency and VEB.RF (Notes 6, 11).

2. ACCOUNTING POLICY PRINCIPLES, ACCOUNTING ITEMS AND METHODS FOR THEIR APPRAISAL

Assets (claims) and liabilities are recorded at their initial value at the moment of their acquisition or occurrence. The initial value does not change until their retirement, sale, or redemption, unless otherwise provided for by the Russian legislation, the Accounting Policy, and/or Bank of Russia regulations or other by-laws. The specifics of any subsequent appraisal (revaluation) of the value of assets (claims) and liabilities are described in this Note.

(A) PRECIOUS METALS

Assets (claims) and liabilities denominated in precious metals, including precious metals contained in commemorative and investment coins that are legal tender in the Russian Federation, placed in the Bank of Russia's correspondent account, trading bank account in precious metals or custody account, precious metals in deposit accounts, are entered in the books at the value of the precious metals according to the book prices for refined precious metals established by the Bank of Russia (hereinafter, the book price) as of the date of the assignment of title and shall be revalued according to changes in book prices. The Bank of Russia calculates book prices based on the current fixed prices of precious metals on the London Metal Exchange.

Assets (claims) and liabilities denominated in precious metals are reflected in the books as of the end of the reporting year at their fair value. The fair value of precious metals as of the end of the reporting year is the last price for the precious metals as fixed in the London metals spot market in the reporting year and recalculated based on the official US dollar / ruble exchange rate effective as of the reporting date.

The excess of positive unrealised differences, which arise from revaluation of precious metal balances due to the change in the book prices of precious metals and in the fair value as of the end of the reporting year over negative unrealised differences is recorded in the balance sheet account *Reserve of unreliaed 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 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 *Reserve of unreliaed 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 *Reserve of unreliaed 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 expenses) that arise when trade operations with precious metals are conducted at a price different from the book price of such precious metals are calculated individually for each operation. The realised difference is the difference between the actual value of a transaction and the value based on the book price of 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 (date of delivery of precious metals) to which the transaction relates. Net positive realised differences are recorded in financial statements as *Other income* item, while net negative realised differences are recorded as *Other operating expenses* item of the statement of financial performance.

Bank of Russia claims and liabilities with respect to the delivery of precious metals in forward transactions under signed contracts are recorded to off-balance sheet accounts at book prices

from the transaction date to the date of delivery of the precious metals or the settlement date, whichever is earlier, and revalued as the book prices change.

The value of precious metals used to recalculate assets (claims) and liabilities in precious metals as of the reporting date was as follows: ₹3,031.2500 per gram of gold (2018: ₹2,862.6000 per gram of gold); ₹35.9200 per gram of silver (2018: ₹34.5400 per gram of silver); ₹1,932.5900 per gram of platinum (2018: ₹1,773.4200 per gram of platinum); ₹3,821.4000 per gram of palladium (2018: ₹2,820.9500 per gram of palladium).

(B) FOREIGN CURRENCY ASSETS AND LIABILITIES

Foreign currency assets (claims) and liabilities are entered in the books as of the date of the operation or transaction in foreign currency at the official rate of exchange of the foreign currency against the ruble set by the Bank of Russia as of that date (hereinafter, the official exchange rate).

Foreign currency assets (claims) and liabilities are revalued as the official exchange rate changes, except for amounts received, advances paid and down payments made under business transactions with non-resident companies (for goods delivered, works performed or services rendered), as well as the amounts of down payment in Bank of Russia transactions related to its stakeholdings in other companies which are not subject to revaluation.

The excess of positive unrealised exchange rate differences that arise in the course of revaluing the balances in balance sheet accounts, where funds in foreign currency are reflected, over the negative unrealised exchange rate differences due to changes in the official exchange rates, is recorded to the balance sheet account *Reserve of unrealised 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 *Reserve of unrealised 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 *Reserve of unrealised 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. Net positive realised exchange rate differences are recorded in financial statements as *Other income* item, while net negative realised exchange rate differences are recorded as *Other operating expenses* item of the statement of financial performance.

Bank of Russia claims and liabilities denominated in foreign currency under signed foreign currency purchase and sale forward contracts are posted to off-balance sheet accounts at the official exchange rates from the transaction date to the first settlement date stipulated by transaction terms and are revalued at the official exchange rates.

The official exchange rates used to recalculate assets (claims) and liabilities in foreign currency as of the reporting date were as follows: ₹61.9057 to the US dollar (2018: ₹69.4706 to the US dollar); ₹69.3406 to the euro (2018: ₹79.4605 to the euro); ₹81.1460 to the pound sterling (2018: ₹88.2832 to the pound sterling); ₹47.3611 to the Canadian dollar (2018: ₹50.9614 to the Canadian dollar); ₹56.7032 to 100 Japanese yen (2018: ₹62.9976 to 100 Japanese yen); ₹85.4398 to the SDR (special drawing right) (2018: ₹96.6190 to the SDR); ₹43.2597 to the Australian dollar (2018: ₹48.9351 to the Australian dollar); ₹88.5937 to 10 Chinese renminbi (2018: ₹10.0997 to the Chinese renminbi).

(C) SECURITIES

Investments in debt securities other than promissory notes are categorised as follows, depending on the purpose of the purchase:

- *Appraised at fair value through profit or loss*. These include securities purchased for short-term sale (up to one year) whose fair value can be determined reliably;
- *Held to maturity*. These include securities that the Bank of Russia intends to hold to maturity, regardless of the period between the purchase date and the maturity date;
- *Available for sale*. These include securities that are not categorised as *Appraised at fair value through profit or loss* or *Held to maturity* when purchased.

Securities are accounted for at their initial value, which includes the acquisition price (purchase value) and, for securities *Available for sale* or *Held to maturity*, material additional expenses (costs) directly associated with their purchase. Expenses (costs) exceeding 5.0% of the transaction value are recognised as material.

Securities are entered in the accounts in the currency in which they are issued.

The price of securities purchased in a currency other than that in which they were issued is determined at the official exchange rate as of the purchase date, or at a cross rate calculated using official exchange rates.

The balance-sheet value of securities after their initial recognition is altered by the amount of interest income (interest expenses) accrued, amounts of partial redemption of the nominal value of securities and coupon payment, and, for the securities *Appraised at the fair value through profit or loss* and *Available for sale*, with due regard to their revaluation at the fair value, if their fair value can be determined reliably.

The amount of discount and interest (coupon) income less the premium amount is recognised as part of interest income. A discount on the security means a positive difference between the nominal value (current face value) of the security and its initial value less interest (coupon) income included in the purchase price.

The amount of premium in excess of the interest (coupon) income is recognised as interest expense. A premium on the security means a negative difference between the nominal value (current face value) of the security and its initial value less interest (coupon) income included in the purchase price.

Interest income and expenses are accrued on a uniform basis from the purchase date of securities and during their remaining circulation time, unless otherwise specified in Bank of Russia regulations.

Interest income on securities where there is no uncertainty as to 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.

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 at fair value. Assessment models based on market data are used to evaluate the fair value of securities that do not have representative quotations (prices).

The securities revaluation amount is the difference between the fair price of securities of a corresponding issue (issuer) and their balance sheet price, net of the revaluation reflected in the corresponding balance sheet accounts.

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, excess of positive revaluation over negative revaluation of securities categorised as *Available for sale* of the corresponding issue (issuer) is written off to the account for income from securities transactions within the limits of negative revaluation of the corresponding issue (issuer), recorded to the account for expenses from securities transactions in previous years; in the absence of a negative revaluation of the corresponding issue (issuer), posted to expenses in previous years, or in the amount of its excess, it is recorded to the balance sheet account *Positive revaluation of securities available for sale* as part of capital. With respect to securities categorised as *Available for sale* that are acquired in the reporting year, the positive revaluation of such securities of the corresponding issue (issuer) is recorded to the balance sheet account *Positive revaluation of securities available for sale* as part of capital.

At year-end, 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 for expenses on securities transactions. With respect to securities categorised as *Available for sale* and acquired in the reporting year, the sum of negative revaluation of such securities of the corresponding issue (issuer) is written off to the account for expenses on securities transactions.

Securities categorised as *Held to maturity* are not subject to revaluation; they are reflected in the financial statements net of depreciation provisions.

Residents' or non-residents' debt securities are recorded in the financial statements to the balance sheet items *Securities* or *Funds placed with non-residents and foreign securities* respectively.

Upon retirement (sale) of securities, the price of such securities shall be determined using the FIFO method, which stipulates that the retirement (sale) of securities is recorded in the accounts in the order of their acquisition. The price of retired (sold) securities includes the price of securities that were acquired first.

The financial result of the retirement (sale) or redemption of securities is calculated as the difference between the balance sheet price of the security as of the retirement date, inclusive of accrued interest income (for securities in the category *Appraised at fair value through profit or loss*, net of revaluation amounts), and the contractual redemption price or retirement (sale) price and is recorded to the income or expenses on securities 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 in the statement of financial performance.

Securities transferred by the Bank of Russia in reverse transactions (including securities in repo transactions with non-resident banks) are recognised in the same category of securities, in which they were recognised before the transaction, in separate balance sheet accounts. Funds raised by the Bank of Russia in repo transactions are accounted for in Bank of Russia balance sheet accounts for funds raised.

Securities received by the Bank of Russia in reverse transactions (including securities in repo transactions with resident or non-resident banks) are recorded to off-balance sheet accounts

and revalued at the fair price on the last working day of the month. Funds provided by the Bank of Russia in repo transactions are accounted for in Bank of Russia balance sheet accounts for funds placed.

Income received or expenses incurred by the Bank of Russia in reverse transactions are recorded in the financial statements as *Interest income* or *Interest expenses* items of the statement of financial performance respectively.

Promissory notes issued by credit institutions are accounted for in the financial statements at their purchase price net of depreciation provisions.

(D) BANK OF RUSSIA BONDS

Bank of Russia coupon bonds (coupon OBRs) are accounted for at the nominal value reduced or increased by the discount or premium (the difference between the nominal value and the placement or selling price) inclusive of accrued interest.

The amount of discount and coupon income payable to coupon OBR holders less the premium amount are recognised as interest expenses. Interest expenses accrue starting from the date of coupon OBRs placement (sale) throughout the time to their maturity on a uniform basis. Interest expenses are recorded to expense accounts on the last working day of the month when the coupon OBRs are bought back or redeemed, and coupon income is paid.

Coupon OBRs received by the Bank of Russia in repos with resident banks are recorded to off-balance sheet accounts as securities received in repos.

(E) INVESTMENTS

Bank of Russia investments in the authorised capital of credit institutions and other organisations are accounted for at their initial price as of the date of transfer of the title to shares (stakes), as specified in the documents confirming the transfer of title to the shares (stakes).

The initial value of shares (stakes) entered in the books includes the purchase price (purchase value) and material additional expenses (costs) directly associated with their purchase. Expenses (costs) exceeding ₺25,000 are recognised as material.

Immaterial additional expenses (costs) directly related to the purchase of shares (stakes) are included in expenses on securities trading.

Bank of Russia investments in the shares of credit institutions, which were acquired for the purpose of participation in bankruptcy prevention measures and were transferred to trust management, are accounted for in balance sheet accounts for assets transferred to trust managements; in the financial statements these investments are recorded to *Securities* item of the balance sheet.

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.

Bank of Russia investments in the units of a unit investment fund set up in order to implement bankruptcy prevention measures at financial institutions are accounted for at their initial value as of the date on which the title to the units is transferred, and which is indicated in the documents confirming the transfer of title to the units.

Investments in the units of a unit investment fund set up in order to implement bankruptcy prevention measures at financial institutions are recognised in the financial statements at their initial value net of depreciation provisions.

(F) LOANS AND DEPOSITS

Loans, including subordinated loans, provided to credit institutions, state corporations, 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 in the financial statements as part of the principal, including accrued interest whose receipt is regarded as certain, net of depreciation provisions. Interest income where there is uncertainty as to its receipt is recorded to off-balance sheet accounts for unearned interest income and is recognised as income when the funds are actually received.

The Bank of Russia issues loans against the pledge (blocking) of securities, pledge of receivables on loan agreements and/or guarantees.

Securities received as loan collateral are appraised at their market value as of the transfer date of the indicated securities as collateral on a Bank of Russia loan, using the adjustment ratios established by the Bank of Russia, and are not subject to further revaluation.

Claims under loan agreements received as collateral on extended loans are accounted for at the value determined according to the procedure defined by the loan agreement, adjusted by the adjustment ratios established by the Bank of Russia.

The value of collateral under Bank of Russia loans provided against guarantees is calculated as the amount of loan debt plus the interest to be paid for the anticipated period of use of the loan, calculated based on the conditions of the loan agreement signed with the Bank of Russia.

Within the framework of implementing measures aimed at stabilising the financial market of the Russian Federation, the Bank of Russia places funds as part of bankruptcy prevention measures at credit institutions using the money of the Fund of Banking Sector Consolidation.

(G) LOSS PROVISIONS FOR BANK OF RUSSIA OPERATIONS

To cover possible financial losses if risks materialise under Bank of Russia claims and liabilities (including contingent ones) in the currency of the Russian Federation and in a foreign currency, which arise in the course of the Bank of Russia's performing its functions in accordance with Russian laws, the Bank of Russia makes the following provisions: on credit and other similar exposures (hereinafter, exposures), including those on securities held to maturity; claims on interest income under exposures reflected on balance sheet accounts (hereinafter, claims on interest income); investments in the units of a unit investment fund set up in order to implement bankruptcy prevention measures at financial institutions; funds placed on deposit by the Bank of Russia with a credit institution to compensate for the part of losses (expenses) incurred by the credit institution under transactions with other credit institutions whose banking licences have been revoked; Bank of Russia compensation payments for household deposits at bankrupt banks not covered by the Russian Federation's compulsory household deposit insurance system; performance of obligations to participants in the Bank of Russia's Pension Plan; debt incurred by foreign counterparties and issuers; liabilities of credit institutions whose participation in the international payment system has been suspended; amounts paid by the Bank of Russia to the Pension Fund of the Russian Federation in accordance with Russian laws to compensate for the shortage of pension savings; amounts transferred by the Bank of Russia to the Pension Fund of the Russian Federation in the event of the forced winding up of a non-governmental pension fund; and accounts receivable under the business activity of the Bank of Russia.

Provisions are made in the currency of the Russian Federation. Bank of Russia provisions are made on the basis of decisions by the Bank of Russia Board of Directors and are recognised as Bank of Russia expenses.

Given a decrease in the amount of claims and liabilities in the event of their full or partial repayment, mitigation of the risk of possible financial losses thereunder, or decrease in the official

exchange rate of foreign currencies against the ruble, the corresponding part of the provisions made for the claims and liabilities should be reduced and posted (recovered) to Bank of Russia income.

Provisions are used to cover financial losses under liabilities in the event that risks thereunder materialise and to write off claims the Bank of Russia cannot recover after it has undertaken all and any necessary and sufficient legal and actual measures to recover them and to exercise the rights arising from the availability of collateral for the claims, including when an entry on the debtor's registration in connection with its liquidation is made in the Unified State Register of Legal Entities.

Provisions for exposures as well as exposures to credit interest income are made by the Bank of Russia when the risk of possible financial loss (credit risk) arises as a result of a borrower's default on or improper fulfillment (if there is a threat of such default or improper fulfillment) of obligations in accordance with the terms and conditions of agreements or other documents confirming the provision and placement of funds by the Bank of Russia or as a result of the revocation of the borrower's banking licence.

The Bank of Russia determines the level of credit risk and makes provisions in the amount corresponding to the identified credit risk level for the following exposures: loans issued by the Bank of Russia (*inter alia*, under opened credit lines); deposits placed by the Bank of Russia; funds placed by the Bank of Russia under repo operations; and securities held to maturity. When assessing credit risk, the Bank of Russia evaluates the financial standing of a borrower and the quality of its debt servicing.

Provisions for exposures of the Bank of Russia in rubles and foreign currency are made on an individual basis or for a portfolio of homogeneous credit claims (on a portfolio basis).

For exposures without individual signs of impairment, which meet the criteria for the formation of portfolio of homogeneous credit claims, provisions are made on a portfolio basis.

Provisions for exposures pooled in a portfolio of homogeneous credit claims are made for the portfolio as a whole and reflect the amount of probable financial losses that may result from the overall impairment of homogeneous exposures pooled (grouped) in the portfolio. When determining the criteria for attributing credit claims to the portfolio of homogeneous credit claims, the Bank of Russia may take into account the following properties of exposures: type of exposures, emergence of exposures as a result of transactions under a single agreement; placement of funds on similar conditions; placement of funds in compliance with certain federal laws; the net settlement of debt obligations under several transactions; and other properties of transactions.

The amount of provisions for exposures is determined taking into account the value (amount) of collateral provided under concluded agreements calculated using adjustment ratios (discounts) (Note 2(f)).

The Bank of Russia makes provisions for investments in the units of a unit investment fund set up in order to implement bankruptcy prevention measures at financial institutions; the amount of these provisions is determined taking into account the fact that the value of investments in the said units net of provisions shall not exceed the net assets value of the unit investment fund.

Loss provisions for the funds deposited by the Bank of Russia with a credit institution to compensate, pursuant to federal laws, for the portion of losses (expenses) sustained by the credit institution in transactions with other credit institutions whose banking licences have been revoked (hereinafter, the compensation deposit) are made when the credit institution writes off the compensation deposit in whole or in part.

Provisions to guarantee Bank of Russia obligations to participants in its Pension Plan are made to ensure fulfilment of supplementary pension obligations to Bank of Russia employees in accordance with the terms and conditions of the Pension Plan. The amount of provisions to be

made is determined by the excess of the forecast value of pension obligations over the forecast balance of the Bank of Russia pension fund as of the end of the year following the reporting year.

Provisions for debts of foreign counterparties and issuers may be made for the following kinds of Bank of Russia claims: claims arising as a result of Bank of Russia operations and transactions as provided for by the IMF Articles of Agreement and contracts with the IMF; claims to foreign counterparties (except for business operations); claims to foreign issuers under securities not redeemed in due time or categorised by the Bank of Russia as securities held to maturity; and claims arising in the course of foreign companies fulfilling their obligations to the Bank of Russia as provided for by suretyship agreements concluded between the Bank of Russia and the said companies to ensure intraday settlements across Russian payment systems.

Provisions for credit institutions' obligations, for the fulfilment of which in full an international payment system does not bear subsidiary liability to the Bank of Russia and/or when such institutions' participation in the international payment system has been suspended, are formed in the amount of the claim to compensation consisting of the amount of the credit institution's obligation to the Bank of Russia for whose complete fulfilment the international payment system does not bear subsidiary liability to the Bank of Russia, and/or when the institution's participation in the international payment system has been suspended, which occurred because of the insufficiency of funds in its correspondent account to fulfil the collection order for the amount of the debit net position and a fine for the unfulfilled obligations.

Provisions for the amounts of compensation paid by the Bank of Russia to the Pension Fund of the Russian Federation for the shortage of pension savings are formed when, in accordance with Russian laws, the Bank of Russia, as a result of compensating the shortage of pension savings, acquired claims which, in the event of the bankruptcy of a non-governmental pension fund, that is not a participant fund, or in the event of its forced liquidation, shall be satisfied using the own capital (assets securing statutory activity, if the non-governmental pension fund is a non-profit organisation) of such non-governmental pension fund.

Provisions for the amounts of funds transferred by the Bank of Russia to the Pension Fund of the Russian Federation are made if an arbitration court issues a ruling, upon the Bank of Russia's application, on the forced liquidation of a non-governmental pension fund which has not been registered in the system guaranteeing the rights of insured persons because of the cancellation of its licence.

Provisions to cover possible financial losses under receivables from economic activity determined in the values established by the Bank of Russia's regulation governing the procedure for the Bank of Russia to write off assets, receivables and other expenditures are formed for receivables recognised in the books in the balance sheet accounts for settlements with employees with regard to imprest amounts (in respect of the amounts of shortages); settlements with suppliers, contractors, and buyers; settlements with non-residents under business transactions; or settlements with other debtors which bear the risk of possible financial loss due to the default on (improper performance of) obligations by the Bank of Russia's debtor under the contract for the delivery of goods, performance of works, or provision of services.

Bank of Russia assets, for which provisions are made, are accounted for in the financial statements net of the amount of provisions made.

(H) FIXED ASSETS

Bank of Russia fixed assets are defined as assets which possess physical form and a service life exceeding 12 months and a value in excess of the limit set by the Bank of Russia for the recognition of property as fixed assets which are used as tools for the provision of services or management of a Bank of Russia division, as well as in the cases stipulated in public health, technical and maintenance, and other special technical standards and requirements. Since 1 January

2016, the limit of the property value required for such property to be entered into the books as fixed assets has been set by the Bank of Russia at over ₺100,000 per accounting unit put into operation from 1 January 2016. Objects entered into the books as fixed assets before 1 January 2016 are accounted for as part of fixed assets.

Fixed assets are recognised in the financial statements at their residual value, i.e. at the purchase price including revaluation less accrued depreciation, in *Other assets* item of the balance sheet.

Bank of Russia fixed assets have been revalued in accordance with Russian Federation Government resolutions. The latest revaluation was made as of 1 January 1997.

Depreciation allowances are made each month, on the first day of the month following the month a fixed asset is put into operation, at the rate of one-twelfth of the annual sum, and are continued throughout its entire service life (except in cases when the asset is in the process of reconstruction or modernisation for more than 12 months or has been closed down for more than three months by a decision of the Bank of Russia). They are discontinued from the first day of the month following the month during which the cost of the asset was fully repaid, or the asset was retired.

The maximum amount of accrued depreciation equals the balance sheet value of the fixed asset, which means the initial or current (replacement) value of the asset (including revaluation).

Fixed assets acquired and put into operation prior to 1 January 2002 are depreciated at the official rates of depreciation set by USSR Council of Ministers Resolution No. 1072, dated 22 October 1990, 'On Standard Rates of Depreciation Allowances for the Complete Replacement of Fixed Assets of the National Economy of the USSR':

	2019	2018
Buildings and other facilities	1–5	1–6
Equipment (including computers, furniture, vehicles, etc.)	1–6	1–6

Fixed assets put into operation from 1 January 2002 are depreciated according to the classifier of depreciated fixed assets of the Bank of Russia issued pursuant to Russian Federation 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; No. 640, dated 7 July 2016; No. 526, dated 28 April 2018; and No. 1924, dated 27 December 2019);

	2019	2018
Buildings and other facilities	1–36	1–37
Equipment (including computers, furniture, vehicles, etc.)	2–67	2–71

The maximum annual depreciation rate decreased as a result of 100% depreciation accrual for fixed assets for which the highest depreciation rates applied in the previous reporting period.

Expenses for the repair and maintenance of fixed assets are recorded to the financial statements in *Other operating expenses* item of the statement of financial performance.

Income or expenses following the retirement of fixed assets are calculated as the difference between their balance sheet value (including accrued depreciation and retirement cost) and are recorded to the statement of financial performance in *Other income* or *Other operating expenses* items.

(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, i.e. at the purchase price net of accrued depreciation, in *Other assets* item of the balance sheet.

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 the asset was retired.

The maximum amount of accrued depreciation equals the balance sheet value of intangible assets.

The following rates of depreciation are applied to intangible assets put into operation on or after 1 January 2002:

	2019	2018	%
Intangible assets	10–57	10–67	

The maximum annual depreciation rate decreased due to the change of the service life in the case of a material change in the duration of the period (over one year) during which the Bank of Russia is expected to use the software product.

The Bank of Russia establishes the service life of its intangible assets in accordance with its Ordinance No. 2581-U, dated 22 February 2011, 'On the Service Life of Software Products and/or Databases Used by the Bank of Russia, and on the Procedure for Recording the Acquisition of Software Licences to Bank of Russia Expenses'.

Income or expenses arising following the retirement of intangible assets are calculated as the difference between their balance sheet value (including accrued depreciation) and the retirement value, and are recorded to the statement of financial performance in *Other income* or *Other operating expenses* items.

(J) CASH IN CIRCULATION

The Bank of Russia is the sole issuer of cash and the organiser of cash circulation. Banknotes and coins put into circulation are shown in the financial statements at their nominal value, exclusive of ruble cash at Bank of Russia tills, Bank of Russia ATMs and cash in transit.

(K) FUNDS IN ACCOUNTS WITH THE BANK OF RUSSIA

Funds in accounts with the Bank of Russia are comprised of federal government funds, resident banks' correspondent accounts, required reserves of credit institutions deposited with the Bank of Russia, credit institutions' and other organisations' deposits taken by the Bank of Russia, regional and local government budget funds and government extra-budgetary funds, funds of

organisations that are federal or public property, as well as funds raised from non-resident banks in repos executed in the external market. Funds in accounts with the Bank of Russia are reflected in the financial statements at their nominal value, inclusive of interest accrued.

(L) CAPITAL

The Bank of Russia's capital consists of:

- authorised capital. Under Article 10 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia has authorised capital in the amount of ₹3 billion;
- various reserves and funds created to enable the Bank of Russia to perform the functions assigned to it by the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'. Information about the sources and use of Bank of Russia reserves and funds is contained in the Statement of Bank of Russia Reserves and Funds, which is part of these financial statements;
- loss of the reporting year and previous years (Note 2(n)).

(M) RECOGNITION OF BANK OF RUSSIA INCOME AND EXPENSES

Income and expenses are formed as a result of conducting transactions in rubles, in foreign currency and in precious metals and are recorded on an accrual basis, that is, they are posted as soon as they occur, rather than after the funds (or their equivalents) have been actually received or paid.

Records across accounts for income and expenses are maintained in rubles.

Income and expenses are recorded in the period to which they relate.

Income and expenses earned (incurred) in foreign currency are converted into rubles at the official exchange rate as of the date of their recognition in the books. Income and expenses earned (incurred) in precious metals are recalculated into rubles at the book prices in effect as of the date of their recognition in the books.

Expenses on the replenishment of supplementary pension funds for Bank of Russia employees are recorded to the statement of financial performance, after they have been incurred, based on the actuarial assessment of pension obligations of the Bank of Russia.

Income in the form of dividends due for the Bank of Russia's stakeholdings in the authorised capitals of legal entities in foreign currency and in the currency of the Russian Federation is recorded in the books based on information on the decision to pay dividends made by the legal entity's authorised body.

Income (expenses) received (incurred) and accrued in previous reporting periods is (are) recorded to the financial statements in the items of the statement of financial performance for the reporting period with corresponding economic content.

Interest income and interest expenses are accrued during the period of placement (attraction) of funds on a uniform basis, unless otherwise stipulated by Bank of Russia regulations.

The receipt of interest income on all exposures with regard to borrowers against which claims, according to the provisioning procedure, are assigned to groups lower than those with zero, insignificant or moderate credit risk, or the receipt of interest income on operations, for which the portfolio of homogeneous credit claims has been created, is recognised for reflection in accounting as uncertain from the date of assignment.

(N) FINANCIAL PERFORMANCE

Financial performance: profit or loss is calculated in accordance with the legislation of the Russian Federation as the difference between total income and expenses of the Bank of Russia for the reporting year, as reflected in the books.

Loss of the reporting year and previous years is entered in the books as part of capital (Note 2(l)).

(O) 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.

(P) TRANSFER OF PROFIT TO THE FEDERAL BUDGET

Pursuant to Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', once the Annual Financial Statements have been approved by the Board of Directors, the Bank of Russia transfers 75% of the actual annual profit retained after the payment of taxes and duties under the Tax Code of the Russian Federation to the federal budget.

In accordance with Federal Law No. 370-FZ, dated 5 December 2017, 'On the Specifics of Transferring the Income for 2017 Received by the Central Bank of the Russian Federation from Stakeholdings in Sberbank of Russia in 2018', the income received in 2018 by the Bank of Russia from its stakeholdings in Sberbank at end-2017 shall be transferred by the Bank of Russia to the federal budget on or before 1 August 2018. The part of the Bank of Russia's profit to be transferred to the federal budget in 2019 in accordance with Article 26 of Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' shall be reduced by the said amount.

In accordance with Federal Law No. 454-FZ, dated 28 November 2018, 'On the Specifics of Transferring the Income for 2018 Received by the Central Bank of the Russian Federation from Stakeholdings in Sberbank of Russia in 2019', the income received in 2019 by the Bank of Russia from its stakeholdings in Sberbank at end-2018 shall be transferred by the Bank of Russia to the federal budget on or before 1 August 2019. The part of the Bank of Russia's profit to be transferred to the federal budget in 2020 in accordance with Article 26 of Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' shall be reduced by the said amount.

If a loss incurs as of the end of the reporting year, the income earned from the stakeholdings in Sberbank and transferred to the federal budget in accordance with the legislation of the Russian Federation shall be posted to expenses of the reporting year.

(Q) CLAIMS ON THE IMF AND OBLIGATIONS TO THE IMF

Pursuant to the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia serves as a depository for IMF funds in the currency of the Russian Federation and performs operations and transactions stipulated by the IMF's Articles of Agreement and contracts with the IMF.

The Bank of Russia keeps records of the Russian Federation's claims on the IMF (including the Russian Federation's quota in the Fund) and its obligations to the IMF.

Claims on the IMF include the Russian Federation's quota in the Fund; funds in the Russian Federation's account with the IMF's Special Drawing Rights Department (SDR Department); and loans provided by the Bank of Russia to the IMF under the New Arrangements to Borrow (NAB), inclusive of interest accrued.

IMF quotas are subscriptions of all member states, which are paid in national and foreign currencies. The portion of the quota paid in a foreign currency constitutes a position on the reserve tranche. Quotas are denominated in Special Drawing Rights (SDRs).

SDRs are reserve assets created by the IMF. The SDR value is posted daily based on a basket of currencies, consisting of the US dollar, euro, Chinese renminbi, Japanese yen and pound sterling.

The New Arrangements to Borrow are a lending facility to provide funds to the IMF by a group of member countries with a sustainable balance of payments and sufficient international reserves. The maximum maturity of claims under the New Arrangements to Borrow is ten years. The Bank of Russia can recall its committed funds at any time, if necessary.

Obligations to the IMF are represented by the ruble balances in the IMF's Number 1 and 2 Accounts with the Bank of Russia and by the obligations on SDRs received by the Russian Federation during previous issues of SDRs by the IMF, inclusive of accrued interest.

The IMF's Number 1 Account is used for financial operations and trades. The IMF's Number 2 Account is used to pay for the administrative expenses of the IMF representative office in the Russian Federation and is replenished by withdrawing funds from the IMF's Number 1 Account.

The accounting of claims on the IMF and obligations to the IMF as well as interest accrual is performed in line with IMF recommendations and Bank of Russia regulations. In order to maintain the total of Bank of Russia ruble-denominated obligations to the IMF in SDR terms at the ruble exchange rate set by the IMF, the balances in the IMF's Number 1 and 2 Accounts are revalued on a monthly basis on the first working day of the month following the reporting month. The total exchange rate differences accrued on the IMF's Number 1 Account are recognised in correspondence with the account for recording the part of the quota paid in rubles. The total exchange rate differences accrued to the IMF's Number 2 Account are recorded to the Bank of Russia's income or expenses. At the end of the IMF's fiscal year (30 April) and by the decision of the IMF or at the request of the Bank of Russia, the amount of the accrued exchange rate differences from the revaluation of the IMF's Number 1 Account is recorded to the increase (decrease) in the balance of the IMF's Number 1 Account; and the revaluation of the IMF's Number 2 Account is recorded to the increase (decrease) in this account's balance.

SDR-denominated claims on the IMF and obligations to the IMF are revalued at the official rate of exchange of the SDR to the ruble set by the Bank of Russia.

(R) REPORTING OF OPERATIONS UNDER THE CHINESE RENMINBI (RMB) / RUSSIAN RUBLE FX SWAP AGREEMENT BETWEEN THE PEOPLE'S BANK OF CHINA AND THE BANK OF RUSSIA AND OPERATIONS TO PROVIDE RMB RECEIVED UNDER THE AGREEMENT TO RUSSIAN CREDIT INSTITUTIONS THROUGH SWAPS

The RMB/RUB bilateral FX Swap Agreement between the People's Bank of China and the Bank of Russia (hereinafter, the National Currency Swap Agreement) was concluded 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 the currency (rubles or renminbi) posted to the off-balance sheet account is decreased in terms of the currency provided through swaps and is recovered after the transactions are completed.

The current amount of rubles (renminbi) that may be provided (received) by the Bank of Russia through swaps between the Bank of Russia and the People's Bank of China in the event that the People's Bank of China (Bank of Russia) requests funds through a swap is recorded to off-balance sheet accounts under the item *Unused limits to provide (receive) funds in the form of overdrafts and 'against the debt limit' loans*. The respective amount of renminbi (rubles) is posted to the off-balance sheet accounts for the bank guarantees and sureties received (issued) during the

effective period of a swap. The total of the current amount in rubles (renminbi) posted to the off-balance sheet account under the item Unused limits to provide (receive) funds in the form of overdrafts and 'against the debt limit' loans is decreased when the Bank of Russia provides rubles to the People's Bank of China (when the Bank of Russia receives renminbi from the People's Bank of China) by the amount of funds provided (received) and is recovered upon their repayment.

The rubles supplied by the Bank of Russia to the People's Bank of China (renminbi received by the Bank of Russia from the People's Bank of China) under the swaps are recorded to the financial statements under the item *Funds placed with non-residents and foreign securities* (under the item *Funds in accounts with the Bank of Russia*).

3. IMPACT OF ECONOMIC CONDITIONS ON BANK OF RUSSIA FINANCIAL STATEMENTS

The balance sheet indicators and the financial performance of the Bank of Russia were shaped by the slowdown in economic activity growth compared to 2018, persistence of the structural liquidity surplus of the banking sector, accumulation of resources of the sovereign fund amid relatively high commodity prices and a lower, compared to 2018, average annual exchange rate of the ruble against US dollar and certain foreign currencies (Canadian dollar and renminbi), into which the Bank of Russia's international reserve assets are placed.

According to Rosstat estimates, Russia's gross domestic product in real terms grew by 1.3% from 2.5% in 2018, and in nominal terms, GDP grew by 4.8% from 13.6% respectively. In 2019, household final consumption expenditure grew by 2.3% in real terms (+3.3%, a year ago).

The VAT hike and the depreciation of the ruble in late 2018 were important factors behind the increase in the annual growth rate of consumer prices by 1.0 pp to 5.3% in January–March 2019. Starting the second quarter of 2019, the annual consumer price growth started to decline. This trend was assisted by the moderate growth in domestic demand, which was in part linked to the actual tightening of fiscal policy and certain tightening of monetary policy in late 2018 – early 2019, improved situation in certain food markets, as well as the strengthening of the ruble in the second half of the year. As a result, inflation slowed to 3.0% by the end of 2019. Decline in household and business inflation expectations was observed alongside slowdown in inflation.

The US dollar / ruble exchange rate decreased by 11% from ₴69.4706 as of 31 December 2018 to ₴61.9057 as of 31 December 2019, and the euro/ruble exchange rate decreased by 13% from ₴79.4605 as of 31 December 2018 to ₴69.3406 as of 31 December 2019. The strengthening of the ruble was assisted by a faster than expected by market participants inflation slowdown, as well as the revaluation by investors of macroeconomic and geopolitical risks associated with investment in the assets of emerging market economies. An additional positive boost on the risk premium for Russia was produced by the gradual accumulation of international reserves and the sovereign fund, and by the ensuing improvement of the Russian sovereign credit rating.

From early 2019, the Bank of Russia resumed fiscal rule-based operations in the domestic foreign exchange market and, from 1 February 2019, launched deferred foreign currency purchases to compensate for the operations suspended in August–December 2018.

The favourable external economic situation with the average annual Urals crude price at \$63.6 per barrel (which is \$22 per barrel higher than the basic level under the fiscal rule) implied the conduct of foreign currency purchases in the amount of additional oil and gas revenue of the budget. In 2019, fiscal rule-based foreign currency purchases, inclusive suspended operations, totalled \$54.7 billion. The amount of postponed operations in the dollar equivalent was \$9.9 billion.

Additionally, in 2019, the Bank of Russia continued to purchase gold, whose price in the foreign markets grew from \$1,292 to \$1,560 per troy ounce in 2019.

As a result, in 2019, the volume of international reserves in dollar terms grew by 18.3% (by \$85.9 billion), whereas in 2018, they increased by 8.3% (by \$35.8 billion). The 2019 growth of international reserves was conditioned both on the increase in their FX component (by \$62.4 billion, or 16.4% as compared with 2018) and gold reserves (by \$23.5 billion, or 27.0%). At the same time, the strengthening of the ruble against certain currencies made a negative contribution to the dynamics of international reserves in ruble terms. Under the impact of the above factors, the balance of funds grew by 3.5% to ₹25,342,948 million under the item *Funds placed with non-residents and foreign securities* and by 13.5% to ₹6,952,779 million under the item *Precious metals*.

The federal government funds held in accounts with the Bank of Russia grew by 36.0% to ₹10,734,056 million as a result of fiscal rule-based foreign currency purchases, as well as the accumulation of balances of budget system funds in ruble accounts with the Bank of Russia amid the federal budget surplus exceeding the forecast level.

Against the backdrop of the growth of nominal GDP, household final consumption expenditure, as well as the turnover of retail trade and paid services, 2019 saw an increase in the volume of cash in circulation by 2.9% to ₹10,616,469 million.

In 2019, the banking sector's structural liquidity surplus was persistently elevated. The balances of funds under the item *Loans and deposits* held in the Bank of Russia amounted to ₹3,305,659, declining by 10% over the year.

Given the consolidated budget execution with a surplus, large-scale gold purchases under the fiscal rule and the banking sector's structural liquidity surplus remaining unchanged, there was registered an increase in the item *Funds in accounts with the Bank of Russia* by 16.7%, from ₹14,526,589 million to ₹16,951,714 million.

Similar to 2018, in 2019, the financial result of the Bank of Russia's performance was negative (loss).

In 2019, the Bank of Russia's income and expenses were shaped by mixed factors. In view of the Bank of Russia key rate cut, its interest expenses on liquidity-absorbing operations declined compared to 2018. Increase in the volume of reserve assets of the Bank of Russia and the resources of the National Wealth Fund of the Russian Federation held in Bank of Russia accounts caused increase in income from the placement of Bank of Russia reserve assets and expenses on the money of the National Wealth Fund respectively. Due to the change in the structure and quality of Bank of Russia assets, 2019 posted net income from the recovery of Bank of Russia provisions (vs net expenses on the formation of provisions posted in 2018). Besides, expenses on the replenishment of the Bank of Russia's pension fund were incurred in 2019 based on the estimates of an independent actuary.

Another negative drag on the financial result came from the transfer of income from the stakeholdings in Sberbank to the federal budget in accordance with federal laws.

4. PRECIOUS METALS

	(millions of rubles)	
	2019	2018
Precious metals in physical form	6,938,071	6,113,297
Precious metals in coins and commemorative medals	14,708	10,634
Total	6,952,779	6,123,931

The increase in the *Precious metals in physical form* item was mainly due to the purchase of gold through purchase and sale transactions with Russian credit institutions under master agreements and the change in the fair value of precious metals as of the end of the reporting year.

The increase in the *Precious metals in coins and commemorative medals* item was mainly due to the receipt of coins made of precious metals from Goznak and change in the fair value of precious metals as of the end of the reporting year.

5. FUNDS PLACED WITH NON-RESIDENTS AND FOREIGN SECURITIES

	(millions of rubles)	
	2019	2018
Funds placed with non-residents and foreign securities		
in foreign currency,	25,335,405	24,487,579
of which:		
– foreign securities	15,975,557	15,626,515
– balances in correspondent accounts and deposits placed with non-resident banks	8,692,078	8,120,584
– other funds placed with non-residents	667,770	740,480
Funds placed with non-residents in rubles	7,543	8,564
Total	25,342,948	24,496,143

Funds placed with non-residents and foreign securities in foreign currency

Foreign securities

Foreign securities in foreign currency are classified as *Securities available for sale* and mostly comprise government bonds and bills of China, France, Germany, the United Kingdom, the US, Austria and Canada, non-government bonds guaranteed, among others, by governments of foreign states, and debt obligations issued by supranational financial institutions.

As of 31 December 2019, foreign securities in foreign currency had maturities ranging from 2020 to 2026 and were either coupon-free or had coupon income rates between 0% and 8% p.a.

As of 31 December 2018, foreign securities in foreign currency had maturities ranging from 2019 to 2024 and were either coupon-free or had coupon income rates between 0% and 8% p.a.

As of 31 December 2019, the fair value of foreign securities in foreign currency in the Bank of Russia's portfolio totalled ₹15,975,557 million (2018: ₹15,626,515 million) (Statement of Bank of Russia Management of Securities and Stakeholdings in Organisations Constituting Bank of Russia Property).

The fair value of foreign securities in foreign currency was measured using their latest purchase quotes (prices), as shown in the Bloomberg information system, or for coupon-free commercial securities and certificates of deposit without representative quotes (prices), according to a model for assessing future cash flows discounted using government stock yield rates with respective maturities and denominations adjusted for the credit risk premium (spread).

As of 31 December 2019, the fair value of foreign securities in foreign currency appraised using the quotes (prices) shown in the Bloomberg information system totalled ₹14,555,226 million (2018: ₹13,678,862 million).

As of 31 December 2019, the fair value of foreign securities in foreign currency appraised using the model of future cash flow assessment totalled ₹1,420,331 million (2018: ₹1,947,653 million).

The change in the balance of this item was mostly due to growth in Bank of Russia investments in foreign securities, as well as decrease in the official exchange rates of the foreign currencies in which the securities were denominated against the ruble.

This item includes foreign securities transferred by the Bank of Russia in repo transactions, with a total fair value of ₹645,570 million (2018: ₹825,980 million) (Note 11), and those transferred as a loan, with a total fair value of ₹154,744 million (2018: ₹97,717 million). As of 31 December 2018, this item comprised securities transferred as additional collateral (margin) in repos, with a total fair value of ₹250 million. As of 31 December 2019, there were no securities transferred as additional collateral (margin) in repos.

Balances in correspondent accounts and deposits placed with non-resident banks

The item *Balances in correspondent accounts and deposits placed with non-resident banks* includes deposits with non-resident banks and funds in correspondent accounts with non-resident banks, plus interest accrued. Among other things, balances in correspondent accounts include funds in Bank of Russia accounts held with the national banks of Eurasian Economic Union member states.

In accordance with the Eurasian Economic Union Treaty, dated 29 May 2014, the central (national) banks of one party are to sell US dollars to the central (national) banks of the other party for a sum in the national currency equal to the amount of distributed customs duties in the national currency in favour of the other party. Settlements between the parties are made by offsetting a sum equal to the difference between the parties' mutual obligations in US dollars.

According to the bilateral agreements signed by the Bank of Russia with the Central Bank of the Republic of Armenia, the National Bank of the Republic of Belarus, the National Bank of the Republic of Kazakhstan and the National Bank of the Kyrgyz Republic, the mentioned banks opened for the Bank of Russia correspondent accounts in the national currencies of the member states of the Eurasian Economic Union.

As of 31 December 2019, money in correspondent accounts held with the said banks totalled ₹398 million (2018: ₹744 million).

The change in the item *Balances in correspondent accounts and deposits placed with non-resident banks* is mostly due to the growth of the total amount of money in correspondent accounts with non-resident banks as of the end of the reporting period, as well as due to the decline of official exchange rates of foreign currencies in which the money has been placed against the ruble.

Other funds placed with non-residents

The item *Other funds placed with non-residents* shows funds placed with non-resident banks in transactions for the purchase of foreign securities with an obligation to resell (reverse repo), plus interest accrued on these transactions. The said funds include, *inter alia*, money placed in the amount of ₹389,025 million (2018: ₹687,216 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 non-residents are recorded to off-balance sheet accounts at the fair value and total ₹671,929 million (2018: ₹750,437 million) (Note 26). Of these, securities received in reverse repos executed for the placement of funds received in repos have a fair value of ₹389,677 million (2018: ₹695,294 million) (Notes 11 and 26).

The decrease in the item *Other funds placed with non-residents* is due to the decline of official exchange rates of foreign currencies in which money has been placed in reverse repos against the ruble.

Funds placed with non-residents, in rubles

The item *Funds placed with non-residents in rubles* reflects Bank of Russia ruble-denominated claims on the People's Bank of China under the bilateral National Currency Swap Agreement, including accrued interest.

6. LOANS AND DEPOSITS

	(millions of rubles)	
	2019	2018
Loans and deposits with resident banks, of which:	2,862,406	3,039,841
– issued using the money of the Fund of Banking Sector Consolidation	1,706,507	1,791,678
– issued and placed under certain federal laws	499,498	503,838
Other funds placed with resident banks (in repo transactions)	0	3,626
Other, of which:	1,673,312	1,884,698
– issued and placed under certain federal laws	1,670,723	1,882,109
Provisions	(1,230,059)	(1,255,617)
Total	3,305,659	3,672,548

The item *Loans and deposits with resident banks* mostly reflects ruble-denominated debt under Bank of Russia deposits placed as part of bankruptcy prevention measures using money of the Fund of Banking Sector Consolidation (hereinafter, the FBSC) and under Bank of Russia loans secured by receivables under loan agreements or guarantees.

The item *Loans and deposits with resident banks, of which: issued and placed under certain federal laws* reflects the amount outstanding on subordinated loans provided to Sberbank in 2008 and 2014 as part of statutory measures implemented by the Russian Federation to support its financial system.

Outstanding amounts on loans and deposits with resident banks with a 50.0% to 100.0% government stake in their authorised capital amounted to ₺2,772,062 million (2018: ₺2,896,023 million), including accrued interest.

The decrease under the item *Loans and deposits with resident banks* is mostly associated with the decline in the banking sector's need for refinancing in 2019, in part due to the decrease in credit institutions' demand for Bank of Russia loans secured by the pledge of receivables under loan agreements, and also due to the decrease in the outstanding amounts on deposits placed by the Bank of Russia as part of bankruptcy prevention measures using the resources of the FBSC.

There were no outstanding amounts in the item *Other funds placed with resident banks (in repo transactions)* due to the change in the banking sector's need for refinancing in 2019 (2018: ₺3,626 million).

The item *Other* reflects outstanding amounts on Bank of Russia loans provided to the State Corporation Deposit Insurance Agency (hereinafter, the DIA) to implement bankruptcy prevention measures at banks (in accordance with Article 189⁵⁶ of Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)'), ensure the financial sustainability of the deposit insurance system, and fund the payment of indemnities on deposits (to replenish the compulsory deposit insurance fund) (in accordance with Federal Law No. 177-FZ, dated 23 December 2003, 'On the Insurance of Household Deposits with Russian Banks') in the amount of ₺1,668,503 million (2018:

₽1,879,889 million), a compensation deposit of ₽2,220 million (2018: ₽2,220 million) placed by the Bank of Russia with a credit institution in compliance with Federal Law No. 173-FZ, dated 13 October 2008, 'On Additional Measures to Support the Financial System of the Russian Federation', in order to partially compensate for this credit institution's losses (expenses) that had been caused by the default of a borrower whose banking licence had been revoked, and a subordinated loan to the Interstate Bank in the amount of ₽2,589 million (2018: ₽2,589 million).

The decrease under this item is due to a decline in outstanding amounts on loans provided by the Bank of Russia to the DIA.

The value of collateral received under loans extended, including sureties, was ₽223,956 million (2018: ₽324,661 million).

Provisions totalling ₽1,230,059 million were made for loans issued, deposits and other funds placed (2018: ₽1,255,617 million), of which:

- provisions for outstanding amounts on secured ruble-denominated loans issued by the Bank of Russia to resident banks and placed deposits totalling ₽891,549 million (2018: ₽874,830 million);
- provisions for outstanding amounts on funds provided by the Bank of Russia to finance bankruptcy prevention measures at banks, ensure the financial sustainability of the deposit insurance system, and fund the payment of indemnities on deposits (to replenish the compulsory deposit insurance fund) totalling ₽333,701 million (2018: ₽375,978 million);
- provisions for outstanding amounts on other loans, deposits and funds placed with resident banks totalling ₽4,809 million (2018: ₽4,809 million).

7. SECURITIES

	(millions of rubles)	
	2019	2018
Debt obligations Available for sale, of which:		
Russian federal government debt obligations, of which:	105,009	179,019
– federal government bonds (OFZs)	34	59
– Russian government external foreign currency- denominated loan bonds (Russian Eurobonds)	104,975	178,960
Total	105,009	179,019
Debt obligations Held to maturity, of which:		
Russian federal government debt obligations (OFZ)	212,866	0
Other Russian issuers' debt obligations	0	212,636
Provisions	0	(23,390)
Total	212,866	189,246
Securities acquired for the participation in bankruptcy prevention measures, of which:	701,140	565,839
– credit institutions' shares acquired for the participation in bankruptcy prevention measures	697,276	565,839
– units of the unit investment fund set up to implement bankruptcy prevention measures at financial institutions	3,864	0
Shares issued by credit institutions and other organisations (Bank of Russia stakeholdings)	104,661	104,661
Credit institutions' promissory notes acquired by the Bank of Russia	23	23
Provisions	(2,097)	(2)
Total	1,121,602	1,038,786

Debt obligations Available for sale**Federal government bonds (OFZs)**

As of 31 December 2019, and as of 31 December 2018, the OFZs in the Bank of Russia's portfolio were to mature in 2021 and had a coupon income of 6.5% p.a.

As of 31 December 2019, the total fair value of OFZs was ₴34 million (2018: ₴59 million).

The fair value of the OFZs was determined based on the latest market prices provided by the trade organiser (PJSC Moscow Stock Exchange MICEX-RTS).

Russian government external foreign currency-denominated loan bonds (Russian Eurobonds)

Russian government external foreign currency-denominated loan bonds (Russian Eurobonds) are US dollar-denominated government securities issued by Russia's Ministry of Finance.

As of 31 December 2019, Russian Eurobonds in the Bank of Russia's portfolio were set to mature in 2030, with coupon income of 7.5% p.a.

As of 31 December 2018, Russian Eurobonds in the Bank of Russia's portfolio were set to mature from 2028 to 2030, with coupon income from 7.5% to 12.75% p.a.

As of 31 December 2019, the fair value of Russian Eurobonds was ₱104,975 million (2018: ₱178,960 million).

The decrease in the balance under the item is mostly associated with the sale and partial repayment of the principal on securities and with the reduction in the official exchange rate of the US dollar against the ruble.

The fair value of Russian Eurobonds was determined using their latest purchase quotes (prices) provided in the Bloomberg information system.

Debt obligations *Held to maturity*

The item *Russian federal government debt obligations (OFZs)* includes OFZs acquired in 2019 under the securities purchase and sale agreement with VEB.RF. As payment for OFZs, the Bank of Russia transferred VEB.RF bonds that were reflected under the item *Other Russian issuers' debt obligations* in 2018.

As of 31 December 2018, provisions totalling ₱23,390 million were created for the investment in VEB.RF bonds (Note 19).

Securities acquired for participation in bankruptcy prevention measures and securities issued by other organisations (Bank of Russia stakeholdings)

The structure of Bank of Russia investments in securities acquired for participation in bankruptcy prevention measures (including those transferred in trust management) and shares issued by credit institutions and other organisations is shown in the Statement of Bank of Russia Management of Securities and Stakeholdings in Organisations Constituting Bank of Russia Property.

Credit institutions' promissory notes acquired by the Bank of Russia

Promissory notes issued by credit institutions are accounted for at their purchase price.

This item includes the outstanding amount on a promissory note acquired by the Bank of Russia in 2001 under the terms and conditions of an Amicable Agreement.

Provisions

Provisions totalling ₱2,095 million were created for the investment in the units of the unit investment fund set up for the implementation of bankruptcy prevention measures at financial institutions (2018: ₱0), and provisions totalling ₱2 million were created for the promissory note issued by a credit institution (2018: ₱2 million).

8. CLAIMS ON THE IMF

	(millions of rubles)	
	2019	2018
The Russian Federation's quota with the IMF,	1,102,490	1,246,742
of which:		
– quota with the IMF paid in rubles	878,731	1,067,365
– IMF reserve tranche position	225,452	180,164
– revaluation of the Russian Federation's quota with the IMF paid in rubles, negative differences	(1,693)	(787)
Funds in the Russian Federation's account with the IMF SDR Department	415,016	468,039
Loans to the IMF issued by the Bank of Russia according to the New Arrangements to Borrow	19,570	36,474
Fee for the reserve tranche position	262	281
Total	1,537,338	1,751,536

The quota of the Russian Federation in the IMF in SDR terms (SDR12,903.7 million or 2.71% of all IMF quotas) did not change in 2019 (the ruble equivalent of the quota decreased owing to the decline of the official exchange rate of the SDR against the ruble).

The change of the components of Russia's quota with the IMF was due to the issuance of loans in 2019 by the IMF to borrower states using quota resources of the fund within the framework of the Financial Transactions Plan. When providing funds to the IMF, the Bank of Russia transferred US dollars to IMF borrower states, which caused an increase in the IMF's reserve tranche position and a decline in Russia's quota with the IMF paid in rubles equivalent to the amount of funds transferred.

The decrease in the item *Funds in the Russian Federation's account with the IMF SDR Department* is chiefly associated with the decline of 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 2019, the Bank of Russia received from the IMF SDR148 million in repayment of outstanding amounts (2018: SDR114.5 million). In 2018 and 2019, the Bank of Russia did not provide any loans to the IMF under the said Arrangements.

As of 31 December 2019, the claims on the IMF under the New Arrangements to Borrow amounted to SDR228.7 million or ₴19,541.6 million (2018: SDR376.7 million or ₴36,400.9 million), and the interest accrued on issued loans amounted to ₴28.1 million (2018: ₴73.1 million).

9. OTHER ASSETS

	(millions of rubles)	
	2019	2018
Fixed assets (at residual value)		
Buildings and other facilities	54,416	53,666
Equipment (including computers, IT and data processing systems, furniture, transport vehicles and other)	29,803	29,546
Subtotal fixed assets	84,219	83,212
Till cash	2,134,555	2,164,424
Bank of Russia claims on credit institutions with revoked banking licences	42,997	42,997
Compensation from the Bank of Russia to the Pension Fund of the Russian Federation for shortfall in pension savings	40,505	40,810
Construction projects in progress	11,155	14,420
Intangible assets (at residual value)	2,451	1,580
Bank of Russia correspondent accounts	2,019	2,059
Settlements with suppliers, contractors and buyers	1,566	2,036
Bank of Russia funds contributed to the authorised capitals of organisations	1,510	1,510
Profit tax advance payments	131	140
Other	16,133	17,615
Provisions	(84,493)	(84,804)
Subtotal other assets	2,168,529	2,202,787
Total	2,252,748	2,285,999

The table below shows the movement of fixed assets:

	(millions of rubles)	
	2019	2018
Fixed asset value net of accrued depreciation		
Balance as of 1 January	193,017	184,481
Receipt	12,008	13,815
Retirement	(7,127)	(5,279)
Balance as of 31 December	197,898	193,017
Accrued depreciation		
Balance as of 1 January	109,805	104,412
Depreciation allowances due to expenses	10,815	10,231
Depreciation allowances due to other sources	1	2
Accrued depreciation of retired fixed assets	(6,942)	(4,840)
Balance as of 31 December	113,679	109,805
Fixed asset residual value as of 31 December	84,219	83,212

Fixed asset structure and value net of accrued depreciation:

	(millions of rubles)	
	2019	2018
Buildings and other facilities	71,709	70,055
Equipment	60,516	56,348
Computers, office equipment and furniture	33,231	34,923
IT and data processing systems	28,339	28,040
Transport vehicles	2,474	2,635
Other	1,629	1,016
Total	197,898	193,017

The increase in the item *Fixed assets* was largely due to the categories *Buildings and other facilities and Equipment* in connection with the commissioning of an administrative building and newly constructed (reconstructed) buildings and the creation of engineering support systems for data processing centres.

The item *Bank of Russia claims on credit institutions with revoked banking licences* reflects Bank of Russia claims 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.

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 decrease in that item was due to the receipt of funds for the satisfaction of claims acquired by the Bank of Russia as a result of funds transfer to the Pension Fund of the Russian Federation.

The item *Bank of Russia correspondent accounts* reflects the balances in foreign currencies in Bank of Russia correspondent accounts at resident banks.

The item *Bank of Russia funds contributed to the authorised capitals of organisations* reflects the funds contributed by the Bank of Russia to the authorised capital of Limited Liability Company Fund of Banking Sector Consolidation Asset Management Company (hereinafter, FBSC AMC Ltd.) in the amount of ₹1,500 million (2018: ₹1,500 million) and to the authorised capital of the Interstate Bank in the amount of ₹10 million (2018: ₹10 million) (Statement of Bank of Russia Management of Securities and Stakeholdings in Organisations Constituting Bank of Russia Property).

The item *Profit tax advance payments* reflects profit tax advance payments made in 2019.

The item *Other* mostly reflects expenses related to the purchase and acquisition of software products, licences and certificates, totalling ₹6,430 million (2018: ₹7,838 million), inventories totalling ₹956 million (2017: ₹951 million), and also shares of a closed-end unit investment fund which the Bank of Russia retained pursuant to an out-of-court agreement to recover collateral in partial repayment of debt on a loan restructured in 2010 in the amount of ₹837 million (2018: ₹837 million).

The item *Provisions* reflects provisions totalling ₹84,493 million (2018: ₹84,804 million) which have been created for:

- Bank of Russia claims on credit institutions whose banking licences have been revoked, totalling ₹42,997 million (2018: ₹42,997);

- claims acquired by the Bank of Russia following the transfer of funds in an amount determined in accordance with Parts 1 and 2, Article 6, Federal Law No. 422-FZ, dated 28 December 2013, to the Pension Fund of the Russian Federation, as well as the indemnity reserve funds and pension savings funds of insured persons who are entitled to receive a fixed-term pension payment, formed as of the cancellation date of a licence, in fulfilment by the Pension Fund of the Russian Federation of its obligations under their compulsory pension insurance agreements, totalling ₹40,505 million (2018: ₹40,810 million);
- other assets, totalling ₹991 million (2017: ₹997 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)

	2019	2018
Federal government funds,	10,734,056	7,894,719
of which:		
– National Wealth Fund	6,140,294	2,359,055
Funds of resident credit institutions,	4,273,927	4,381,714
of which:		
– credit institutions' funds in correspondent accounts	2,630,073	1,902,894
– deposits taken by the Bank of Russia from resident banks	1,026,429	1,903,540
– required reserves deposited with the Bank of Russia	617,402	575,279
Other funds taken from non-residents	646,006	825,877
Regional and local budget funds	548,294	670,668
Funds of federal or public organisations	358,196	410,586
Government and other extra-budgetary funds	263,085	203,963
Other	128,150	139,062
Total	16,951,714	14,526,589

The item *Federal government funds* mostly reflects funds of the federal budget kept in foreign currency accounts with the Bank of Russia under bank account agreements concluded with the Federal Treasury: funds in accounts opened for the National Wealth Fund and other accounts of the federal budget.

The increase in the item *Federal government funds* was largely due to an increase in foreign currency account balances. This factor was partially offset by the decrease in the official rates of foreign currencies against the ruble.

The change in the item *Funds of the National Wealth Fund* is associated with the transfer in July 2019 of foreign currency purchased under the fiscal rule to replenish the National Wealth Fund from the foreign currency accounts of the federal budget to the National Wealth Fund.

The item *Funds of resident credit institutions, of which: deposits taken by the Bank of Russia from resident banks* is comprised of funds raised from resident banks in Russian rubles, including

deposits of banks in whose authorised capital the government holds stakes from 50% to 100%, inclusive, totalling ₹140,464 million (2018: ₹577,567 million), including accrued interest. The decrease in the item was due to the decline of funds raised from resident banks as of the end of the reporting period.

The increase in the item *Funds of resident credit institutions, of which: required reserves deposited with the Bank of Russia* is mostly associated with the increase of required reserve ratios for credit institutions' FX liabilities to individuals from 1 July 2019, as well as with the growth of reservable liabilities.

The item *Other funds taken from non-residents* is comprised of funds raised from non-resident banks in transactions to sell foreign securities with an obligation to repurchase (repo transactions) amounting to ₹646,006 million (2018: ₹825,877 million), including accrued interest under these transactions.

The Bank of Russia concludes repos to bridge cash gaps and to raise funds under a repo transaction and simultaneously place the corresponding amount of money with foreign counterparties at a higher rate on a deposit account, a nostro account with a correspondent bank, or under a reverse repo transaction, including one concluded with the same counterparty (securities lending collateralised by other securities).

Securities lending takes the form of repos and reverse repos that are simultaneously concluded with a counterparty for the same amount and for the same tenor. In a repo transaction, the counterparty receives securities it is interested in; in a reverse repo transaction, the Bank of Russia places funds obtained in a repo transaction at a higher interest rate and receives other securities as collateral. The amount of funds raised in repos opened as of the end of the year and placed in reverse repos, concluded with the same counterparty, totalled ₹389,025 million (2018: ₹687,216 million). Foreign securities provided in these transactions had a total fair value of ₹388,528 million (2018: ₹687,115 million) (Note 5). Foreign securities received in these transactions as collateral had a total fair value of ₹389,677 million (2018: ₹695,294 million) (Notes 5 and 26).

Foreign securities provided in repos with a total fair value of ₹645,570 million (2018: ₹825,980 million) are accounted for as foreign securities in the item *Foreign securities* (Note 5).

Change in the balance of the item *Other funds taken from non-residents* is due to the decrease in the total volume of funds raised by the Bank of Russia in transactions to sell securities with an obligation to repurchase at the end of the reporting period and due to the decline of the official exchange rates of foreign currencies in which money has been raised against the ruble.

The item *Other* includes the deposit taken from the DIA totalling ₹22,446 million (2018: ₹50,912 million), funds in the accounts of other clients, and funds in the correspondent accounts of the Central Bank of the Republic of Armenia, the National Bank of the Kyrgyz Republic, the National Bank of the Republic of Belarus, and the National Bank of Kazakhstan, which were opened with the Bank of Russia within the framework of the Eurasian Economic Union, totalling ₹936 million (2018: ₹1,216 million).

12. SECURITIES ISSUED

	(millions of rubles)	
	2019	2018
Bank of Russia coupon bonds	1,952,884	1,388,252
Total	1,952,884	1,388,252

In 2019, the Bank of Russia continued to place coupon OBRs in order to absorb part of the structural surplus in the banking sector liquidity. Coupon OBRs were issued for three months with a floating coupon rate tied to the Bank of Russia key rate.

The item *Bank of Russia coupon bonds* shows the value of coupon OBRs placed as of 31 December 2019, including interest expenses accrued. The increase in the item is caused by the growing amount of coupon OBRs placed.

13. LIABILITIES TO THE IMF

	(millions of rubles)	
	2019	2018
Balances in IMF Number 1 and 2 Accounts with the Bank of Russia	878,731	1,067,366
Liabilities on the funds provided to the Russian Federation as a result of the SDR allocation by the IMF	485,228	548,987
Total	1,363,959	1,616,353

The change in the item *Balances in IMF Number 1 and 2 Accounts with the Bank of Russia* is mainly due to the decrease of the balance of funds in IMF Number 1 Account resulting from the issuance of IMF loans to borrower states in 2019 using quota resources of the fund as part of the Financial Transactions Plan, as well as the revaluation of funds in IMF Number 1 Account caused by decline in the SDR to ruble exchange rate established by the IMF.

The liabilities on the funds provided to the Russian Federation under SDR allocations at the IMF did not change in 2019 in SDR terms, totalling SDR5,671.8 million or ₴484,597.7 million (2018: SDR5,671.8 million or ₴548,003.9 million), net of accrued interest. The decrease in the ruble equivalent of the liabilities resulted from the decline in the official exchange rate of the SDR against the ruble.

14. OTHER LIABILITIES

	(millions of rubles)	
	2019	2018
Assets of the Bank of Russia pension fund	162,094	112,059
Other	16,489	13,112
Provisions	11,979	5,452
Total	190,562	130,623

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. Based on the results of actuarial assessment of the Bank of Russia's pension liabilities in 2019 and in furtherance of the decision made by the Bank of Russia Board of Directors, the Bank of Russia added ₹53,608 million on account of Bank of Russia expenses (Note 24) (2018: ₹7,090 million using provisions created earlier to secure obligations to the participants in the Bank of Russia Pension Plan). The increase in obligations to the participants in the Bank of Russia Pension Plan was largely due to the change, compared to the previous year, in financial assumptions in the actuarial estimates, i.e. to the reduction of the discount rate caused by a decline in the yields of long-term OFZs.

The increase in the item *Other* was mostly due to the reflection of the Bank of Russia's liabilities related to the payment of compensation, taxes, duties and insurance contributions.

The *Provisions* item shows the following:

- provisions to meet obligations to the participants in the Bank of Russia's Pension Plan totalling ₹11,879 million (2018: ₹4,302 million) based on the indicative assessment of pension obligations (Notes 2(g) and 19);
- provisions for the Bank of Russia's potential losses with regard to pension savings to be transferred by the Bank of Russia to the Pension Fund of the Russian Federation totalling ₹100 million (2018: ₹1,150 million) (Note 2(g)).

15. CAPITAL

Similar to 2018, in 2019, the financial result of the Bank of Russia's performance was negative.

Reporting year loss was shaped by the following factors:

- the transfer in 2019 of the Bank of Russia's income from stakeholdings in Sberbank for 2018 (Statement of Financial Performance) to the federal budget in accordance with Federal Law No. 454-FZ, dated 28 November 2018, 'On the Specifics of Transferring the Income for 2018 Received by the Central Bank of the Russian Federation from Stakeholdings in Sberbank of Russia in 2019';
- the decrease in the positive revaluation of foreign securities at fair value posted to the income of the reporting year within the limits of the negative revaluation of corresponding issues (issuers) posted to expenses in previous years (Note 17).

16. INTEREST INCOME

	(millions of rubles)	
	2019	2018
Interest income from securities	203,800	203,640
Interest income from foreign currency loans, deposits and other placements	75,780	60,902
Interest income from ruble loans, deposits and other placements, of which:	66,952	77,107
– issued and placed under certain federal laws	32,405	32,500
– interest income from Bank of Russia funds placed as part of bankruptcy prevention measures	10,231	7,775
Interest income from Bank of Russia claims on the IMF	6,449	5,572
Other, of which:	10,336	14,474
– issued and placed under certain federal laws	8,021	9,660
Total	363,317	361,695

The item *Interest income from securities* consists of ₱195,097 million in interest income from foreign issuers' debt obligations (2018: ₱190,119 million) and of ₱8,703 million in interest income from Russian issuers' debt obligations (2018: ₱13,521 million).

The item *Interest income from foreign currency loans, deposits and other placements* reflects interest from Bank of Russia deposits with non-resident banks as well as funds provided in repo transactions with foreign securities.

The item *Interest income from ruble loans, deposits and other placements* reflects interest income from Bank of Russia ruble-denominated loans issued against the pledge of receivables under loan agreements, securities from the Lombard List, and secured by guarantees; interest income on funds provided to resident banks under repo transactions in rubles; and interest income from other placed funds in rubles provided to the People's Bank of China through swaps under the National Currency Swap Agreement.

The item *Interest income from ruble loans, deposits and other placements, of which:*

- *issued and placed under certain federal laws* reflects interest income from subordinated loans provided to Sberbank (Note 6);
- *from Bank of Russia funds placed as part of bankruptcy prevention measures* reflects interest income from deposits placed for the purpose of rendering financial assistance to credit institutions for which plans have been approved involving the participation of the Bank of Russia in bankruptcy prevention measures using the resources of FBSC (Note 6).

The item *Interest income from Bank of Russia claims on the IMF* reflects interest on the funds in the Russian Federation's account with the SDR Department, on loans issued under the New Arrangements to Borrow and the amounts of remuneration on the reserve tranche position.

The item *Other* mostly includes interest income from loans extended to the DIA totalling ₱8,021 million (2018: ₱9,660 million), as well as interest income from securities lending to non-resident banks on a reverse basis, and interest income received on accounts opened with non-resident banks.

17. INCOME FROM SECURITIES TRADING

	(millions of rubles)	
	2019	2018
Net income from the retirement (sale) of foreign securities available for sale	12,882	0
Net income from the retirement (sale) of Russian securities available for sale	9,591	5,320
Income from operations with Russian debt obligations	3,546	131
Income from operations with foreign securities	2,591	62,300
Total	28,610	67,751

The item *Net income from the retirement (sale) of foreign securities available for sale* includes net income from the retirement (sale) and revaluation at fair value of retired (sold) foreign issuers' securities.

The item *Net income from the retirement (sale) of Russian securities available for sale* reflects 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* reflects income from the positive revaluation of Russian debt obligations at fair value, which was used to offset the negative revaluation, at fair value, of corresponding issues posted to expenses in previous years.

The item *Income from operations with foreign securities* includes income from the positive revaluation of foreign securities at fair value, which was used to offset the negative revaluation of corresponding issues posted to expenses in previous years.

18. INCOME FROM STAKEHOLDINGS IN CREDIT INSTITUTIONS AND OTHER ORGANISATIONS

	(millions of rubles)	
	2019	2018
Income from stakeholdings in credit institutions and other organisations, including:		
– PJSC Sberbank	180,696	135,522
– JSC NPCS	2,382	833
– PJSC Bank FC Otkritie	2,000	0
– PJSC Moscow Exchange	1,796	1,276
– JSC RNRC	447	23
– Bank for International Settlements (Basel)	69	67
Total	187,390	137,721

19. NET INCOME (EXPENSES) FROM THE RECOVERY (ON THE FORMATION) OF PROVISIONS

	(millions of rubles)	
	2019	2018
Decrease in provisions for funds provided to the state corporation	42,277	34,126
Decrease in provisions for securities	21,295	82,931
Decrease in provisions for the Bank of Russia's compliance with Federal Law No. 422-FZ, dated 28 December 2013	1,355	16,561
Decrease in provisions for other active operations	1	(8)
(Increase) in provisions to secure obligations to participants in the Bank of Russia's Pension Plan	(7,577)	(11,392)
(Increase) in provisions for loans to, and deposits with, resident banks	(16,719)	(320,493)
Total	40,632	(198,275)

The decrease in provisions for funds provided to the state corporation is linked to the decrease in the amount of funds provided by the Bank of Russia to the DIA to implement bankruptcy prevention measures at banks, as well as in the amount of loans issued to ensure the financial sustainability of the deposit insurance system and to fund compensation payments on deposits (Note 6).

The change in provisions for securities is linked to the decrease in provisions following the retirement of VEB.RF bonds and the provisioning for investments in the units of a unit investment fund set up in order to implement bankruptcy prevention measures at financial institutions (Note 7).

The decrease in provisions to secure the Bank of Russia's compliance with Federal Law No. 422-FZ, dated 28 December 2013, occurred in connection with the Bank of Russia's receipt of cash funds from the DIA as a result of non-governmental pension funds' fulfilment of Bank of Russia claims acquired in accordance with Part 6 of Article 23 of Federal Law No. 422-FZ, dated 28 December 2013 (Note 9), as well as in connection with the recovery of a part of loss provisions of the Bank of Russia in respect of pension savings to be transferred by the Bank of Russia to the Pension Fund of the Russian Federation (Notes 9 and 14).

The increase in provisions to secure obligations to participants in the Bank of Russia's Pension Plan was effected in accordance with the decision by the Bank of Russia Board of Directors (Note 14).

The increase in provisions for loans to, and deposits with, resident banks is mainly associated with the change in the total amount of loans and deposits of certain borrowers, as well as in their risk level (Note 6).

20. OTHER INCOME

	(millions of rubles)	
	2019	2018
Fees for Bank of Russia services provided to customers	7,902	7,820
Income from the sale of coins made of precious metals	488	498
Income of previous years (net of interest income) identified in the reporting year	422	110
Fines and penalties received	228	258
Other	1,801	2,103
Total	10,841	10,789

The item *Fees for Bank of Russia services provided to customers* mainly consists of ₹7,846 million received in fees for settlement services provided by the Bank of Russia (2018: ₹7,778 million).

21. INTEREST EXPENSES

	(millions of rubles)	
	2019	2018
Interest expenses on deposits taken from resident banks in the domestic market	131,046	187,279
Interest expenses on issued Bank of Russia debt obligations	105,703	85,752
Interest expenses on federal budget balances, of which:	77,344	34,949
– National Wealth Fund balances	41,559	15,757
Interest expenses on acquired debt obligations (premium)	35,091	27,150
Interest expenses on Bank of Russia obligations to the IMF	5,036	4,738
Interest expenses on deposits taken from the state corporation	2,107	1,608
Interest expenses on other foreign currency funds taken from non-residents	1,376	1,703
Other	11,318	10,927
Total	369,021	354,106

The item *Interest expenses on deposits taken from resident banks in the domestic market* reflects interest expenses on funds deposited by credit institutions with the Bank of Russia.

The item *Interest expenses on issued Bank of Russia debt obligations* reflects interest expenses on Bank of Russia coupon bonds (Note 2(d)).

The item *Interest expenses on federal budget balances* reflects interest accrued on the balances of foreign currency accounts of the National Wealth Fund and other federal budget accounts.

In 2019, interest was accrued on the balances of National Wealth Fund foreign currency accounts in the amount calculated on the basis of the yield on the indices of government securities generated in accordance with the bank account agreement.

The increase in the amount of interest is due to positive yield on the indices of government securities, and the increase of funds in National Wealth Fund accounts (interest accrual base) from July 2019.

In 2019, interest was accrued on the balances of other foreign currency accounts of the federal budget. The amount of such interest was calculated on the basis of rates set by a correspond-

ing central bank in order to influence the level of short-term rates in the money market in the corresponding foreign currency.

The amount of interest accrued on the balances of other foreign currency accounts for federal budget funds in 2019 was ₴35,785 million (2018: ₴19,192 million).

The increase in the amount of interest is associated with the growth of funds in the said accounts in the first six months of 2019 and with a higher level of interest rates in this period, compared with 2018, used to accrue interest on the balances of the specified accounts.

The item *Interest expenses on acquired debt obligations (premium)* reflects the premium on securities where the terms of their issue do not provide for the payment of interest (coupon) income and the excess of premium over interest (coupon) income payable on securities (net of interest (coupon) income included in the purchase price).

The item *Interest expenses on Bank of Russia obligations to the IMF* includes interest accrued and paid on the balance of the Russian Federation's obligations to the IMF with regard to the allocated SDRs.

The item *Interest expenses on deposits taken from the state corporation* includes interest expenses on deposits taken from the DIA.

The item *Interest expenses on other foreign currency funds taken from non-residents* includes interest expenses on other funds taken from non-resident banks (repo transactions).

The item *Other* mainly reflects interest expenses incurred when placing funds in correspondent accounts and in deposits with non-resident banks on conditions of a negative interest rate.

22. EXPENSES ON SECURITIES TRADING

	(millions of rubles)	
	2019	2018
Expenses on operations with foreign securities	7,059	1,153
Expenses on operations with debt obligations of Russian issuers	455	3,546
Net expenses from the retirement (sale) of foreign securities available for sale	0	125,176
Other	94	244
Total	7,608	130,119

The item *Expenses on operations with foreign securities* includes the amounts of negative unrealised revaluation as of the end of 2019 with respect to securities available for sale from individual issues of foreign debt obligations posted to Bank of Russia expenses.

The item *Expenses on operations with debt obligations of Russian issuers* includes the amount of expenses on the retirement of VEB.RF bonds (Note 7).

The item *Other* mainly includes expenses on fee payments to organisations supporting securities trading in the domestic market.

23. CASH TURNOVER MANAGEMENT EXPENSES

This 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 of expenses is driven by the increase in the production volumes of currency notes and the increase in output prices for making banknotes and coins.

24. OTHER OPERATING EXPENSES

	(millions of rubles)	
	2019	2018
Expenses on the replenishment of the Bank of Russia pension fund	53,608	0
Net negative realised foreign currency exchange rate differences	12,866	7,707
Expenses on IT maintenance and logistics	12,828	12,428
Depreciation allowances	11,713	10,740
Expenses on the maintenance of buildings	4,391	4,266
Security expenses	4,379	4,442
Expenses involved in the use of titles to intellectual property	3,586	2,631
Repair expenses	2,171	2,125
Net negative realised differences for precious metals	2,122	3,283
Expenses on the delivery of bank documents and valuables	1,765	2,170
Taxes and duties paid	1,661	1,790
Postage, telegraph and telephone expenses, and expenses on renting communication lines and channels	1,483	1,407
Expenses on foreign currency operations	146	380
Expenses on operations with precious metals	116	64
Asset contributions	0	3,007
Other	7,844	8,111
Total	120,679	64,551

Based on the results of actuarial assessment of the Bank of Russia's pension liabilities as of 1 January 2020 and in furtherance of the decision made by the Bank of Russia Board of Directors, the Bank of Russia added ₴53,608 million to its pension fund on 1 January 2020 (Note 14).

The item *Net negative realised foreign exchange differences* mainly reflects net realised foreign exchange differences arising from the purchase (sale) of foreign currency in the international and domestic markets at exchange rates that differ from official exchange rates.

The item *Net negative realised differences for precious metals* reflects net negative realised differences arising from the purchase (sale) of precious metals in the domestic and international financial markets.

The item *Other* mainly reflects business travel and representative expenses, expenses related to the purchase of equipment and accessories put into operation/use, expenses on personnel training, and expenses on the disposal (sale) and writing-off of Bank of Russia assets.

25. PERSONNEL COSTS

For explanation, see the Statement of Bank of Russia Personnel Costs.

26. 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)	
	2019	2018
Claims		
Claims for the delivery of rubles in spot transactions	12,555	4,135
Claims for the delivery of foreign currency in spot transactions	12,074	0
Claims for the delivery of foreign currency from non-residents in spot transactions	214,332	33,392
Claims for the delivery of foreign currency-denominated securities from non-residents in spot transactions'	52,093	0
Claims for the delivery of foreign currency from non-residents in forward transactions	2,820,838	460,165
Claims for the delivery of foreign currency-denominated securities from non-residents in forward transactions	208,223	158,975
Unrealised (negative) exchange rate differences from the revaluation of foreign currency	0	9,487
Unrealised (negative) exchange rate differences from the revaluation of securities	3	0
Total claims	3,320,118	666,154
Obligations		
Obligations to deliver rubles in spot transactions	12,063	0
Obligations to deliver foreign currency in spot transactions	12,505	4,127
Obligations to deliver foreign currency to non-residents in spot transactions	266,275	33,372
Obligations to deliver foreign currency to non-residents in forward transactions	3,008,987	628,644
Unrealised (positive) exchange rate differences from the revaluation of foreign currency	20,274	0
Unrealised (positive) exchange rate differences from the revaluation of securities	14	11
Total obligations	3,320,118	666,154

Claims and obligations in spot transactions included in the items are claims and obligations on swaps and conversion transactions executed in the domestic financial market, as well as claims and obligations on swaps, conversion transactions and securities purchase transactions executed in the international financial market.

Claims and obligations in forward transactions included in the items are claims and obligations on swaps and conversion transactions, as well as on securities purchase transactions executed in the international financial market.

Other claims and obligations recorded to the off-balance sheet accounts include:

	(millions of rubles)	
	2019	2018
Unused limits for the provision of funds in the form of overdrafts and 'against the debt limit' loans	4,713,748	4,693,352
Unused limits to receive interbank funds in the form of overdrafts and 'against the debt limit' loans	2,443,208	2,756,428
Securities received in reverse transactions	672,181	754,270
Unused lines of credit facilities	188,000	188,000
Assets accepted as collateral for funds placed, except for securities and precious metals	170,116	182,001
Securities accepted as collateral for funds placed	168,919	145,946
Guarantees and sureties received	96,869	152,516
Guarantees and sureties issued	49,700	49,700
Settlements with the IMF related to servicing funds raised and placed	7,366	8,322
Arrears in interest payments on the principal not written off the balance sheet	6,387	7,550

Unused limits for the provision of funds in the form of overdrafts and 'against the debt limit' loans

Unused limits for the provision of funds in the form of overdrafts and 'against the debt limit' loans include:

- unused lines of Bank of Russia credit facilities to be provided under agreements to open irrevocable credit lines in the amount of ₹1,303,000 million (2018: ₹1,039,000 million);
- unused line of Bank of Russia credit facilities to be provided to the IMF under the New Arrangements to Borrow in the amount of SDR4,212 million or ₹359,888 million (2018: SDR4,064.2 million or ₹392,675 million)¹ (Note 8);
- unused line of Bank of Russia credit facilities to be provided under the bilateral credit agreement between the Bank of Russia and the IMF in the amount of \$10,000 million or ₹619,057 million (2018: \$10,000 million or ₹694,706 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 ₹1,114,303 million (2018: \$18,000 million or ₹1,250,471 million);
- unused ruble limit for the execution of swaps between the Bank of Russia and the People's Bank of China under the bilateral National Currency Swap Agreement² in the amount of ₹1,316,500 million (2018: ₹1,316,400 million) and unused limit to provide rubles under swaps that have already been concluded with the People's Bank of China in the amount of ₹1,000 million (2018: ₹100 million). These limits constitute the current maximum amount of rubles which the Bank of Russia may provide under the said Agreement. The change in the unused limit for executing swaps is caused by the decrease in the total amount of funds provided and to be provided via swaps concluded as of the end of the reporting period with the People's Bank

¹ In 2018 and 2019, the maximum amount of obligations of the Russian Federation under the New Arrangements to Borrow did not change and totalled SDR4,440.9 million.

² In accordance with the bilateral National Currency Swap Agreement concluded in 2017, the maximum amount of rubles that may be provided by the Bank of Russia to the People's Bank of China via swaps is ₹1,325,000 million.

of China. These funds are reflected in the item *Funds placed with non-residents and foreign securities* (Note 5).

Unused limits to receive interbank funds in the form of overdrafts and 'against the debt limit' loans

Unused limits to receive interbank funds in the form of overdrafts and 'against the debt limit' loans include:

- unused limits for the Bank of Russia to receive US dollars under the Treaty for the Establishment of a BRICS Foreign Currency Reserve Pool between the BRICS nations, totalling \$18,000 million or ₹1,114,303 million (2018: \$18,000 million or ₹1,250,471 million);
- unused limit in Chinese renminbi to conclude swap transactions between the Bank of Russia and the People's Bank of China under the bilateral National Currency Swap Agreement totalling RMB150,000 million or ₹1,328,905 million (2018: RMB149,109 million or ₹1,505,957 million). This limit constitutes the current maximum amount of Chinese renminbi which the Bank of Russia may receive via swaps.³

Securities received in reverse transactions

Securities included in the item *Securities received by the Bank of Russia in reverse transactions* are securities received from counterparties in repos with non-residents in international markets, as well as securities received by the Bank of Russia as additional collateral (margin) in repos with non-residents in international markets.

Securities received by the Bank of Russia from counterparties in repos in international markets are accounted for at fair value, which, as of 31 December 2019, totalled ₹671,929 million (2018: ₹750,437 million); this includes the fair value of securities received in reverse repos that match repo transactions, totalling ₹389,677 million (2018: ₹695,294 million) (Notes 5 and 11).

As of 31 December 2019, the Bank of Russia received additional collateral (margin) in the form of foreign securities in repos with non-residents in the international market, with a total fair value of ₹252 million (2018: ₹42 million). These securities were received due to the excess of total obligations of the Bank of Russia's counterparty over total Bank of Russia obligations in all repos with that counterparty.

The decrease in this item is mainly caused by the decline of official exchange rates of foreign currencies against the ruble.

Unused lines of credit facilities

Unused lines of credit facilities constitute Bank of Russia obligations under the lending agreement with the DIA to ensure the financial sustainability of the deposit insurance system and to fund the payment of indemnities on deposits.

Assets accepted as collateral for funds placed, except for securities and precious metals

Assets accepted as collateral for funds placed, except for securities and precious metals, constitute credit claims under loan agreements accepted by the Bank of Russia as collateral for loans granted to credit institutions (Note 6).

The decrease in the item is due to the drop in the volume of placed funds secured by credit claims under loan agreements.

³ In accordance with the bilateral National Currency Swap Agreement concluded in 2017, the maximum amount of Chinese renminbi that the Bank of Russia may receive from the People's Bank of China under swaps is RMB150,000 million.

Securities accepted as collateral for funds placed

Securities accepted as collateral for funds placed mainly comprise foreign securities accepted by the Bank of Russia as collateral in securities lending on a reverse basis in international markets (Note 5).

Guarantees and sureties received

Guarantees and sureties received by the Bank of Russia are predominantly sureties accepted as collateral for issued loans (Note 6).

Additionally, this item includes RMB935 million or ₪8,280 million (2018: RMB891 million or ₪8,998 million) under the swap concluded with the People's Bank of China in the framework of the National Currency Swap Agreement.

Guarantees and sureties issued

Guarantees and sureties issued constitute the maximum amount of Bank of Russia contingent liabilities for paying up the authorised capital of JSC Russian National Reinsurance Company.

Settlements with the IMF related to servicing funds raised and placed

As an IMF member country, the Russian Federation participates in the burden-sharing mechanism for debt arrears. Under this mechanism, in order to compensate for third-party defaults on payments to the IMF, IMF borrower countries pay surcharges on the SDR interest rate, while a deduction on this rate is withheld from creditor countries. Settlements with the IMF related to servicing borrowed and placed funds represent amounts of the Russian Federation's claims on the IMF for paid interest rate surcharges and withheld interest rate deductions under the burden-sharing mechanism and total SDR86.2 million or ₪7,366 million, as of 31 December 2019 (2018: SDR86.1 million or ₪8,322 million).

Arrears in interest payments on the principal not written off the balance sheet

Arrears in interest payments on the principal not written off the balance sheet consist mainly of accrued interest on loans and other funds placed, provided by the Bank of Russia to credit institutions, the receipt of which is uncertain. Furthermore, the said item includes claims on credit institutions whose banking licence has been revoked as regards the accrued interest income due to the Bank of Russia, which is posted to off-balance sheet accounts.

27. POST-ACCOUNTING DATE EVENTS

At the beginning of 2020, the world oil price dropped considerably from the maximum levels of the previous year (\$65–67 per barrel of Urals crude in early January) to 22-year lows (below \$15 per barrel of Urals crude in late March). The most substantial decline in prices occurred in March. The main factors underlying these oil price dynamics were a sharp reduction in the external demand amid the large-scale coronavirus pandemic and the non-extension of the oil production cut arrangements between OPEC, Russia and other countries in early March 2020. Strengthening of global recession risks at the beginning of 2020 also led to a decline in world prices on other commodities (energy produces and industrial metals). The dynamics of commodity prices alongside the worsening situation and prospects for the key commodities exports were conducive to the substantial weakening of the ruble. As a result, the USD/RUB exchange rate was up 25.6% from ₪61.9057 (as of 31 December 2019) to ₪77.7325 (as of 1 March 2020), the EUR/RUB exchange rate was up 23.6% from ₪69.3406 (as of 31 December 2019) to ₪85.7389 (as of 31 March 2020).

Considerable changes in the movements of key commodities prices and the ruble exchange rate will drag heavily on the parameters of economic activity and inflation in Russia, as well as the Bank of Russia's financial statements indicators in 2020.

In March 2020, in response to the significant deterioration of external economic conditions, the Russian Federation Government and the Bank of Russia adopted a joint package of measures to ensure sustainable economic development,⁴ support citizens, economy and financial sector amid the coronavirus pandemic,⁵ and made emergency decisions on foreign currency operations in the domestic market,⁶ and liquidity provision.⁷ All these measures will also influence considerably the key indicators of the Bank of Russia's financial statements in 2020.

On 10 April 2020, the Bank of Russia sold 11,293,474,000 ordinary shares of PJSC Sberbank held by it to the Government of the Russian Federation represented by the Russian Ministry of Finance according to Federal Law No. 50-FZ, dated 18 March 2020, 'On the Acquisition by the Government of the Russian Federation of Ordinary Shares of Public Joint-Stock Company Sberbank of Russia from the Central Bank of the Russian Federation and on Invalidating Certain Provisions of Legislative Acts of the Russian Federation' (hereinafter, Federal Law No. 50-FZ). The price of one share is determined as a weighted average price of ordinary shares of Sberbank based on the results of organised trading on MOEX conducted from 9 March to 7 April 2020 and totals ₺189.44 per share.

On 23 April 2020, the Bank of Russia transferred to the federal budget ₺1,066,048 million in accordance with Federal Law No. 49-FZ, dated 18 March 2020, 'On the Transfer of Part of the Income Received by the Central Bank of the Russian Federation from the Sale of Ordinary Shares of Public Joint-stock Company Sberbank of Russia'.

In order to protect the rights of minority shareholders and secure the rights and legitimate interests of corporate relationship participants, and to ensure continuity of Sberbank's corporate governance and the pursuance of its priority activities, the Government of the Russian Federation and the Bank of Russia conclude a shareholder agreement on executing rights certified by ordinary shares of Sberbank, providing for the participation of its parties in the corporate governance of Sberbank on conditions set forth in Clause 5 of Article 1 of Federal Law No. 50-FZ.

According to the purchase and sale agreement, the last ordinary share held by the Bank of Russia in Sberbank is to be transferred by 6 May 2020.

⁴ The Bank of Russia's press release, dated 17 January 2020, 'On measures to ensure sustainable economic development'.

⁵ The Bank of Russia's press releases, dated 20 and 27 March 2020, 'Bank of Russia approves additional measures aimed at supporting Russian citizens, economy and financial sector amid coronavirus pandemic'.

⁶ Bank of Russia commentaries on fiscal rule-based operations (dated 9 and 10 March 2020) and FX operations related to the acquisition of the stock of Sberbank by the National Wealth Fund (dated 19 March 2020).

⁷ Bank of Russia commentaries on liquidity provision operations (dated 10, 13, 19, 27, and 30 March 2020).

Statement of profit and its allocation

	(millions of rubles)	
	2019	2018
1 Actual loss for the year, total:	(182,569)	(434,679)
2 of which:		
– transferred to the federal budget in accordance with federal laws	(180,696) ⁸	(135,522) ⁹
3 Taxes and duties paid from the Bank of Russia's profit ¹⁰	(131)	(140)
4 Loss after the payment of taxes and duties under the Tax Code of the Russian Federation	(182,700)	(434,819)

In accordance with Article 11 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia's profit is calculated as a difference between total income from banking operations and transactions stipulated by the legislation of the Russian Federation, including the said Federal Law, income from stakeholdings in organisations and other income from Bank of Russia activities and total expenses associated with the Bank of Russia's fulfilment of the functions assigned to it by Article 4 of the said Federal Law, including expenses for supporting Bank of Russia operations, and its organisations and employees.

In accordance with the specified Article, the Bank of Russia's financial result in the reporting year was determined as loss in the amount of ₴1,873 million (2018: loss – ₴299,157).

In accordance with Articles 1 and 2 of Federal Law No. 454-FZ, dated 28 November 2018, 'On the Specifics of Transferring the Income for 2018 Received by the Central Bank of the Russian Federation from Stakeholdings in Sberbank of Russia in 2019', the income received in 2019 by the Bank of Russia from its stakeholdings in Sberbank at end-2018 is to be transferred by the Bank of Russia to the federal budget on or before 1 August 2019. The part of income to be transferred to the federal budget in 2020 is reduced by the amount of funds transferred to the federal budget in accordance with Article 1 of this Federal Law in 2019.

In 2019, the Bank of Russia's income and expenses were shaped by mixed factors. In view of the Bank of Russia key rate cut, its interest expenses on liquidity-absorbing operations declined compared to 2018. The increase in the volume of reserve assets of the Bank of Russia and the resources of the National Wealth Fund of the Russian Federation held in Bank of Russia accounts caused increase in income from the placement of Bank of Russia reserve assets and expenses on the money of the National Wealth Fund respectively. Due to the change in the structure and quality of Bank of Russia assets, 2019 posted net income from the recovery of Bank of Russia provisions (vs net expenses on the formation of provisions posted in 2018). Besides, expenses on the replenishment of the Bank of Russia's pension fund were incurred in 2019 based on the estimates of an independent actuary.

Another negative drag on the financial result came from the transfer of income from the stakeholdings in Sberbank to the federal budget in accordance with federal laws.

Due to a loss posted at the end of the reporting year, no allocations were made either to the Bank of Russia Social Fund or to its Reserve Fund.

⁸ In accordance with Article 1 of Federal Law No. 454-FZ, dated 5 December 2017, 'On the Specifics of Transferring the Income for 2018 Received by the Central Bank of the Russian Federation from Stakeholdings in Sberbank of Russia in 2019'.

⁹ In accordance with Article 1 of Federal Law No. 370-FZ, dated 5 December 2017, 'On the Specifics of Transferring the Income for 2017 Received by the Central Bank of the Russian Federation from Stakeholdings in Sberbank of Russia in 2018'.

¹⁰ Corporate profit tax defined as per Article 284 of the Tax Code of the Russian Federation.

Statement of Bank of Russia reserves and funds

(millions of rubles)

	Reserve fund	Social fund	Reserve of unrealised revaluation of precious metals	Positive revaluation of securities available for sale	Reserve of unrealised 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	87,040	2,216	3,223,207	68,267	8,872,726	7,966	12,261,422
Transferred to funds from other sources	0	0	415,780	10,935	0	0	426,715
Funds used	(4,346)	0	0	(30,805)	(2,165,653)	0	(2,200,804)
Opening balance of the year following the reporting year	82,694	2,216	3,638,987	48,397	6,707,073	7,966	10,487,333
Transferred from reporting year profit	0	0	0	0	0	0	0
Total, inclusive of funds received as a result of reporting year profit allocation	82,694	2,216	3,638,987	48,397	6,707,073	7,966	10,487,333

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 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 allocation of the profit retained by the Bank of Russia is established by the Bank of Russia Regulation on the procedure for allocating profit retained by the Bank of Russia.

Pursuant to the Bank of Russia Regulation on the Bank of Russia Reserve Fund, the Bank of Russia created the Reserve Fund to ensure its stable activity for carrying out the functions assigned to it by law. The Bank of Russia Reserve Fund is formed from the Bank of Russia's profit, and, according to the decision of its Board of Directors, the Bank of Russia may also transfer money from other funds and reserves that are part of its capital to the Reserve Fund. Money from the Bank of Russia Reserve Fund is used in accordance with a decision by the Bank of Russia Board of Directors. In 2019, ₹4,346 million of the Bank of Russia Reserve Fund, according to the decision of the Bank of Russia Board of Directors, was allocated to cover expenses for the Bank of Russia's asset contribution to the DIA's assets

According to the Bank of Russia's Ordinance on the Bank of Russia Social Fund, the fund is designed to execute expenses on social needs which are not financed through the Bank of Russia's expense budget. The Bank of Russia Social Fund is formed from the Bank of Russia's profit, and, according to the decision of its Board of Directors, the Bank of Russia may also transfer money to the Social Fund from its Reserve Fund. Money from the Bank of Russia Social Fund is used in accordance with a decision by the Bank of Russia Board of Directors. In 2019, no money from the Bank of Russia Social Fund was used.

Due to a loss posted at the end of 2019, no allocations were made in 2019 either to the Bank of Russia Reserve Fund or to its Social Fund.

Pursuant to the Bank of Russia Accounting Policy, assets (claims) and liabilities denominated in precious metals, including precious metals in commemorative and investment coins, are entered in the books at the value of precious metals at the book prices for refined precious metals, as established by the Bank of Russia as of the date of the operation (transaction), and are revalued as book prices are changed. In 2019, based on the annual results, positive unrealised differences exceeded negative ones by ₹415,780 million. This excess was recorded to the balance sheet account *Reserve of unrealised revaluation of precious metals* as part of the Bank of Russia capital (in 2018, ₹957,437 million).

Pursuant to the Bank of Russia Accounting Policy, debt obligations categorised as *Available for sale* are subject to revaluation at the fair value of the securities. In 2019, based on the annual results, the positive revaluation of debt obligations categorised as *Available for sale* totalling ₹10,935 million was posted to the balance sheet account *Positive revaluation of securities available for sale* as part of the Bank of Russia capital (2018: ₹60,587 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 2019 in the total amount of ₹30,805 million (2018: ₹12,062 million).

Foreign currency exchange rate differences result from 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 2019, negative unrealised differences exceeded positive ones by ₹2,165,653 million. According to the decision of the Bank of Russia Board of Directors, this excess was written off on account of the previously accrued revaluation recorded to the balance sheet account *Reserve of unrealised exchange rate differences* as part of the Bank of Russia capital (in 2018, positive unrealised differences exceeded negative ones by ₹2,684,230 million).

The increase in the value of property as a result of revaluation is revaluation of fixed assets made in compliance with the Russian Government Resolutions in 1992, 1994, 1995, 1996 and 1998.

Statement of Bank of Russia management of securities and stakeholdings in organisations constituting Bank of Russia property

Bank of Russia investments in debt obligations

(millions of rubles)

	2019	2018
Foreign issuers' debt obligations, of which:		
EU issuers' debt obligations	8,478,130	8,712,009
– denominated in euros	6,654,845	6,310,423
– denominated in pounds sterling	1,592,960	1,685,530
– denominated in US dollars	180,308	614,378
– denominated in Canadian dollars	18,868	36,860
– denominated in Chinese renminbi	17,716	0
– denominated in Australian dollars	13,433	64,818
Chinese issuers' debt obligations	4,547,974	4,601,275
– denominated in Chinese renminbi	4,108,892	4,601,275
– denominated in US dollars	360,606	0
– denominated in pounds sterling	48,601	0
– denominated in Canadian dollars	21,239	0
– denominated in Australian dollars	8,636	0
US and Canadian issuers' debt obligations:	1,351,288	1,674,307
– denominated in US dollars	676,454	916,343
– denominated in Canadian dollars	661,090	752,308
– denominated in pounds sterling	10,156	0
– denominated in euros	3,588	4,271
– denominated in Australian dollars	0	1,385
Debt obligations of international organisations:	1,327,702	516,674
– denominated in euros	1,200,579	382,967
– denominated in pounds sterling	35,429	33,766
– denominated in Australian dollars	31,018	50,366
– denominated in US dollars	30,428	17,469
– denominated in Canadian dollars	30,248	32,106
Australian issuers' debt obligations:	208,924	122,250
– denominated in Australian dollars	180,560	122,250
– denominated in Canadian dollars	28,364	0
Japanese issuers' debt obligations:	61,539	0
– denominated in Japanese yen	61,539	0
Subtotal	15,975,557	15,626,515

	(millions of rubles)	
	2019	2018
Russian issuers' debt obligations, of which:		
Russian federal government debt obligations:	317,875	179,019
– denominated in rubles	212,900	59
– denominated in US dollars	104,975	178,960
Other Russian issuers' debt obligations (excluding promissory notes) ¹¹	0	212,636
– denominated in rubles	0	212,636
Promissory notes issued by credit institutions ¹¹	23	23
Subtotal	317,898	391,678
Total	16,293,455	16,018,193

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 categorised under securities available for sale and held to maturity (Notes 5 and 7).

Foreign issuers' debt obligations mostly consist of the government bonds and bills of China, France, Germany, the United Kingdom, the US, Austria and Canada, non-government bonds guaranteed, among others, by governments of foreign states, and debt obligations issued by supranational financial institutions.

As part of its operations to manage foreign-currency assets, the Bank of Russia purchased and sold debt obligations of foreign issuers, conducted repo transactions with the said securities and provided foreign issuers' securities on a reverse basis.

The change in the balance of this item was mostly due to growth in Bank of Russia investments in foreign securities, as well as decrease in the official exchange rates of the foreign currencies in which the securities were denominated against the ruble.

In 2019, the Bank of Russia acquired ruble-denominated debt obligations of the Government of the Russian Federation (OFZ) under the securities purchase and sale agreement with VEB.RF. By way of payment for OFZs, the Bank of Russia transferred VEB.RF bonds.

Over 2019, the Bank of Russia sold OFZs that remained its property in 2018 and 2019 as a result of the settlement of credit institutions' outstanding obligations under repos with the Bank of Russia or their termination following the revocation of the banking licence from a credit institution.

Russian federal government debt obligations denominated in US dollars are external foreign-currency bonds. The decrease in the balance under the item is mostly associated with the sale and partial repayment of the principal, and with the decline in the official exchange rate of the US dollar against the ruble.

¹¹ The value of securities not accounted for at fair value is indicated net of provisions created (Note 7).

The Bank of Russia's investments in the capitals of credit institutions and other organisations

(millions of rubles)

	2019		2018	
	Investment amount	Share in authorised capital, %	Investment amount	Share in authorised capital, %
Investments in resident shares,	801,610		670,173	
of which:				
Public Joint-stock Company Bank Financial Corporation Otkritie, Bank FC Otkritie PJSC, Moscow	555,841	over 99.99	498,920	over 99.99
Public Joint-stock Company Moscow Industrial Bank, PJSC MInBank, Moscow	131,430	over 99.99	—	—
Public Joint-stock Company Sberbank of Russia, Sberbank, Moscow	72,938	50.00% + 1 share ¹²	72,938	50.00% + 1 share ¹²
Joint-stock Company Russian National Reinsurance Company, JSC RNRC, Moscow	21,300	100	21,300	100
Asian-Pacific Bank (Public Joint-stock Company), Asian-Pacific Bank (PJSC), Blagoveshchensk	9,015	over 99.99	9,000	over 99.99
Public Joint-stock Company Moscow Exchange MICEX-RTS, Moscow Exchange, Moscow	5,793	11.78	5,793	11.78
National Payment Card System Joint-stock Company, NPCS JSC, Moscow	4,300	100	4,300	100
Public Joint-stock Company National Bank TRUST, TRUST Bank (PJSC), Moscow	990	over 97.70 ¹³	655	over 97.99 ¹³
Stock Company Saint Petersburg Currency Exchange, SPCEX SC, Saint Petersburg	3	8.90	3	8.90
Public Joint-stock Company B&N BANK, B&N BANK PJSC, Moscow	0	—	56,914	over 99.99
Joint-stock Company AVTOVAZBANK, JSC AVB Bank, Togliatti	0	—	350	100
Investments in non-resident shares,	327		327	
of which:				
Bank for International Settlements, Basel	326	0.57	326	0.57
Society for Worldwide Interbank Financial Telecommunications (SWIFT), Belgium	1	0.006	1	0.006

¹² The Bank of Russia's stake in the capital of Sberbank was 52.3162% voting shares.¹³ Taking into consideration the indirect stakeholding, over 99.01% (2018: over 99.9%).

The Bank of Russia holds stakes in the capitals of credit institutions and other organisations pursuant to Articles 8, 9, 75 and 76.10 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', Parts 1 and 2 of Article 30² of Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System', and Part 1 of Article 13¹ of Law of the Russian Federation No. 4015-1, dated 27 November 1992, 'On the Organisation of Insurance Business in the Russian Federation'.

The increase in the item *Investment in resident shares* was caused by the Bank of Russia's acquisition of shares of the following credit institutions in 2019 as part of measures under the approved plans of the Bank of Russia's participation in the implementation of bankruptcy prevention measures at: PJSC MInBank and JSC VOCBANK. Following the recapitalisation, the Bank of Russia became the owner of over 99.99% of ordinary shares in the mentioned credit institutions. The shares of JSC VOCBANK acquired by the Bank of Russia for ₹2,730 million were converted into PJSC MInBank's shares upon the merger of JSC VOCBANK and PJSC MInBank. In the fourth quarter of 2019, permanent management bodies were established in PJSC MInBank.

On 1 January 2019, to establish a universal financial group on the basis of PJSC Bank FC Otkritie, the shares of PJSC B&N BANK acquired by the Bank of Russia were converted into shares of PJSC Bank FC Otkritie following the reorganisation through a merger of PJSC B&N BANK with PJSC Bank FC Otkritie. Additionally, in 2019, JSC AVB Bank was merged with NB Trust (PJSC). Furthermore, in 2019, the Bank of Russia purchased shares in PJSC Bank FC Otkritie and Asian-Pacific Bank (PJSC) from minority shareholders.

In the first quarter of 2019, the Bank of Russia set up the property of Closed-end Unit Investment Combined Fund 'Special' totalling ₹3,864 million using the funds of FBSC AMC Ltd.

The Bank of Russia is the sole member of FBSC AMC Ltd. In 2019, the Bank of Russia's investments in the authorised capital of FBSC AMC Ltd. remained at ₹1,500 million.

In pursuance of the requirements stipulated by Parts 1 and 2 of Article 30.2 of Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System', the Bank of Russia holds stakes in the capital of JSC NPCS. In 2019, the authorised capital of JSC NPCS remained unchanged at ₹4,300 million. The Bank of Russia is the sole shareholder of JSC NPCS.

The Bank of Russia also reflects in its balance sheet the Russian Federation's stakeholdings in international financial institutions: the quota of the Russian Federation in the IMF in the amount of SDR12,903.7 million, which is 2.71% of the total quotas (capital) of the IMF and 2.59% of the total votes of IMF member states, as well as investments of the Russian Federation in the authorised capital of the Interstate Bank in the amount of ₹10 million, which is 50% of its authorised capital and 50% of the total votes of Interstate Bank member states.

Information on income from the stakeholdings in credit and other institutions is provided in Note 18.

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	
	2019	2018	2019	2018	2019	2018
	Public Joint-stock Company Moscow Exchange MICEX-RTS, PJSC Moscow Exchange, Moscow	6,342,493	7,902,621	2,084,225	1,038,304	0
Joint-stock Company Saint Petersburg Currency Exchange, JSC SPCEX, Saint Petersburg	0	1	0	0	0	0
	6,342,493	7,902,622	2,084,225	1,038,304	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 in 2019:

- acquisition of securities in the first leg of repos in the currency of the Russian Federation;
- placement (sale) of securities issued by the Bank of Russia (Bank of Russia bonds);
- sale of securities that remained the Bank of Russia's property in 2018 and 2019 as a result of the settlement of credit institutions' outstanding obligations under repos with the Bank of Russia or their termination following the revocation of the banking licence from a credit institution.

The column *Volume of Bank of Russia securities trading on the instruction of its customers* shows summary data on the sale of Russian government securities by the Bank of Russia on the instructions of the Russian Ministry of Finance under an agency agreement.

Statement of Bank of Russia personnel costs

	(millions of rubles)	
	2019	2018
Compensation and other benefits to Bank of Russia personnel	96,326	92,815
Charges on compensation and other benefits	21,853	21,650
Total Bank of Russia personnel costs	118,179	114,465

Bank of Russia personnel costs increased by ₹3,714 million or 3.2% compared to 2018, with compensation-related expenses and other benefits to Bank of Russia personnel up by ₹3,511 million or 3.8%. Charges on compensation and other benefits grew by ₹203 million or 0.9%.

Compensation expenses and other payments to Bank of Russia personnel include: salary payments, seniority bonuses for the length of service with the Bank of Russia (from 1 May 2019, these have been integrated in salaries), additional payments for participation in inspections, other increments and benefits established by Bank of Russia regulations, monthly and year-end bonuses, regular paid leaves and study leaves, one-off allowances for annual paid leaves, payments of regional coefficients and interest allowances for those working in the Extreme North and similar regions in accordance with the legislation of the Russian Federation, one-off allowances upon old age retirement, financial support to compensate for spending on improving living conditions (in 2018, these expenses were financed by the expenditure budget of the Social Fund), emergency allowances, benefits for employees living (working) in regions affected by the radiation following the Chernobyl nuclear power plant disaster, benefits for employees taking parental leave until their child reaches the age of three, allowances for temporary disability due to a disease or injury paid for the first three days of disability, holiday travel expenses for employees working in the Extreme North and similar regions and to their non-working family members for the payment of their round-trip tickets, and for the expenses incurred in moving to a new place of residence in a different region upon the expiration of their employment agreement or due to retirement, compensation for the expenses of employees and their family members to move to work at another Bank of Russia establishment located in another region, and other benefits.

The average number of Bank of Russia employees fell by 1,531 persons in 2019 (3.2%) to 46,379. The decrease resulted from organisational personnel-related measures.

The average monthly income per one employee was ₹173,078 in 2019 (2018: ₹161,440).

Insurance contributions constituted 22.5% of total compensation and other benefit-related expenses (2018: 23.1%). Charges to the Social Insurance Fund of the Russian Federation 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 – 18 persons) amounted to ₹647.0 million or 0.7% of the total Bank of Russia expenses on compensation and other personnel benefits, including ₹174.2 million in year-end bonuses for 2019 (2018: 21 persons, ₹657.1 million or 0.7%, including ₹99.5 million in year-end bonuses for 2017 and ₹114.9 million – for 2018).

Statement of capital investment budget performance

(millions of rubles)

Capital investment	Approved for 2019	Actual amount in 2019	Actual amount in 2018
Ensuring the functioning of payment, operational, information and analytical, and information and telecommunications systems	8,707	7,691	11,422
Security and protection of Bank of Russia facilities	1,315	1,247	1,743
Construction (reconstruction) and logistics	103,510	670	1,185
Acquisition of means of transport, medical and other equipment and tools	336	319	356
Cash turnover management	369	300	217
Ensuring the security of payment, operational, information and analytical system, and information and telecommunications systems	150	150	90
Obtaining licences and certificates	2	1	1
Centralised reserve	2,231	—	—
Total capital expenses	116,620	10,378	15,014

In 2019, capital investment of the Bank of Russia declined by ₴4,636 million.

In the structure of capital investment, investment in ensuring the functioning of payment, operational, information and analytical system, and information and telecommunications systems made up the biggest part (74.1%). The share of investment in security and protection of Bank of Russia facilities accounted for 12.0%; in the construction (reconstruction) and logistics – 6.5%; in the acquisition of means of transport, medical and other equipment and tools – 3.1%; capital investment in cash turnover management – 2.9%; and in ensuring the security of payment, operational, information and analytical system, and information and telecommunications systems – 1.4%.

Capital investment in ensuring the functioning of payment, operational, information and analytical system, and information and telecommunications systems decreased by ₴3,731 million. The decline of expenses results from the reduction of the scope of work under the Bank of Russia IT Strategy. Capital investment, including acquisition of intangible assets and rights to use software products, is aimed at creating the computing and telecommunication infrastructure of the Bank of Russia Private Cloud and engineering support systems of data processing centres, developing the Unified Platform for External Interaction with market participants, creating personal cabinet services, supporting the functioning and development of the existing information and computing and analytical systems and technical infrastructure (including engineering systems) of the Bank of Russia, replacing equipment of the computing infrastructure at Bank of Russia divisions.

Capital investment in ensuring the security and protection of Bank of Russia facilities decreased by ₴496 million as a result of reduction of the volume of works to create engineering systems of security tools at the facilities of data processing centres. Furthermore, the funds were used to replace expired and obsolete systems, as well as to upgrade the existing fire alarm systems, video security and surveillance systems, control and access systems.

Capital investment in construction (reconstruction) and logistics decreased by ₴515 million (in 2018, the construction of the main cash settlement centre was completed in Novosibirsk). Furthermore, the funds were used to build (reconstruct) 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 replace those whose

service life had expired. In 2019, funds totalling ₹102,000 million envisaged for the acquisition of an office building in Moscow were not used subject to the clarification of the conditions of the deal.

Capital investment in the acquisition of means of transport, medical and other equipment and tools decreased by ₹37 million and was mostly used to replace the assets whose service life had expired.

Capital investment in cash turnover management grew by ₹83 million.

The funds were used to install in Bank of Russia offices modular complexes based on high-performance banknote processing machines, to create (upgrade) video systems for the surveillance and recording of operations with valuables, to create transport and warehousing systems, and to purchase cash-office hardware and technological equipment.

Capital investment in ensuring the security of payment, operational, information and analytical system, and information and telecommunications systems, including acquisition of intangible assets and rights to use software products, grew by ₹60 million and was spent on ensuring the cryptographic information protection in Bank of Russia automated systems and software complexes, and on purchasing technical means for the protection of information and computer equipment in a secure form.

The expenses for purchasing licences and certificates amounted to ₹1 million (remaining at the previous year's level).

Auditors' reports



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Auditor's report of independent auditors

To the management of the Central Bank of the Russian Federation

Report on the audit results of annual financial statements

Opinion

We have audited the Annual Financial Statements of the Central Bank of the Russian Federation (hereinafter, the Bank of Russia) for the period from 1 January through 31 December 2019. Pursuant to Article 25 of Federal Law No. 86-FZ, dated 10 July 2002, *'On the Central Bank of the Russian Federation (Bank of Russia)'*, the Bank of Russia Annual Financial Statements consist of the annual balance sheet, the statement of financial performance (including the statement of profit and its allocation), the statement of Bank of Russia reserves and funds, the statement of Bank of Russia management of securities and stakeholdings in the capital of organisations constituting Bank of Russia property, the statement of Bank of Russia personnel costs, the statement of capital investment budget performance, and the statement of the volume of Bank of Russia securities trading on organised trading venues (hereinafter all these statements are collectively referred to as the Annual Financial Statements).

In our opinion, the Annual Financial Statements attached hereto present, in all material aspects, a reliable picture of the Bank of Russia's financial standing as of 31 December 2019 and the results of its financial performance for 2019 in accordance with the requirements of Federal Law No. 86-FZ, dated 10 July 2002, *'On the Central Bank of the Russian Federation (Bank of Russia)'*, Federal Law No. 402-FZ, dated 6 December 2011, *'On Accounting'*, Bank of Russia Regulation No. 567-P, dated 19 December 2016, *'On the Chart of Accounts for Accounting Purposes at the Central Bank of the Russian Federation (Bank of Russia) and the Procedure for Using it'*, and Bank of Russia Regulation No. 522-P, dated 21 December 2015, *'Bank of Russia Accounting Policy for Accounting Purposes'*.

Basis for expressing an opinion

We have conducted the audit in compliance with the International Standards on Auditing (ISA). Our duties under these standards are described in the section *'The auditor's responsibility for the audit of the Annual Financial Statements'* of our report below. We are independent of the Bank of Russia in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (the IESBA Code of Ethics) and ethical requirements applicable to our audit of annual financial statements in the Russian Federation, and we have discharged other ethical duties in accordance with these requirements and the IESBA Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to serve as the grounds for expressing our opinion.



Critical audit matters

Critical audit matters are the issues which, according to our professional judgement, were the most significant for our audit of the Annual Financial Statements for the current period. These matters were considered in the context of our audit of the Annual Financial Statements as a whole and in the course of preparing our opinion on these statements, and we do not express a separate opinion on these matters. In respect of the matter mentioned below, our description of how it was reviewed in the course of our audit is given in this context.

We have performed the duties described in the section 'The auditor's responsibility for the audit of the Annual Financial Statements' hereof, *inter alia*, in respect of the said matter. Accordingly, our audit included the implementation of procedures developed in response to our assessment of the risks of material misstatement in the Annual Financial Statements. The results of our audit procedures, including procedures performed while examining the matter below, serve as basis for expressing our auditor's opinion on the Annual Financial Statements attached.

The following critical matter was examined in the course of our audit

Critical audit matter

Provisions for credit claims

In performing its functions in accordance with the laws of the Russian Federation, the Bank of Russia incurs claims which bear the risk of possible financial losses. Such claims, as of the reporting date, specifically include loans and deposits provided by the Bank of Russia.

The Bank of Russia assesses the risk of possible financial losses on these claims and creates provisions to cover this risk on an individual or on a portfolio basis. For the purpose of assessing individual provisions, the Bank of Russia determines the quality category of each exposure based on the assessment of a borrower's financial standing and quality of its debt servicing.

Due to the considerable amount of credit claims and the subjectivity of judgement used for assessing provisions, this was one of the critical audit matters.

Our audit procedures included analysis of the methods used by the Bank of Russia to assess borrowers' financial standing, review of the judgement used by the Bank of Russia's management when assessing their financial standing and determining the quality category and the amount of provisions, as well as the analysis of credit claims' conformity to the criteria for their attributing to homogeneous credit portfolios and verification of the calculation of provisions for such portfolios.

We examined the information on provisions for credit claims disclosed in Note 6 to the Bank of Russia's Annual Financial Statements.



Other matters

In accordance with Article 25 of Federal Law No. 86-FZ, dated 10 July 2002, '*On the Central Bank of the Russian Federation (Bank of Russia)*', reliability of the Bank of Russia's accounts and operations to which access is limited pursuant to Russian Federation Law No. 5485-1, dated 21 July 1993, '*On State Secrecy*' (hereinafter, the Russian Federation Law '*On State Secrecy*'), which have been included in the items of the annual balance sheet and the statement of financial performance, has been confirmed by the Accounts Chamber of the Russian Federation in its Statement of 21 April 2020 as a result of examination of the accounts and operations of the Central Bank of the Russian Federation (Bank of Russia) and also data covered by the Russian Federation Law '*On State Secrecy*' for the year 2019.

Other information included in the Bank of Russia's Annual Report for 2019

Other information includes information contained in the Bank of Russia's Annual Report for the year 2019 but does not include the Annual Financial Statements and our auditor's report on them. Responsibility for other information shall be borne by the management.

Our opinion on the Annual Financial Statements does not cover other information, and we do not provide a conclusion expressing our confidence in any form in respect of such information.

In connection with our auditing of the Annual Financial Statements, our duty consists in acquainting ourselves with the other information and concurrently examining whether there are any material inconsistencies between the other information and the Annual Financial Statements or our knowledge received during the audit, and whether the other information contains other material misstatements. If based on our work we arrive at the conclusion that such other information contains any material misstatements, we must report this fact. We do not have information about such facts.

Responsibility of the management for the Annual Financial Statements

The management of the Bank of Russia shall bear responsibility for compilation and reliable presentation of the said Annual Financial Statements in accordance with the requirements of Federal Law No. 86-FZ, dated 10 July 2002, '*On the Central Bank of the Russian Federation (Bank of Russia)*', Federal Law No. 402-FZ, dated 6 December 2011, '*On Accounting*', Bank of Russia Regulation No. 567-P, dated 19 December 2016, '*On the Chart of Accounts for Accounting Purposes at the Central Bank of the Russian Federation (Bank of Russia) and the Procedure for Using it*', and Bank of Russia Regulation No. 522-P, dated 21 December 2015, '*Bank of Russia Accounting Policy for Accounting Purposes*', and also for the internal control system which the Bank of Russia's management considers necessary for compilation of the Annual Financial Statements without any material misstatement as a result of malpractice or errors.

When preparing the Annual Financial Statements, the management shall be responsible for assessing the ability of the Bank of Russia to continue as a going concern, for disclosing information pertaining to going concern issues, when necessary, and for compiling the statements based on the going concern assumption.



The auditor's responsibility for the audit of the Annual Financial Statements

Our goals consist in obtaining reasonable confidence that the Annual Financial Statements as a whole do not contain material misstatements due to malpractice or errors and in issuing the auditor's report with our opinion. Reasonable confidence constitutes a high level of certainty but does not guarantee that an audit performed in accordance with the International Standards on Auditing will always reveal material misstatements, if these exist. Misstatements may result from malpractice or errors and are considered material if it may be reasonably assumed that they could influence, individually or in aggregate, users' economic decisions made on the basis of these Annual Financial Statements.

In the course of an audit performed in accordance with the International Standards on Auditing, we apply professional judgement and retain professional scepticism throughout the audit. Furthermore, we perform the following:

- ▶ we identify and assess the risks of material misstatement of the Annual Financial Statements as a result of malpractice or errors; develop and carry out audit procedures in response to these risks; and obtain audit evidence which is sufficient and adequate to serve as grounds for expressing our opinion. The risk of failure to discover material misstatement as a result of malpractice is higher than the risk of failure to discover material misstatement as a result of errors because malpractice may include conspiracy, falsification, deliberate omission, distorted presentation of information or circumvention of the internal control system;
- ▶ we obtain an understanding of the internal control system which is important for the audit in order to develop audit procedures corresponding to the circumstances, but not for the purpose of expressing our opinion on the effectiveness of the Bank of Russia's internal control system;
- ▶ we evaluate the appropriateness of applicable accounting policies and the soundness of accounting estimates made by the management and the respective disclosure of information;
- ▶ we arrive at a conclusion on the appropriateness of the going concern assumption made by the management and, based on the obtained audit evidence, a conclusion on whether there is material uncertainty in connection with events or conditions which could give rise to significant doubts as to the Bank of Russia's ability to continue as a going concern. If we arrive at a conclusion that there is material uncertainty, we must draw attention in our audit report to the respective disclosure of information in the Annual Financial Statements or, if such disclosure of information is improper, modify our opinion. Our findings are based on the audit evidence received before the date of our audit report;
- ▶ we evaluate presentation of the Annual Financial Statements as a whole, their structure and contents, including information disclosure, and whether the Annual Financial Statements represent the underlying operations and events in such a way as to ensure their reliable presentation.

We maintain information exchange with the Bank of Russia's management and communicate to them, among other things, information on the scheduled scope and timing of the audit and on material comments based on the audit findings, *inter alia*, on considerable deficiencies in the internal control system, should we discover any in the course of the audit.



We also submit to the Bank of Russia's management a statement that we have complied with all relevant ethical requirements related to independence issues and informed them of all mutual relationships and other matters which could be reasonably considered as influencing the auditor's independence and, if necessary, of appropriate precautions.

Among the issues which we have brought to the attention of the Bank of Russia's management, we determine the issues which were the most significant for the audit of the Annual Financial Statements for the current period and which, therefore, are critical audit matters. We describe these issues in our audit report, except when public disclosure of information on these issues is prohibited by law or a specific regulation, or when, in exceedingly rare cases, we arrive at the conclusion that information on a certain issue should not be included in our report, as it may be reasonably assumed that the negative consequences of such disclosure would exceed its public benefit.

The executives charged with the conduct of audit as a result of which this auditor's report of independent auditors has been released are D.Ye. Vainstein and N.A. Kozlova.

D.Ye. Vainstein
Partner
Ernst & Young LLC

N.A. Kozlova
General Director
FinExpertiza LLC

29 April 2020

Information on the audited entity

Name: Central Bank of the Russian Federation (Bank of Russia)
An entry was made in the Unified State Register of Legal Entities under No. 1037700013020 based on certificate series 77 No. 006996300, dated 10 January 2003.
Domicile: 12 Neglinnaya Street, Moscow 107016, Russia
The Bank of Russia performs its functions pursuant to the Constitution of the Russian Federation, Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' and other federal laws.

Information on the auditors

Name: Ernst & Young LLC
An entry was made in the Unified State Register of Legal Entities on 5 December 2002 under the state registration number 1027739707203.
Domicile: Bldg.1, 77 Sadovnicheskaya Naberezhnaya, Moscow 115035, Russia
Ernst & Young LLC is a member of the self-regulatory organisation of auditors Association Sodruzhestro. Ernst & Young LLC was included in the control copy of the register of auditors and auditing organisations under the main registration entry number 12006020327.

Name: FinExpertiza LLC
An entry was made in the Unified State Register of Legal Entities on 29 August 2002 under the state registration number 1027739127734.
Domicile: Bldg. 3, 47 Leningradskiy Prospekt, office X, floor 3, room 1, Moscow 125167, Russia
FinExpertiza LLC is a member of the self-regulatory organisation of auditors Association Sodruzhestro. FinExpertiza LLC was included in the control copy of the register of auditors and auditing organisations under the main registration entry number 12006017998.



ACCOUNTS CHAMBER OF THE RUSSIAN FEDERATION

2 Zubovskaya St., Moscow 119991

Tel.: 986-05-09, fax: 986-09-52

21 April 2020

No. 05-89/05-03

To the Governor of the Central Bank
of the Russian Federation

E.S. NABIULLINA

Statement

on the Results of Examination of the Accounts and Operations of the Central Bank of the Russian Federation (Bank of Russia) and Data for 2019 Covered by the Russian Federation Law 'On State Secrecy' (approved by the decision of the Collegium of the Accounts Chamber of the Russian Federation of 21 April 2020, protocol No. 17K (1390))

The Accounts Chamber of the Russian Federation has examined the accounts and operations of the Central Bank of the Russian Federation (Bank of Russia) and the data for 2019 covered by the Russian Federation Law 'On State Secrecy' at the Bank of Russia's structural divisions and regional branches, pursuant to the provisions of Article 25 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and in accordance with the Work Plan of the Accounts Chamber of the Russian Federation for 2020.

The management of the Bank of Russia is responsible for assigning information to the category of data covered by the Russian Federation Law 'On State Secrecy', and for delineating the competence of the Accounts Chamber of the Russian Federation and a consortium of auditing organisations – Ernst & Young LLC and FinExpertiza LLC (the Auditor of the Bank of Russia Annual Financial Statements for the year 2019).

Under the applicable legislation, the Accounts Chamber's duty is to present to the Bank of Russia a statement on the results of examination of the accounts and operations of the Central Bank of the Russian Federation (Bank of Russia) and data for 2019, covered by the Russian Federation Law 'On State Secrecy', and to express an opinion on the credibility in all material aspects of the Bank of Russia Annual Financial Statements for 2019, and on the compliance of the accounting procedure with Russian federal legislation and Bank of Russia regulations.

The Accounts Chamber of the Russian Federation has conducted an examination of Bank of Russia accounts and operations, and also data for 2019 covered by the Russian Federation Law 'On State Secrecy', in the structural divisions and regional branches of the Central Bank of the Russian Federation (Bank of Russia) in such a way as to become sufficiently convinced that the Bank of Russia's annual balance sheet (with respect to sub-accounts and off-balance sheet accounts) as of 31 December 2019 (as of 1 January 2020), and its statement of financial performance for the period from 1 January to 31 December 2019, falling within the scope of competence of the Accounts Chamber of the Russian Federation, do not contain any material errors and adequately recognise in all aspects the assets and liabilities of the Central Bank of the Russian Federation (Bank of Russia) as of 31 December 2019, and the income and expenses of the Central Bank of the Russian Federation (Bank of Russia) for the period from 1 January to 31 December 2019, in line with the Bank of Russia's accounting policy.

Having examined the Bank of Russia's accounts and operations and data for 2019, covered by the Russian Federation Law 'On State Secrecy', the Accounts Chamber of the Russian Federation confirms, within the scope of its competence, the following data:

the Bank of Russia annual balance sheet as of 31 December 2019 (balance sheet assets totalling ₹2,662,065 million and balance sheet liabilities totalling ₹203 million), the statement of financial performance for the period from 1 January to 31 December 2019 (income totalling ₹4,947 million and expenses totalling ₹17,600 million);

precious metals revaluation for the period from 1 January to 31 December 2019: positive unrealised differences from the revaluation of precious metals totalling ₹37,964 million;

foreign currency revaluation for the period from 1 January to 31 December 2019: negative unrealised exchange rate differences from the revaluation of foreign currency totalling ₹238,183 million;

annual balance sheet as of 31 December 2019 (as of 1 January 2020) (with respect to sub-accounts and off-balance sheet accounts) and the statement of financial performance for the period from 1 January to 31 December 2019 (for 2019);

data on the total number of Bank of Russia notes and coins (exclusive of coins containing precious metals), which should be in circulation as of 31 December 2019 (as of 1 January 2020).

According to the accounting data of the Central Bank of the Russian Federation relating to the accounts and operations covered by the Russian Federation Law 'On State Secrecy', a total of ₹10,322,806.5 million in Bank of Russia notes and coins should be in circulation as of 1 January 2019 (exclusive of coins containing precious metals).

Over the period from 1 January to 31 December 2019, the Bank of Russia put into circulation banknotes and coins (exclusive of coins containing precious metals) totalling ₹11,180,209.3 million, and withdrew from circulation Bank of Russia banknotes and coins (exclusive of coins containing precious metals) totalling ₹10,875,850.4 million.

Consequently, in the period under review, the amount of Bank of Russia notes and coins (exclusive of coins containing precious metals) in circulation increased by ₹304,358.9 million.

According to the accounting data of the Central Bank of the Russian Federation relating to the accounts and operations covered by the Russian Federation Law 'On State Secrecy', a total of ₹10,627,165.4 million in Bank of Russia notes and coins should be in circulation as of 31 December 2019 (as of 1 January 2020) (exclusive of coins containing precious metals).

Provisions for assets covered by the Russian Federation Law 'On State Secrecy' have been created in line with Bank of Russia regulations.

The Accounts Chamber of the Russian Federation confirms credibility, in all material aspects, of the Bank of Russia Annual Financial Statements for 2019 and compliance of the accounting procedure with the Russian federal legislation and Bank of Russia regulations.

Auditor

A.L. Savatyugin

5

Addenda

5.1. Measures to implement the single state monetary policy

The Bank of Russia key rate and the system of interest rates on monetary policy instruments	
The Bank of Russia key rate was changed	At the start of 2019, the key rate stood at 7.75% p.a. Since June 2019, the Bank of Russia cut the key rate five times to 6.25%. This was related to a faster than expected slowdown of inflation and the observed decline in household inflation expectations.
Required reserves	
The structure of credit institutions' reservable liabilities and the procedure for maintenance of required reserves were updated	Since 1 April 2019, reservable liabilities include all long-term liabilities of credit institutions (excluding their liabilities under subordinated instruments), their liabilities to international financial organisations and the State Development Corporation VEB.RF. This measure is aimed at increasing transparency and standardising the procedure for the calculation of required reserves
	Credit institutions failing to comply with required reserves averaging will no longer need to deposit funds in a separate balance sheet account. Also, after the coming into force of the new regulations, required reserves will be kept in the single balance sheet account with the Bank of Russia regardless of the currency of reservable liabilities
Required reserve ratios changed	The Bank of Russia decided to cut the following required reserve ratios by 0.25 pp to 4.75%, effective from 1 April 2019: <ul style="list-style-type: none"> – those on liabilities to non-resident legal entities, individuals and other Russian ruble-denominated liabilities — for banks with a universal licence and non-bank credit institutions; – those on Russian ruble-denominated liabilities to non-resident legal entities — for banks with a basic licence. This measure is aimed at offsetting the influence of the expanded structure of reservable liabilities on the banking sector liquidity
	The Bank of Russia took a decision to raise required reserve ratios on liabilities to individuals in foreign currency for banks with a universal licence, banks with a basic licence and non-bank credit institutions by 1 percentage point to 8.00%, effective from 1 July 2019. This measure is intended to discourage growth of foreign currency-denominated liabilities in credit institutions' liability structure
Liquidity provision and absorption instruments	
Deadline for submission of applications for Bank of Russia loans was extended	Effective from 15 April 2019, the Bank of Russia extended the time for credit institutions to submit electronic applications for Bank of Russia loans and requests for their withdrawal in compliance with the terms and conditions of issue and redemption of Bank of Russia loans backed by securities or credit claims, to 8:25 PM Moscow time
The procedure for interaction between the Bank of Russia and credit institutions related to loan provision was changed	Effective from 23 January 2019, the Bank of Russia switched to using personal accounts ¹ to exchange electronic documents related to deposit and credit operations with credit institutions
	Starting from 23 January 2019, credit institutions wishing to participate in deposit auctions are only able to submit documents to the Bank of Russia via their personal accounts ² <p>Under standing refinancing instruments, from the above date, credit institutions are able to submit the following documents to the Bank of Russia only via their personal accounts:</p> <ul style="list-style-type: none"> – applications for Bank of Russia loans; – petitions to revoke an application for a Bank of Russia loan; – applications to participate in a credit auction; – petitions to cancel an application to participate in a credit auction; – notifications of an early settlement of Bank of Russia loan; – securities transfer applications; – applications to exclude non-marketable assets from the pool of collateral and/or the pledged items

Security under Bank of Russia loans	
The Lombard List was expanded	In 2019, in accordance with decisions of the Bank of Russia Board of Directors, 70 issues of corporate and regional debt securities were added to the Lombard List
Requirements for security under Bank of Russia loans were clarified	Starting from 1 July 2019, the Bank of Russia shapes the List of Russian constituents and municipalities which can be debtors under loan agreements, claims on which can be included in the pool of collateral on Bank of Russia loans, based on the credit rating no lower than A(RU) in the classification of the credit rating agency ACRA (JSC) or ruA in the classification of the credit rating agency JSC Expert RA
	Starting from 1 September 2019, the Bank of Russia shapes the Register of legal entities which can be debtors under loan agreements, claims on which are included in the loan collateral pool without the Bank of Russia's check of accounting (financial) statements or other information on such entities, from non-financial organisations registered in Russia based on the credit rating no lower than A(RU) in the classification of the credit rating agency ACRA (JSC) or ruA in the classification of the credit rating agency JSC Expert RA

¹ In accordance with Bank of Russia Ordinance No. 4600-U, dated 3 November 2017, 'On the Procedure for the Bank of Russia to Interact with Credit Institutions, Non-bank Financial Institutions and Other Parties to Information Exchange via Bank of Russia Information Resources, Including Personal Accounts'.

² It will still be possible to submit documents using the Thomson Reuters trading system software and hardware as well as via the Moscow Exchange Electronic Trading System.

5.2. Liquidity support instruments to ensure the financial sustainability of banks. Special refinancing facilities

Irrevocable credit lines	
The Bank of Russia continued to provide systemically important credit institutions with the option of using irrevocable liquidity lines to comply with the liquidity coverage ratio	The Bank of Russia Board of Directors has decided to set the irrevocable credit line (ICL) fee for ICL agreements to be executed from 1 May 2019 at 0.5% p.a. of the maximum ICL limit set for a credit institution. Before that, the fee was 0.15%. For earlier opened ICLs, the fee will be kept unchanged until their expiry
	Other ICL parameters remained unchanged: the maximum aggregate limit on irrevocable credit lines remains at ₱1.5 trillion, the premium on the key rate used to set the interest rate on loans taken out within the framework of irrevocable liquidity lines remains at 1.75 pp
Foreign currency refinancing facilities	
The Bank of Russia kept the aggregate limit on foreign currency refinancing operations unchanged	The maximum amount of credit institutions' debt to the Bank of Russia under foreign currency repo transactions for 2019 was set at \$15 billion. No foreign currency repo operations were conducted in 2019
Emergency liquidity assistance mechanism	
The Bank of Russia retained the emergency liquidity assistance mechanism (ELA) in its system of instruments	ELA is designed to support financially stable banks experiencing temporary liquidity issues. ELA may be used by systemically important credit institutions or banks from classification groups 1 and 2, which have no overdue debt owed to the Bank of Russia and meet all ratio requirements, except for the instant liquidity ratio
	At the same time, ELA does not imply Bank of Russia obligation to provide liquidity to any requesting bank. This mechanism allows the Bank of Russia to provide needed support to a financially stable bank when it does not have other sources to raise funds, including the standard instruments for obtaining liquidity from the Bank of Russia
	As of 1 January 2020, the Bank of Russia concluded 50 agreements with credit institutions on the provision of funds under ELA. The Bank of Russia did not conduct any transactions under this mechanism in 2019
Special refinancing facilities	
The Bank of Russia retained special refinancing facilities in its system of instruments	The Bank of Russia continued to provide credit institutions with funds under special refinancing facilities. As monetary conditions were easing and different economic sectors were gaining equal access to lending, credit institutions' demand for these instruments was generally declining

5.3. Implementation of the guidelines for the development of the financial market¹

No.	Measure	Implementation form / implementation term, information on implementation results in 2019
1.1	Creating regulatory environment for the operation of robo-advisers	<p>Bank of Russia Ordinance No. 5229-U, dated 9 August 2019, 'On the List of Basic Standards That Are Mandatory for Development by Financial Market Self-regulatory Organisations of Investment Advisers and on the Requirements for Their Content, as well as on the List of Operations (the Substance of Activities) of Investment Advisers in the Financial Market That Are Subject to Standardisation' (effective from 24 November 2019).</p> <p>On 21 November 2019, the Bank of Russia approved a Basic Standard for Investment Advisers to Conduct Operations in the Financial Market</p>
1.3	Development of electronic document workflow between the Bank of Russia, financial market participants, individuals and legal entities, including for the purpose of access to the financial market	<p>The Bank of Russia issued the following regulations:</p> <p>Bank of Russia Instruction No. 192-I, dated 17 October 2018, 'On the Procedure for the Bank of Russia to License the Types of Professional Activity in the Securities Market Specified in Articles 3–5, 7 and 8 of Federal Law No. 39-FZ, Dated 22 April 1996, 'On the Securities Market' and to Maintain the Register of Professional Securities Market Participants' (effective from 1 March 2019);</p> <p>Bank of Russia Ordinance No. 4993-U, dated 29 November 2018, 'On the Requirements for the Data and Documents Submitted to Obtain an Insurance Entity's Licence, on Their Standard Forms and on the Procedure and Means to Submit to the Bank of Russia Documents to Obtain an Insurance Entity's Licence' (effective from 1 January 2019);</p> <p>Bank of Russia Instruction No. 194-I, dated 17 December 2018, 'On the Procedure and Conditions for the Bank of Russia to Accredite Organisations Functioning as a Commodity Delivery Operator, and Grounds and Procedure for Terminating the Said Accreditation' (effective from 26 March 2019);</p> <p>Bank of Russia Ordinance No. 5045-U, dated 27 December 2018, 'On the Procedure for the Central Bank of the Russian Federation to Interact with the Federal Tax Service on Issues of the State Registration of Credit Institutions, State Registration of Amendments to the Charter of a Credit Institution, Amendments to the Credit Institution's Data Contained in the Unified State Register of Legal Entities Other than Amendments to its Charter, State Registration of Amendments to the Charter of a Microfinance Company Due to Obtaining the Status of a Credit Institution, State Registration of Amendments to the Charter of a Legal Entity Due to Obtaining the Status of a Non-bank Credit Institution — Central Counterparty' (effective from 11 February 2019);</p> <p>Bank of Russia Ordinance No. 5064-U, dated 21 January 2019, 'On the Procedure for Striking a Financial Institution off the Register of Financial Institutions Engaged in Cooperation with Financial Consumer Ombudsman' (effective from 3 March 2019);</p> <p>Bank of Russia Ordinance No. 5097-U, dated 22 March 2019, 'On Amending Bank of Russia Ordinance No. 3897-U, Dated 14 December 2015, 'On the Procedure to Coordinate with the Bank of Russia the Head of a Self-regulatory Organisation in the Financial Market' (effective from 15 June 2019);</p> <p>Bank of Russia Ordinance No. 5100-U, dated 22 March 2019, 'On Amending Bank of Russia Ordinance No. 3903-U, Dated 17 December 2015, 'On the Procedure for the Bank of Russia to Agree on Candidates to the Position of a Sole Executive Body or His/Her Deputy and a Controller (Head of Internal Control Service) in a Credit Rating Agency and the Procedure for the Bank of Russia to Assess the Compliance of the Individuals Mentioned in Part 1 of Article 7 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', with the Requirements for Business Reputation' (effective from 15 June 2019);</p> <p>Bank of Russia Ordinance No. 5098-U, dated 22 March 2019, 'On Amending Bank of Russia Ordinance No. 3424-U, Dated 27 October 2014, 'On Maintaining the State Register of Self-regulatory Organisations of Actuaries' (effective from 16 June 2019);</p> <p>Bank of Russia Ordinance No. 5122-U, dated 9 April 2019, 'On the Procedure for Tender-based Selection of Agent Banks' (effective from 21 June 2019);</p>

¹ Measures that were planned for implementation in 2019 are numbered in accordance with the Action Plan (Road Map) to Implement the Guidelines for the Development of the Russian Financial Market in 2019–2021, approved by Anton Siluanov, First Deputy Prime Minister of the Russian Federation, No. SA-P13-2341, dated 27 March 2019 (the 'Road Map').

		<p>Bank of Russia Ordinance No. 5123-U, dated 9 April 2019, 'On the Procedure for a Receiver to Submit to the Bank of Russia a Report on Preliminary Payments to First-priority Creditors, Register of Claims of First-priority Creditors for the Purpose of Making Preliminary Payments, and Other Documents or Information Required by the Bank of Russia to Calculate the Amount of Preliminary Payments; on the Procedure for Calculating the Payments to be Made by the Bank of Russia; on the Procedure for the Bank of Russia to Restore the Term Missed by the Depositor to Submit its Application for the Bank of Russia's Payment; on the Form of Application for the Bank of Russia's Payment; on the Procedure for the Bank of Russia to Effect Payments ; on the Procedure for Agent Banks to Interact with the Bank of Russia' (effective from 21 June 2019);</p> <p>Bank of Russia Ordinance No. 5150-U, dated 22 May 2019, 'On the Procedure for Microfinance Organisations to Submit Notifications Containing Restricted Information to the Bank of Russia' (effective from 13 October 2019);</p> <p>Bank of Russia Ordinance No. 5154-U, dated 29 May 2019, 'On Requirements for the Form and Procedure for Notifying the Bank of Russia of a Prospective Selection (Appointment) of a Trade Organiser or Clearing House Officials' (effective from 12 July 2019);</p> <p>Bank of Russia Ordinance No. 5183-U, dated 28 June 2019, 'On Amending Bank of Russia Regulation No. 439-P, Dated 29 October 2014, 'On the Procedure for the Inclusion of Persons in a List of Persons Representing Bond Owners and Exclusion Therefrom, Procedure for Informing Bond Owners by their Representative and Providing a Notice on the Representative of Bond Owners, and Requirements for its Form and Contents' (effective from 12 August 2019);</p> <p>Bank of Russia Regulation No. 692-P, dated 12 September 2019, 'On the Requirements for the Submission to the Bank of Russia of an Application to Enter Information About a Company in the Register of Credit Rating Agencies, a List of Documents Attached to the Application, the Procedure for the Bank of Russia to Enter a Subsidiary and a Representative Office of a Foreign Credit Rating Agency Operating in Accordance with its Personal Law in the Register of Subsidiaries and Representative Offices of Foreign Credit Rating Agencies, the Procedure for the Bank of Russia to Maintain the Register of Foreign Credit Rating Agencies and Information Included Therein, the Procedure for the Bank of Russia to Maintain the Register of Subsidiaries and Representative Offices of Foreign Credit Rating Agencies and Information Included Therein, the Requirements for the Procedure and Form of Submission by Credit Rating Agencies to the Bank of Russia of Notifications About Assignment (Election) to a Position or Dismissal from Office (Termination of Authority) of Officials (Management Bodies) of a Credit Rating Agency, as well as the Procedure for Stakeholders to Access Information in the Register of Foreign Credit Rating Agencies';</p> <p>Bank of Russia Ordinance No. 5256-U, dated 12 September 2019, 'On Amending Bank of Russia Regulation No. 452-P, Dated 28 December 2014, 'On the Procedure for the Bank of Russia to Keep the State Register of Credit History Bureaus and the Requirements for Financial Standing and Business Reputation of Participants in a Credit History Bureau' (effective from 1 November 2019)</p>
3.1	<p>Creating a map of geographic distribution of access points to financial services — namely, branches of CIs and NBFIs (microfinance organisations, consumer credit cooperatives, agricultural consumer credit cooperatives, pawnshops, insurance entities, and professional securities market participants), automatic devices with the functions of receiving and/or dispensing cash, POS terminals, points of transactions of payment agents, banking payment agents (subagents), federal post offices offering payment services broken down by settlements</p>	<p>The Bank of Russia issued the following regulations to change reporting forms, the term and procedure for preparation of reports of credit institutions, pawnshops and agricultural consumer credit cooperatives:</p> <p>Bank of Russia Ordinance No. 4927-U, dated 8 October 2018, 'On the List, Forms and Procedure for Compiling and Submitting Credit Institutions' Reporting Forms to the Central Bank of the Russian Federation' (effective from 1 January 2019);</p> <p>Bank of Russia Ordinance No. 5215-U, dated 22 July 2019, 'On the Forms, Timeframes and Procedure for Compiling and Submitting Reports of Agricultural Consumer Credit Cooperatives to the Bank of Russia' (effective from 1 January 2020);</p> <p>Bank of Russia Ordinance No. 5132-U, dated 23 April 2019, 'On Amending Bank of Russia Ordinance No. 3927-U, Dated 30 December 2015, 'On the Forms, Timeframes and Procedure for Compiling and Submitting to the Bank of Russia Documents Containing the Activity Report of a Pawnshop and the Report on the Composition of the Governing Bodies of the Pawnshop' (effective from 15 June 2019)</p>
3.2	<p>Expansion of the list of operations where using bank payment agents is allowed</p>	<p>Federal Law No. 173-FZ, dated 3 July 2019, 'On Amending the Federal Law 'On the National Payment System' and Certain Legislative Acts of the Russian Federation' was adopted</p>
3.4	<p>Development of proposals related to creation of stimulating conditions to facilitate the issuance of securities by small and medium-sized companies</p>	<p>In 2019, within the scope of the national project 'Small and medium-sized enterprises, support for individual entrepreneurs', the Bank of Russia participated in the development and implementation of a framework of stimulating measures to support SMEs entering the stock market, including:</p> <ul style="list-style-type: none"> – a framework for the selection of SMEs that intend to attract funds in the stock market; – a mechanism to provide guarantees/sureties under securities issued by SMEs and instruments for 'anchor investors'; – methodological support for lowering fees for SMEs joining the stock exchange; – information and analytical portal for SME placements. <p>Self-assessment criteria for small cap companies were developed for the assessment of their potential with regard to entering the stock market</p>

4.3	Attracting investors focused on financing socially responsible projects, including green finance	On 10 September 2019, the extended meeting of the Expert Council on Long-term Investments at the Bank of Russia discussed the Concept of Organisation of a Methodological Framework on the Development of Green Financial Instruments and Responsible Investment Projects in Russia. The discussion was attended by representatives of the professional community, environmental and legal organisations, auditors and federal executive authorities. The Concept was posted on the Bank of Russia website on 14 October 2019
4.4	Development of price centre institutions and financial indicators	In September 2019, a consultative report 'On Financial Indicators' was published on the Bank of Russia website. Taking into account the proposals received to the report, it is planned to adjust the recommendations to the professional community on reforming the existing and creating new financial indicators that would meet international standards, as well as on changing the existing practice of using interest rate indicators (including the current loan documentation) in connection with the planned LIBOR retirement. The period of consultations ends on 31 December 2019
6.1	Development of regulations related to a disclosure of conflicts of interest and their management, as well as fiduciary responsibility institutes in the financial market	Effective since 1 December 2019: The Basic Standard for the Protection of the Rights and Interests of Individuals and Legal Entities who Receive Financial Services Provided by Members of Self-regulatory Organisations in the Financial Market Uniting Managers, approved by the Bank of Russia on 20 December 2018; The Basic Standard for the Protection of the Rights and Interests of Individuals and Legal Entities who Receive Financial Services Provided by Members of Self-regulatory Organisations in the Financial Market Uniting Brokers, approved by the Bank of Russia on 20 December 2018; On 21 November 2019, the Bank of Russia approved a Basic Standard for Investment Advisers to Conduct Operations in the Financial Market (effective from 21 May 2020)
8.1	Increasing the reliability of identification of deals (agreements), accounted for in CHBs, by implementing a unique identifier	Federal Law No. 77-FZ, dated 1 May 2019, 'On Amending Article 4 of the Federal Law 'On Credit Histories' was adopted. Bank of Russia Ordinance No. 5251-U, dated 9 September 2019, 'On the Rules for Assigning a Unique Identifier to a Contract (Transaction) Stipulating Obligations That Form a Credit History' was published (effective from 26 November 2019). Bank of Russia information letter No. IN-05-47/84, dated 15 November 2019, on application of measures related to the violation of rules of assigning a unique contract (deal) identifier (UCI) was published on the Bank of Russia website. Measures for the provision of information to credit history bureaus (CHB) without specifying a UCI will be applied starting from 24 May 2020. Bank of Russia Letter No. 47-5-1/2788, dated 14 November 2019, on measures to verify the assigned UCIs was sent to CHBs
9.2	Improvement of the system of regulation and supervision that increases the responsibility of persons acting as agents of credit institutions (except for bank payment agents (sub agents) and nonbank financial institutions for poor quality sale of financial products	The Bank of Russia issued the following regulations: Bank of Russia Ordinance No. 5202-U, dated 15 July 2019, 'On the List of Basic Standards That Are Mandatory for Development by Financial Market Self-regulatory Organisations of Non-governmental Pension Funds, Joint-stock Investment Funds and Management Companies of Investment Funds, Unit Investment Funds and Non-governmental Pension Funds, Specialised Depositories, and on the Requirements for Their Content, as well as on the List of Operations (the Substance of Activities) of Specialised Depositories in the Financial Market That Are Subject to Standardisation' (effective from 29 September 2019); Bank of Russia Ordinance No. 5236-U, dated 23 August 2019, 'On the List of Basic Standards That Are Mandatory for Development by Financial Market Self-regulatory Organisations of Agricultural Consumer Credit Cooperatives and on the Requirements for Their Content, as well as on the List of Operations (the Substance of Activities) of Agricultural Consumer Credit Cooperatives in the Financial Market That Are Subject to Standardisation' (effective from 29 September 2019); Bank of Russia Ordinance No. 5229-U, dated 9 August 2019, 'On the List of Basic Standards That Are Mandatory for Development by Financial Market Self-regulatory Organisations of Investment Advisers and on the Requirements for Their Content, as well as on the List of Operations (the Substance of Activities) of Investment Advisers in the Financial Market That Are Subject to Standardisation' (effective from 24 November 2019). Bank of Russia Information Letter No. IN-01-59/49, dated 13 June 2019, 'On Standards to Protect the Rights and Interests of Individual Customers of Credit Institutions for the Purpose of Selling Them Financial Products by Credit Institutions that are Agents of Non-bank Financial Institutions'
10.1	Holding training activities for SMEs	The Bank of Russia held or participated in 222 training activities for SMEs involving 13,000 persons. As part of increasing financial literacy of SMEs, on 2 December 2019, an agreement of cooperation was signed with JSC Russian Export Center. On 31 May 2019, a letter was sent regarding the cooperation between regional executive authorities and the Bank of Russia within the framework of the implementation of the federal project 'Popularisation of Entrepreneurship'. Letters of cooperation in this area with were signed with the All-Russian Non-governmental Organization of Small and Medium Business 'Opora Russia' (on 19 June 2019) and the All Russia Public Organization 'Business Russia' (on 16 September 2019). Cooperation was established with JSC RSMB Corporation with regard to the participation of Bank of Russia employees in WorldSkills Russia' activities. 20 activities in Skolkovo Innovation Center were attended. 2 webinars for SMEs were held in the Bank of Russia University

11.2	Implementation of responsibilities undertaken by the Russian Federation to reform the OTC derivatives market within the G20 framework (centralised clearing and margining)	<p>The Bank of Russia Letter No. 015-52/9964, dated 30 December 2019, sent to the Russian Government contained the Report on implementation of responsibilities undertaken by the Russian Federation to reform the OTC derivatives market within the G20 framework (centralised clearing and margining).</p> <p>Bank of Russia Ordinance No. 5352-U, dated 16 December 2019, 'On Cases of Entering into Financial Derivative Agreements Only if the Other Party to Such Agreements is a Person Performing Functions of a Central Counterparty Out of Organised Trading' was sent to the Russian Ministry of Justice on 18 December 2019</p>
12.3	Implementation of measures aimed at the development of certain types of voluntary insurance	<p>The Bank of Russia issued the following regulations:</p> <p>Bank of Russia Ordinance No. 5055-U, dated 11 January 2019, 'On Minimum (Standard) Requirements for the Conditions and Procedure to Provide Voluntary Life Insurance with Periodic Insurance Payments (Rents, Annuities) and/or Participation of a Policyholder in the Investment Income of an Insurer' (effective from 1 April 2019);</p> <p>Bank of Russia Ordinance No. 5192-U, dated 8 July 2019, 'On the Minimum (Standard) Requirements for the Terms and Procedure to Provide Voluntary Accident and Health Insurance as it Pertains to Accident Insurance of Individuals Owning Motor Vehicles' (effective from 7 October 2019).</p> <p>The Bank of Russia interdepartmental working group for agricultural insurance with state support with regard to the improvement of the procedure of settlement of losses in agricultural insurance with state support approved step-by-step instructions for settling losses related to insuring the harvest of agricultural crops and perennial plantations (minutes No. PRG 53-1-4/687, dated 16 April 2019) as well as livestock and commercial aquaculture objects (minutes No. PRG 53-1-4/862, dated 21 May 2019)</p>
12.4	Review of issues related to the development and integration of information systems of insurance companies and their associations that contain insurance information	<p>The Bank of Russia approved a draft report to the President of the Russian Federation with regard to the development of a single database with information about current natural and man-made emergency risk insurance agreements insuring household and corporate property (Bank of Russia Letter No. 015-53-9/5992, dated 6 August 2019).</p> <p>The Bank of Russia approved a draft regulation of the Government of the Russian Federation 'On the Approval of the Procedure of Information Exchange Between the Single Automated Home Insurance System and Information Resources of the Federal Executive Authorities, the State Bodies of the Constituent Entities of the Russian Federation and the Bank of Russia, the List of Information Exchange Participants, the Contents of the Transferred Information, the Procedure and Timeframes of its Transfer'.</p> <p>Resolution of the Government of the Russian Federation No. 984, dated 30 July 2019, 'On the Approval of Rules of Information Exchange Between the Single Automated Home Insurance System and Information Resources of the Federal Executive Authorities, the State Bodies of the Constituent Entities of the Russian Federation and the Bank of Russia' was signed and entered into force</p>
13.1	Creating an opportunity for the participants of systemically important payment systems and financial market infrastructure (central depository, central counterparty) to complete settlements under obligations in Russian rubles through the Bank of Russia Payment System	<p>Bank of Russia Ordinance No. 5209-U, dated 16 July 2019, 'On Amending Bank of Russia Regulation No. 595-P, Dated 6 July 2017, 'On the Bank of Russia Payment System', providing for expanding the possibility of making contingent funds transfers, was published (effective from 30 August 2019, except for certain provisions).</p> <p>The Bank of Russia approved amendments to functional requirements for making contingent funds transfers using payment orders, bank orders, payment claims or collection orders taking into account the provisions of Bank of Russia Ordinance No. 5209-U, dated 16 July 2019. The adjustments were made based on changes the to Bank of Russia Regulation No. 595-P, dated 6 July 2017</p>

¹ Union 'Agency of development of professional communities and skilled workers 'Young professionals (WorldSkills Russia)':

5.4. Statistical tables

KEY MACROECONOMIC INDICATORS (PER CENT OF PREVIOUS YEAR)

Table 1

	2017	2018	2019
Gross Domestic Product ^{1,2}	1.8	2.5	1.3
of which: ³			
– agriculture, forestry, hunting, fishery and fish farming	1.5	0.9	0.6
– mining and quarrying	1.6	2.3	2.0
– manufacturing	4.4	1.9	1.3
– electricity, gas and steam supply; air conditioning	–1.5	2.3	–1.3
– water supply and disposal, waste collection and utilisation, pollution elimination	–1.4	0.3	–4.3
– construction	–1.4	2.5	0.0
– wholesale and retail trade, and other	1.1	2.1	1.4
– transportation and storage	0.0	2.0	1.4
– information and communications	3.6	4.7	3.4
GDP deflator index ²	5.3	11.1	3.8
Consumer price index (December on previous December) ²	2.5	4.3	3.0
Fixed capital investment ^{1,2}	4.8	5.4	1.7
Retail trade turnover ^{1,2}	1.3	2.8	1.9
Unemployment rate (annual average), as per cent of labour force ²	5.2	4.8	4.6
External trade (per balance of payments methodology) ⁴			
– exports of goods	25.3	25.5	–5.5
– imports of goods	24.5	4.3	2.3
– exports of services	13.8	12.3	–3.0
– imports of services	19.1	6.6	4.5

¹ Index of quantity.² Rosstat data.³ Gross value added in core prices.⁴ Bank of Russia data.

Note. Minor discrepancies between the total and the sum of components in tables of Section 5.4 are due to the rounding of data. Certain indicators were updated as compared with those published in the Bank of Russia Annual Report for 2018.

CONSUMER PRICES BY GROUP OF GOODS AND SERVICES¹
(GROWTH, DECEMBER AS A PERCENTAGE OF PREVIOUS DECEMBER)

Table 2

	2017	2018	2019
Consumer prices, total	2.5	4.3	3.0
of which:			
– food prices	1.1	4.7	2.6
of which:			
– food prices exclusive of fruit and vegetables	1.0	4.6	3.1
– fruit and vegetable prices	1.2	4.9	–2.1
– non-food prices	2.8	4.1	3.0
– paid services provided to the public	4.4	3.9	3.8
Prices of goods and services included in calculation of core consumer price index (CCPI)	2.1	3.7	3.1

¹ Rosstat data.**CONSUMER PRICE INFLATION STRUCTURE¹**

Table 3

	2018		2019	
	growth, percentage points	contribution to growth, per cent	growth, percentage points	contribution to growth, per cent
Headline inflation (December on December)	4.3	100.0	3.0	100.0
Inflation growth due to:				
– change in prices of goods and services included in CCPI calculation	2.6	61.0	2.2	72.3
– change in prices of goods and services not included in CCPI calculation	1.7	39.0	0.8	27.7
of which:				
– change in fruit and vegetable prices	0.2	4.5	–0.1	–2.7
– change in administered service and fuel prices	1.5	34.4	0.9	30.1

¹ Rosstat data, Bank of Russia calculations.

BALANCE OF HOUSEHOLD MONEY INCOME AND EXPENDITURES¹
(MILLIONS OF RUBLES)

Table 4

	2018	2019	2019 as a percentage of 2018
Money income	58,458,735.4	62,080,137.6	106.2
Wages and salaries	33,568,323.9	35,994,805.1	107.2
Share, per cent	57.4	58.0	
Social allowances	11,154,413.1	11,802,458.2	105.8
Share, per cent	19.1	19.0	
Income from entrepreneurial activities	3,573,956.7	3,751,171.0	105.0
Share, per cent	6.1	6.0	
Income from property	2,688,476.3	2,723,698.0	101.3
Share, per cent	4.6	4.4	
Other income	7,473,565.4	7,808,005.3	104.5
Share, per cent	12.8	12.6	
Money expenditures	55,986,696.9	59,945,813.4	107.1
– consumer expenditures	47,186,242.7	50,452,575.0	106.9
– compulsory payments and contributions	7,238,461.5	8,021,223.0	110.8
– other expenditures	1,561,992.7	1,472,015.4	94.2
Growth in savings²	2,472,038.5	2,134,324.2	86.3
of which:			
– ruble and foreign currency deposits, government and other securities	1,736,243.9	2,668,011.7	153.7
– rubles and foreign currency cash on hand	1,475,123.1	243,011.7	16.5
Memo item			
Share of money income, per cent			
– consumer expenditures	80.7	81.3	
– compulsory payments and contributions	12.4	12.9	
– other expenditures	2.7	2.4	
– savings	4.2	3.4	
of which:			
– ruble and foreign currency deposits, government and other securities	3.0	4.3	
– rubles and foreign currency cash on hand	2.5	0.4	
Disposable money income	51,220,273.9	54,058,914.6	105.5
Share of, per cent			
– consumer expenditures	92.1	93.3	
– other expenditures	3.1	2.7	
– savings	4.8	4.0	
of which:			
– ruble and foreign currency deposits, government and other securities	3.4	4.9	
– rubles and foreign currency cash on hand	2.9	0.4	

¹ The table was compiled based on Rosstat data (Methodological regulations for calculating household monetary income and expenditures approved by Rosstat Order No. 465, dated 2 July 2014, and amended by Order No. 680, dated 20 November 2018).

² Savings include increase (decrease) in deposits, purchase of securities, change in accounts of individual entrepreneurs, purchase of real estate, purchase of cattle and poultry by households, change in ruble and foreign currency cash on hand, change in outstanding loans and other savings.

BUDGET SYSTEM AND GOVERNMENT DEBT

Table 5

	2018		2019	
	billions of rubles	percentage of GDP	billions of rubles	percentage of GDP
Consolidated budget				
Revenue	37,320.3	35.7	39,110.3	35.5
– oil and gas revenues	9,017.8	8.6	7,924.3	7.2
– non-oil and gas revenues	28,302.6	27.1	31,186.0	28.3
Expenditure	34,284.7	32.8	36,995.3	33.6
Balance	3,035.6	2.9	2,115.0	1.9
Federal budget				
Revenue	19,454.4	18.6	20,187.2	18.3
– oil and gas revenues	9,017.8	8.6	7,924.3	7.2
– non-oil and gas revenues	10,436.6	10.0	12,263.0	11.1
Expenditure	16,713.0	16.0	18,213.2	16.6
Balance	2,741.4	2.6	1,974.0	1.8
– net placement of domestic government securities	507.5	0.5	1,377.6	1.3
– replenishment of balances of the federal budget account in foreign currency in the amount of extra oil and gas revenues (MinFin interventions, the ‘–’ sign)	4,209.4	4.0	–2,956.9	–2.7
State financial assets and public debt				
National Wealth Fund (as of year-end)	4,036.1	3.9	7,773.1	7.1
Balances of funds of federal authorities in accounts with the banking system (rubles) ¹	4,080.0	3.9	4,645.1	4.2
Balances of funds of Russian constituents and local authorities in accounts with the banking system (rubles)	2,329.8	2.2	2,358.2	2.1
Aggregate public debt (as of year-end)²	15,169.5	14.5	16,060.8	14.6
– aggregate public and municipal domestic debt	11,754.6	11.3	12,638.9	11.5
– aggregate public and municipal external debt	3,414.9	3.3	3,421.9	3.1
– federal domestic debt, of which:	9,176.4	8.8	10,171.9	9.2
– in securities	7,749.5	7.4	9,331.4	8.5
– OFZ	7,387.2	7.1	8,969.1	8.2
– other securities	362.3	0.3	362.3	0.3
– in government guarantees	1,426.9	1.4	840.5	0.8

¹ Including funds of the National Wealth Fund in accounts with the Bank of Russia in national currency and in foreign currency, and also funds in credit institutions, State Development Corporation VEB.RF, preference shares of non-financial organisations, and other assets.

² Including obligations of federal authorities, Russian constituents and local authorities under budget loans.

RUSSIA'S DOMESTIC GOVERNMENT DEBT AS OF 1 JANUARY 2020
(AT FACE VALUE, BILLIONS OF RUBLES)

Table 6

Debt instruments	Russia's domestic government debt
Permanent coupon-income federal government bonds (OFZ-PD)	6,474.7
Debt depreciation federal government bonds (OFZ-AD)	345.0
Variable coupon-income federal government bonds (OFZ-PK)	1,713.9
Inflation-indexed federal government bonds (OFZ-IN)	371.2
Federal government bonds for individuals (OFZ-n)	64.2
Government savings bonds (GSO)	362.3
Russian government guarantees in national currency	840.5
Total	10,171.9

**MINISTRY OF FINANCE DEBT TO THE BANK OF RUSSIA AS OF 1 JANUARY 2020
(MILLIONS OF RUBLES)**

Table 7

	Type of debt obligations	At face value, millions of US dollars	At face value, millions of rubles
Russian government debt obligations		1,469	303,629
of which:			
– Russian government debt obligations available for sale, in national currency	federal government bonds		34
– Russian government debt obligations available for sale, in foreign currency	Russian government external foreign currency-denominated bonds	1,469	90,959
– Russian government debt obligations held to maturity, in national currency ¹	federal government bonds		212,636

¹ The item 'Russian government debt obligations held to maturity, in national currency' includes OFZ-PDs acquired in 2019 under a securities purchase agreement with VEB.RF. As payment for OFZs, the Bank of Russia transferred VEB.RF bonds.

**VOLUME (TURNOVER) OF RESIDENTS' BUY AND SELL TRANSACTIONS WITH NON-RESIDENTS
ON THE RUSSIAN GOVERNMENT FOREIGN CURRENCY BONDS IN THE SECONDARY MARKET
(AT MARKET PRICES, BILLIONS OF US DOLLARS)**

Table 8

	Currency	Q1	Q2	Q3	Q4	2019
Eurobonds maturing in 2019	US dollar	0.00	—	—	—	0.00
Eurobonds maturing in 2020	US dollar	0.36	0.26	0.18	0.14	0.94
Eurobonds maturing in 2020	Euro	0.01	0.05	0.05	0.02	0.14
Eurobonds maturing in 2022	US dollar	0.18	0.13	0.17	0.23	0.71
Eurobonds maturing in 2023	US dollar	0.18	0.53	0.40	0.26	1.38
Eurobonds maturing in 2025	Euro	2.20	0.97	0.80	0.26	4.23
Eurobonds maturing in 2026	US dollar	0.42	0.31	0.54	0.41	1.67
Eurobonds maturing in 2027	US dollar	0.40	0.56	0.52	0.24	1.72
Eurobonds maturing in 2028	US dollar	0.35	0.46	0.81	1.16	2.78
Eurobonds maturing in 2029	US dollar	0.38	2.14	0.68	0.45	3.65
Eurobonds maturing in 2030 (issued in the course of the second restructuring of debt to the London Club of creditors)	US dollar	0.05	0.32	1.03	0.59	1.99
Eurobonds maturing in 2035	US dollar	2.13	2.95	1.24	1.00	7.32
Eurobonds maturing in 2042	US dollar	0.18	0.16	0.20	0.93	1.47
Eurobonds maturing in 2043	US dollar	0.10	0.04	0.25	0.23	0.62
Eurobonds maturing in 2047	US dollar	1.36	0.79	1.09	0.97	4.20

**INSTITUTIONAL FINANCIAL MARKET PARTICIPANTS
(UNITS)**

Table 9

Name of institutional financial market participants	Number of participants	
	as of 01.01.2019	as of 01.01.2020
Credit institutions	484	442
of which:		
– banks	440	402
– non-bank credit institutions	44	40
Credit institutions with foreign stakes in authorised capital	141	133
Branches of operating credit institutions, total	715	623
of which:		
– in Russia	709	618
– abroad	6	5
Representative offices of operating Russian credit institutions, total	316	302
of which:		
– in Russia	292	279
– abroad	24	23
Internal divisions of credit institutions (branches), total	29,783	29,079
of which:		
– additional offices	20,499	19,997
– mobile cash offices	1,068	870
– credit and cash offices	1,918	2,198
– operations offices	6,015	5,724
– mobile banking vehicles	283	290
Insurance market entities, total	275	255
of which:		
– insurance companies ¹	199	178
– mutual insurance companies	12	11
– insurance brokers	64	66
Professional securities market participants, ² total	537	484
of which:		
– brokers	331	290
– forex dealers	4	4
– dealers	366	319
– trust managers	231	202
– depositories	306	276
– register holders	35	32
– investment advisers ³	20	69
Infrastructures, total ⁴	69	61
of which:		
– clearing houses	6	6
of which: institutions performing the functions of the central counterparty ⁵	2	2
– exchanges	7	6
– commodity delivery operators	6	5
– repositories	2	2
– central depository	1	1
– central counterparties ⁶	1	1
– payment system operators	34	30
– nationally important payment system operators ⁷	2	2
– credit history bureaus	13	11
– news agencies ⁸	5	5

End

Name of institutional financial market participants	Number of participants	
	as of 01.01.2019	as of 01.01.2020
Collective investment market entities, total	363	344
of which:		
– non-governmental pension funds	52	47
– joint-stock investment funds	2	2
– management companies	280	269
– specialised depositories	29	26
Unit investment funds, total	1,440	1,531
of which:		
– open-end	268	255
– interval	40	40
– closed-end	1,128	1,216
– exchange-traded	4	20
Microfinance agents, total	10,005	8,344
of which:		
– microfinance organisations	2,002	1,774
– housing savings cooperatives	59	50
– consumer credit cooperatives	2,285	2,058
– agricultural consumer credit cooperatives	1,042	863
– pawnshops	4,617	3,599
Responsible actuaries	103	97
Self-regulatory organisations, total	20	21
of which:		
– self-regulatory organisations in the financial market	18	19
– self-regulatory organisations of actuaries	2	2
Credit rating agencies	2	4
Branches and representative offices of foreign credit rating agencies	3	3

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

² Including credit institutions, which are professional securities market players.

³ After entering into force on 21 December 2018 of amendments to Federal Law No. 39-FZ, dated 22 April 1996, 'On the Securities Market', investment advisers were introduced as a new type of professional securities market participants.

⁴ The data include information on operators of national importance:

1) the Bank of Russia;

2) Joint-stock Company National Payment Card System (JSC NPCCS).

The number of infrastructure organisations (excluding the above mentioned entities) was 67 as of 1 January 2019 and 59 as of 1 January 2020.

⁵ Organisations performing the functions of the central counterparty in pursuance of the transitional provisions of Federal Law No. 403-FZ, dated 29 December 2015, 'On Amending Certain Laws of the Russian Federation' (hereinafter, 'Federal Law No. 403-FZ, dated 29 December 2015'): Joint-stock Company Settlement and Depository Company and Public Joint-stock Company Clearing Centre MFB (in accordance with Part 3 of Article 7 of Federal Law No. 403-FZ, dated 29 December 2015, a clearing company may obtain a central counterparty status within five years from the effective date of the above federal law to continue with their central counterparty operations (by 29 December 2020).

⁶ Organisation which has been assigned the status of the central counterparty in pursuance of Federal Law No. 7-FZ, dated 7 February 2011, 'On Clearing, Clearing Activities and the Central Counterparty'. As of 1 January 2020, non-bank credit institution — Central Counterparty National Clearing Centre (Joint-stock Company).

⁷ The Bank of Russia and Joint-stock Company National Payment Card System (JSC NPCCS) are operators of the Bank of Russia payment system and the Mir payment system respectively based on Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System'. The procedure for registering these operators and entering them into the register of payment system operators has not been specified.

⁸ News agencies accredited to disclose information about securities and other financial instruments.

SELF-REGULATORY ORGANISATIONS

Table 10

Financial market participants	As of 01.01.2019			As of 01.01.2020		
	number of self-regulatory organisations, units	number of members of self-regulatory organisations, units	share of members of self-regulatory organisations in the total number of financial institutions of the respective type of activity, per cent	number of self-regulatory organisations, units	number of members of self-regulatory organisations, units	share of members of self-regulatory organisations in the total number of financial institutions of the respective type of activity, per cent
Professional securities market participants (brokers, dealers, managers, depositories, register holders, forex dealers, investment advisers)	4	534	99.6	4	478	98.8
Joint-stock investment funds and management companies of investment funds, unit investment funds and non-governmental pension funds	1	279	99.3	1	267	98.5
Specialised depositories	2	29	100.0	2	24	92.3
Non-governmental pension funds	2	52	100.0	2	47	100.0
Insurance companies	1	197	98.9	1	178	100.0
Insurance brokers	1	64	100.0	1	65	98.5
Microfinance organisations	3	1,911	95.5	3	1,726	97.3
Consumer credit cooperatives	7	1,158	50.7	5	1,036	50.3
Agricultural consumer credit cooperatives	—	—	—	3	617	71.5
Actuaries	2	279	100.0	2	293	100.0

INFRASTRUCTURE OF FINANCIAL SERVICES PROVISION¹

Table 11

	01.01.2019	01.01.2020
Credit institutions		
Number of stand-alone structural units of credit institutions	1,001	897
of which:		
– branches	709	618
– representative offices	292	279
Number of internal divisions of credit institutions (branches)	29,783	29,079
of which:		
– additional offices	20,499	19,997
– mobile cash offices	1,068	870
– credit and cash offices	1,918	2,198
– operations offices	6,015	5,724
– mobile banking vehicles	283	290
Other formats of services provided by credit institutions		
Number of operating credit institutions providing services to open accounts without visiting the bank	105	114
Number of operating credit institutions issuing payment cards	335	297
Number of operating credit institutions with the infrastructure permitting acceptance of payment cards	303	277
Number of Russian Post branches performing certain banking operations and related technological activities (including withdrawing and depositing cash) ²	30,197	36,916
of which:		
– number of Russian Post branches where account opening documents can be accepted	15,008	15,150
Insurance market entities		
Number of stand-alone units of insurers	2,478	2,197
Professional securities market participants		
Number of stand-alone units of professional securities market participants that are not credit institutions	647	620
Microfinance agents and cooperatives		
Number of stand-alone units of microfinance companies	1,660	1,318
Number of stand-alone units of microcredit companies	13,846	14,929
Number of stand-alone units of consumer credit cooperatives	2,053	1,999
Number of stand-alone units of agricultural consumer credit cooperatives	173	171
Number of stand-alone units of pawnshops	9,099	8,689

End

	01.01.2019	01.01.2020
Payment infrastructure		
Number of cash dispensing and/or receiving ATMs of credit institutions (cash dispensing/depositing with the use of payment cards or their details)	190,985	195,458
Number of POS terminals	2,588,805	2,913,026
Number of ATMs of bank payment agents (subagents) ³	301,070	232,613
Number of cash desks of bank payment agents (subagents) ³	182,762	186,886
Number of payment terminals of bank payment agents (subagents) ⁴	278,450	185,058
Number of cash desks of payment agents (subagents) ⁴	71,764	40,831
Number of federal post offices offering payment services (including funds transfers) of which:	38,712	38,765
– Russian Post branches ⁵	38,160	38,215
– Post of Crimea branches ⁶	552	550
Number of outlets with the possibility to provide cash withdrawal services to payment cardholders in trade (service) organisations that are bank payment agents using POS terminals ⁷	93	3,747

¹ The number of financial services access points operating in the Russian Federation is specified. Data as of 1 January 2019 were updated with new information received from financial institutions as part of reporting adjustment.

² According to PJSC Post Bank data.

³ Data about bank payment agents as of 1 January 2019 were received as part of survey of credit institutions conducted by the Bank of Russia; data as of 1 January 2020 were received based on the Reporting Form 0409260 'Information about outlets of credit institutions and bank payment agents (subagents) providing payment services' introduced by Bank of Russia Ordinance No. 4927-U, dated 8 October 2018, 'On the List, Forms and Procedure for Compiling and Submitting Credit Institutions' Reporting Forms to the Central Bank of the Russian Federation'.

⁴ Information about payment agents was obtained during a survey of credit institutions conducted by the Bank of Russia.

⁵ According to Russian Post data.

⁶ According to Post of Crimea data.

⁷ According to credit institutions that are members of the Bank of Russia Working Group for the implementation of a pilot project to provide cash withdrawal services to payment card holders at trade and service companies.

**BALANCE OF PAYMENTS¹ OF THE RUSSIAN FEDERATION
(ANALYTICAL PRESENTATION, MILLIONS OF US DOLLARS)**

Table 12

	Q1	Q2	Q3	Q4	2019	Memo item: 2018
Current account	33,555	10,006	10,886	10,160	64,607	113,733
Goods	46,975	39,467	37,987	39,906	164,335	194,429
<i>Exports</i>	<i>102,621</i>	<i>101,434</i>	<i>103,363</i>	<i>111,269</i>	<i>418,687</i>	<i>443,130</i>
oil	29,616	30,047	31,748	30,034	121,444	129,201
oil products	17,636	16,457	15,835	16,959	66,887	78,206
natural gas	14,065	9,066	7,958	10,544	41,633	49,148
liquefied natural gas	1,949	2,540	1,763	1,669	7,920	5,286
other	39,355	43,323	46,059	52,064	180,802	181,289
<i>Imports</i>	<i>55,647</i>	<i>61,967</i>	<i>65,376</i>	<i>71,363</i>	<i>254,352</i>	<i>248,701</i>
Services	-5,971	-8,957	-11,510	-9,756	-36,194	-29,997
<i>Exports</i>	<i>13,809</i>	<i>15,775</i>	<i>17,027</i>	<i>16,194</i>	<i>62,806</i>	<i>64,731</i>
transport	4,857	5,317	5,914	5,469	21,557	22,144
travel	1,896	2,879	3,835	2,351	10,961	11,591
other services	7,057	7,579	7,278	8,374	30,288	30,995
<i>Imports</i>	<i>19,781</i>	<i>24,732</i>	<i>28,537</i>	<i>25,950</i>	<i>99,000</i>	<i>94,728</i>
transport	3,282	3,890	4,137	4,134	15,442	15,298
travel	6,507	9,464	12,388	7,793	36,152	34,271
other services	9,993	11,379	12,012	14,023	47,406	45,159
Compensation of employees	-672	-647	-1,042	-1,242	-3,603	-3,323
Investment income	-4,115	-18,969	-12,839	-13,914	-49,837	-38,550
Receivable	11,444	12,660	12,587	13,398	50,090	48,607
Payable	15,559	31,629	25,426	27,313	99,927	87,158
<i>Federal government</i>	<i>-417</i>	<i>-633</i>	<i>-656</i>	<i>-901</i>	<i>-2,606</i>	<i>-2,531</i>
Receivable	342	317	391	211	1,260	852
Payable	759	950	1,046	1,112	3,867	3,383
<i>Local government (payable)</i>	<i>4</i>	<i>4</i>	<i>4</i>	<i>4</i>	<i>16</i>	<i>20</i>
<i>Central bank</i>	<i>923</i>	<i>895</i>	<i>900</i>	<i>791</i>	<i>3,510</i>	<i>3,421</i>
Receivable	952	923	923	811	3,609	3,525
Payable	29	28	23	20	99	104
<i>Banks</i>	<i>916</i>	<i>-2,391</i>	<i>555</i>	<i>542</i>	<i>-377</i>	<i>-1,093</i>
Receivable	2,453	2,249	2,199	2,071	8,971	8,869
Payable	1,536	4,639	1,644	1,529	9,348	9,962
<i>Other sectors²</i>	<i>-5,534</i>	<i>-16,836</i>	<i>-13,634</i>	<i>-14,344</i>	<i>-50,348</i>	<i>-38,328</i>
Receivable	7,698	9,171	9,075	10,306	36,249	35,361
Payable	13,232	26,007	22,709	24,649	86,597	73,689
Rent	26	28	12	23	89	79
Secondary income	-2,687	-916	-1,723	-4,857	-10,182	-8,904
Capital account	15	-213	-97	-397	-692	-1,104
Net lending (+) / net borrowing (-) (balance from current and capital accounts)	33,570	9,794	10,788	9,764	63,915	112,629

End

	Q1	Q2	Q3	Q4	2019	Memo item: 2018
Net lending (+) / net borrowing (-) (balance from financial account, excluding reserve assets)	12,341	-5,118	-7,181	-4,618	-4,575	77,855
Net incurrence of liabilities ('+' — increase, '-' — decrease)	11,891	13,714	-897	3,552	28,259	-36,321
<i>Federal government</i>	7,216	10,135	1,384	3,326	22,061	-5,542
Portfolio investment	7,224	10,235	1,404	3,415	22,277	-5,311
Issue	2,676	0	0	0	2,676	1,812
Redemption	-1,200	-1,251	-929	-1,360	-4,740	-4,695
principal	-466	-312	-8	-131	-917	-1,301
coupons	-733	-939	-921	-1,229	-3,822	-3,394
Interest reinvestment	756	939	1,044	1,102	3,841	3,358
Secondary market	4,992	10,547	1,289	3,673	20,499	-5,786
Loans	-13	-97	-10	-94	-213	-243
Other liabilities	5	-3	-10	5	-3	12
<i>Local government</i>	1	-6	-8	-11	-24	-31
<i>Central bank</i>	2,167	-2,775	316	1,669	1,377	-1,654
<i>Banks</i>	-3,159	-6,662	-7,872	-2,135	-19,828	-24,953
Direct investment	587	943	150	1,412	3,092	2,878
Loans and deposits	-2,510	-5,838	-1,762	55	-10,055	-13,659
Other liabilities	-1,237	-1,768	-6,260	-3,602	-12,866	-14,173
<i>Other sectors²</i>	5,667	13,022	5,282	703	24,673	-4,142
Direct investment	10,319	5,088	8,811	4,473	28,691	5,907
Portfolio investment	-444	35	-2,294	-1,622	-4,325	-681
Loans	-2,070	460	1,432	-5,981	-6,158	-10,706
Other liabilities	-2,139	7,438	-2,667	3,833	6,465	1,339
Net acquisition of financial assets, excluding reserve assets (+' — increase, '-' — decrease)	24,233	8,595	-8,079	-1,066	23,684	41,534
<i>General government</i>	129	1,170	-1,952	1,154	501	1,424
Loans	462	291	-1,471	679	-38	1,060
Other assets	-333	879	-482	475	539	364
<i>Central bank</i>	-18	7	3	-25	-33	14
<i>Banks</i>	9,152	6,632	-5,823	-11,945	-1,985	7,641
Direct investment	635	293	-2,709	1,110	-670	1,756
Loans and deposits	8,940	6,007	-3,359	-10,360	1,229	-101
Other assets	-423	331	244	-2,695	-2,543	5,986
<i>Other sectors²</i>	14,970	786	-306	9,751	25,201	32,454
Direct investment	9,056	4,449	5,137	4,607	23,249	29,621
Portfolio investment	494	-249	288	1,748	2,281	1,397
Cash foreign currency	-1,253	-2,094	-2,759	-1,607	-7,713	-7,013
Trade credit and advances	-2,902	55	1,628	9,474	8,255	-4,029
Indebtedness on supplies according to intergovernmental agreements	233	-10	228	-1,970	-1,519	2,201
Non-classified operations ³	21	25	36	82	164	152
Other assets	9,321	-1,389	-4,865	-2,583	485	10,125
Net errors and omissions	-2,647	1,673	-2,040	1,004	-2,010	3,428
Change in reserve assets ('+' — increase, '-' — decrease)	18,582	16,585	15,930	15,385	66,481	38,202

¹ The balance of payments is compiled on the basis of the methodology set out in the 6th edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6). The use of signs corresponds to BPM6.

² Other sectors include other financial corporations (except banks), non-financial corporations, households, and non-profit institutions serving households.

³ Includes fictitious transactions related to foreign trade in goods and services, securities trading, lending to non-residents and fictitious transactions with money transfers to residents' accounts abroad, which purpose is cross-border money transfer.

**FINANCIAL TRANSACTIONS OF PRIVATE SECTOR
(BASED ON THE BALANCE OF PAYMENTS DATA, BILLIONS OF US DOLLARS)**

Table 13

	Financial transactions of private sector (net lending (+) / net borrowing (-))	Banks			Other sectors			
		financial transactions (net lending (+) / net borrowing (-))	net acquisition of financial assets	net incurrence of liabilities	financial transactions (net lending (+) / net borrowing (-))	net acquisition of financial assets ¹	net incurrence of liabilities	net errors and omissions of the balance of payments ²
2018	63.6	32.6	7.6	-25.0	31.0	30.3	-4.1	3.4
Q1	16.1	2.8	0.3	-2.5	13.3	16.7	1.0	2.5
Q2	-4.7	3.9	-5.7	-9.6	-8.6	-1.3	4.0	3.3
Q3	19.0	12.3	8.6	-3.8	6.6	0.5	-8.4	2.3
Q4	33.3	13.7	4.5	-9.2	19.6	14.3	-0.7	-4.5
2019	21.9	17.8	-2.0	-19.8	4.1	26.7	24.7	-2.0
Q1	24.0	12.3	9.2	-3.2	11.7	14.7	5.7	-2.6
Q2	-0.6	13.3	6.6	-6.7	-13.9	0.8	13.0	1.7
Q3	-1.7	2.0	-5.8	-7.9	-3.8	-0.5	5.3	-2.0
Q4	0.2	-9.8	-11.9	-2.1	10.0	11.7	0.7	1.0

¹ *Indebtedness on supplies of goods according to intergovernmental agreements is excluded.*

² *'Net errors and omissions' entirely relates to Other sectors. It could be explained by the fact that most noticeable difficulties arise upon the recording of financial transactions undertaken by these sectors in the balance of payments.*

**FINANCIAL TRANSACTIONS OF PRIVATE SECTOR BY TYPE OF INVESTMENT
(BASED ON THE BALANCE OF PAYMENTS DATA, BILLIONS OF US DOLLARS)**

Table 14

	Q1	Q2	Q3	Q4	2019	Memo item: 2018
Direct investment	-1.2	-1.3	-6.5	-0.2	-9.2	22.6
Net incurrence of liabilities	10.9	6.0	9.0	5.9	31.8	8.8
Banks	0.6	0.9	0.2	1.4	3.1	2.9
Other sectors	10.3	5.1	8.8	4.5	28.7	5.9
Net acquisition of financial assets	9.7	4.7	2.4	5.7	22.6	31.4
Banks	0.6	0.3	-2.7	1.1	-0.7	1.8
Other sectors	9.1	4.4	5.1	4.6	23.2	29.6
Portfolio investment	0.5	1.8	4.5	2.8	9.7	2.4
Net incurrence of liabilities	-0.5	0.2	-2.8	-1.7	-4.8	-4.1
Banks	0.0	0.2	-0.5	-0.1	-0.5	-3.4
Other sectors	-0.4	0.0	-2.3	-1.6	-4.3	-0.7
Net acquisition of financial assets	0.1	2.0	1.7	1.1	4.9	-1.6
Banks	-0.4	2.3	1.4	-0.7	2.6	-3.0
Other sectors	0.5	-0.2	0.3	1.7	2.3	1.4
Financial derivatives	0.7	0.5	0.3	1.1	2.6	-0.7
Net incurrence of liabilities	-3.0	-3.3	-3.4	-4.3	-13.9	-11.0
Banks	-2.8	-3.2	-3.3	-4.1	-13.4	-10.4
Other sectors	-0.2	-0.1	-0.2	-0.1	-0.5	-0.6
Net acquisition of financial assets	-2.3	-2.7	-3.1	-3.1	-11.3	-11.7
Banks	-2.3	-2.7	-2.9	-3.0	-10.9	-11.2
Other sectors	-0.1	-0.1	-0.2	-0.1	-0.4	-0.5
Other investment	21.4	0.0	-2.0	-2.6	16.8	42.7
Net incurrence of liabilities	-5.0	3.4	-5.3	-1.3	-8.2	-22.8
Banks	-0.9	-4.6	-4.2	0.7	-9.1	-14.0
Other sectors	-4.0	8.0	-1.1	-2.0	0.9	-8.8
Net acquisition of financial assets	16.4	3.4	-7.3	-3.9	8.6	19.9
Banks	11.2	6.7	-1.6	-9.4	7.0	20.1
Other sectors ¹	5.2	-3.3	-5.8	5.5	1.6	-0.3
Net errors and omissions of the balance of payments	-2.6	1.7	-2.0	1.0	-2.0	3.4
Private sector financial transactions (net lending (+) / net borrowing (-))	24.0	-0.6	-1.7	0.2	21.9	63.6

¹ Indebtedness on supplies of goods according to intergovernmental agreements is excluded.

**CROSS-BORDER TRANSFERS OF INDIVIDUALS
(RESIDENTS AND NON-RESIDENTS)¹**

Table 15

	Q1	Q2	Q3	Q4	2019	Memo item: 2018
Total, millions of US dollars						
Money transfers from the Russian Federation by individuals	9,418	10,592	10,796	11,119	41,926	47,837
– to non-CIS countries	6,937	7,353	7,000	7,748	29,037	34,560
– to CIS countries	2,481	3,239	3,797	3,372	12,889	13,277
Money transfers to the Russian Federation for the benefit of individuals	5,688	6,053	6,592	6,678	25,012	22,466
– from non-CIS countries	4,857	5,247	5,774	5,730	21,608	18,848
– from CIS countries	832	807	818	948	3,404	3,618
Balance²	–3,730	–4,539	–4,204	–4,441	–16,914	–25,372
– with non-CIS countries	–2,081	–2,106	–1,226	–2,017	–7,430	–15,712
– with CIS countries	–1,650	–2,433	–2,979	–2,424	–9,485	–9,660
Average amount of transfer, US dollars						
Money transfers from the Russian Federation by individuals	131	150	152	147	145	191
– to non-CIS countries	114	130	126	125	124	176
– to CIS countries	216	231	251	251	237	241
Money transfers to the Russian Federation for the benefit of individuals	317	353	367	322	340	408
– from non-CIS countries	345	388	407	343	371	468
– from CIS countries	216	223	217	235	223	245

¹ Cross-border wire transfers by resident and non-resident individuals (receipts of resident and non-resident individuals) made via credit institutions (with or without opening an account), including remittances via payment systems.

² Negative balance reflects the excess of the amount of remittances from the Russian Federation over the amount of remittances to the Russian Federation.

**NET INCURRENCE OF LIABILITIES BY RUSSIAN FEDERATION RESIDENTS BY TYPE OF INVESTMENT
(BASED ON THE BALANCE OF PAYMENTS DATA, BILLIONS OF US DOLLARS)**

Table 16

Type of investment	Q1	Q2	Q3	Q4	2019	Memo item: 2018
Direct investment	10.9	6.0	9.0	5.9	31.8	8.8
Portfolio investment	6.8	10.4	-1.4	1.7	17.4	-9.4
Financial derivatives	-3.0	-3.3	-3.4	-4.3	-13.9	-11.0
Other	-2.8	0.5	-5.0	0.3	-7.1	-24.7
Total	11.9	13.7	-0.9	3.6	28.3	-36.3

Note. Net incurrence of liabilities reflects a difference between increase in liabilities and their decrease; '-' denotes net decrease in residents' foreign liabilities.

**NET ACQUISITION OF FINANCIAL ASSETS BY RUSSIAN FEDERATION RESIDENTS,
EXCLUDING RESERVE ASSETS, BY TYPE OF INVESTMENT
(BASED ON THE BALANCE OF PAYMENTS DATA, BILLIONS OF US DOLLARS)**

Table 17

Type of investment	Q1	Q2	Q3	Q4	2019	Memo item: 2018
Direct investment	9.7	4.7	2.4	5.7	22.6	31.4
Portfolio investment	0.1	2.0	1.7	1.1	4.9	-1.8
Financial derivatives	-2.3	-2.7	-3.1	-3.1	-11.3	-11.7
Other	16.8	4.5	-9.1	-4.8	7.5	23.7
Total	24.2	8.6	-8.1	-1.1	23.7	41.5

Note. Net acquisition of financial assets reflects a difference between increase in assets and their decrease; '-' denotes net decrease in residents' foreign assets.

INTERNATIONAL INVESTMENT POSITION OF THE RUSSIAN FEDERATION
(MILLIONS OF US DOLLARS)

Table 18

	Position as of 31.12.2018	Transactions	Valuation changes	Other changes	Total changes	Position as of 31.12.2019
	1	2	3	4	5	6
Net international investment position	374,013	61,906	-70,406	-9,009	-17,509	356,504
Assets	1,343,148	90,165	77,515	-261	167,418	1,510,567
Direct investment	435,862	22,578	42,354	-211	64,721	500,583
Equity and investment fund shares	330,123	21,838	38,235	468	60,541	390,663
Debt instruments	105,739	740	4,119	-679	4,180	109,920
Portfolio investment	68,551	4,889	5,824	1,030	11,743	80,294
Equity and investment fund shares	5,775	478	1,794	410	2,682	8,457
Debt securities	62,776	4,411	4,030	621	9,061	71,837
Financial derivatives (other than reserves) and employee stock options	6,407	-11,288	10,878	-635	-1,045	5,362
Other investment	363,833	7,504	4,047	-5,417	6,135	369,968
Other equity	7,450	314	-5	0	309	7,759
Currency and deposits	164,183	3,332	1,227	28	4,587	168,770
Loans	162,116	-2,999	2,041	-3,614	-4,572	157,543
Insurance, pension, and standardised guarantee schemes	1,348	-120	146	0	26	1,373
Trade credit and advances	15,185	6,735	110	0	6,845	22,031
Other accounts receivable	13,551	242	528	-1,831	-1,060	12,491
Reserve assets	468,495	66,481	14,412	4,972	85,864	554,359
Liabilities	969,135	28,259	147,920	8,748	184,928	1,154,063
Direct investment	497,366	31,783	48,844	7,821	88,448	585,814
Equity and investment fund shares	356,688	28,845	45,464	5,470	79,779	436,467
Debt instruments	140,678	2,939	3,380	2,351	8,669	149,347
Portfolio investment	206,909	17,450	80,045	-1,730	95,765	302,674
Equity and investment fund shares	152,732	-4,325	65,949	-2,438	59,186	211,919
Debt securities	54,177	21,774	14,096	708	36,578	90,755
Financial derivatives (other than reserves) and employee stock options	4,933	-13,908	14,996	-289	800	5,733
Other investment	259,927	-7,066	4,036	2,946	-85	259,842
Other equity	119	0	18	-32	-15	105
Currency and deposits	75,457	-10,040	1,080	21	-8,939	66,518
Loans	166,459	-4,877	2,328	2,602	52	166,512
Insurance, pension, and standardised guarantee schemes	576	139	79	0	217	793
Trade credit and advances	3,063	6,237	0	0	6,237	9,300
Other accounts payable	6,350	1,480	576	355	2,411	8,761
Special drawing rights	7,902	-4	-45	0	-49	7,853

Notes. 1. The international investment position of the Russian Federation is compiled on the basis of the methodology set out in the 6th edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).

2. '+' in columns 2 to 5 denotes net increase in assets or liabilities, '-' denotes their net decrease.

3. Data on portfolio investment (including government securities) are presented at market value.

INTERNATIONAL INVESTMENT POSITION OF THE BANKING SECTOR OF THE RUSSIAN FEDERATION
(MILLIONS OF US DOLLARS)

Table 19

	Position as of 31.12.2018	Transactions	Valuation changes	Other changes	Total changes	Position as of 31.12.2019
	1	2	3	4	5	6
Net international investment position	68,804	17,843	-11,400	-13,542	-7,099	61,705
Assets	193,409	-1,985	15,870	-13,602	283	193,692
Direct investment	12,388	-670	-270	-265	-1,205	11,183
Equity and investment fund shares	11,161	-1,422	-328	9	-1,741	9,420
Debt instruments	1,227	752	59	-274	536	1,763
Portfolio investment	33,553	2,575	3,050	-2,584	3,041	36,594
Equity	1,386	-26	524	52	551	1,937
Debt securities	32,167	2,601	2,526	-2,637	2,490	34,657
Short-term	457	1,269	3	0	1,272	1,730
Long-term	31,710	1,332	2,522	-2,637	1,218	32,927
Financial derivatives	6,387	-10,859	10,462	-635	-1,032	5,355
Options	780	489	-241	-17	231	1,012
Forward-type contracts	5,607	-11,348	10,703	-618	-1,263	4,343
Other investment	141,081	6,969	2,628	-10,117	-520	140,561
Other equity	7	0	0	0	0	7
Foreign currency	13,177	6,008	309	-9,270	-2,953	10,224
Deposits	41,091	3,480	1,480	-184	4,776	45,867
Short-term	32,465	8,217	1,320	-2,908	6,629	39,094
Long-term	8,626	-4,737	160	2,724	-1,853	6,773
Loans	75,013	-2,252	434	1,003	-814	74,199
Short-term	4,798	2,617	142	-942	1,817	6,615
Long-term	70,215	-4,869	293	1,946	-2,631	67,584
Other accounts receivable	11,793	-267	404	-1,666	-1,530	10,264
Short-term	5,083	9,237	192	-9,549	-120	4,963
Long-term	6,711	-9,505	213	7,883	-1,409	5,301

End

	Position as of 31.12.2018	Transactions	Valuation changes	Other changes	Total changes	Position as of 31.12.2019
	1	2	3	4	5	6
Liabilities	124,605	-19,828	27,270	-60	7,382	131,987
Direct investment	20,744	3,092	1,953	5	5,050	25,794
Equity	16,328	2,974	1,890	41	4,906	21,234
Debt instruments	4,416	118	62	-36	144	4,560
Portfolio investment	23,141	-479	9,867	-87	9,302	32,442
Equity	18,663	-257	9,578	27	9,348	28,011
Debt securities	4,478	-222	290	-114	-47	4,431
Short-term	971	-57	-31	-11	-99	872
Long-term	3,507	-165	321	-103	53	3,560
Financial derivatives	4,931	-13,359	14,448	-289	800	5,731
Options	361	7	204	0	211	571
Forward-type contracts	4,570	-13,366	14,244	-289	589	5,160
Other investment	75,790	-9,083	1,002	310	-7,770	68,020
Other equity	74	2	13	-32	-18	57
Deposits	73,130	-9,537	822	-12	-8,728	64,402
Short-term	26,421	-1,338	677	-5	-666	25,755
Long-term	46,709	-8,199	145	-8	-8,062	38,647
Loans ¹	820	-517	9	0	-509	312
Short-term	820	-517	9	0	-509	312
Other accounts payable	1,764	970	159	355	1,484	3,249
Short-term	1,564	3,696	155	-2,332	1,519	3,083
Long-term	200	-2,726	4	2,687	-35	165

¹ Liabilities of banks on securities repurchase agreements with non-residents which are not banks.

Notes. 1. The international investment position of the banking sector is compiled on the basis of the methodology set out in the 6th edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).

2. The table covers data on credit institutions, excluding non-bank credit institutions, and includes data of State Development Corporation VEB.RF.

3. Forward-type contracts include forwards, swaps and futures.

4. '+' in columns 2 to 5 denotes net increase in assets or liabilities, '-' denotes their net decrease.

5. Column 4 shows, inter alia, assets and liabilities of credit institutions that had their banking licences revoked within the reporting period.

CURRENCY COMPOSITION OF FOREIGN ASSETS AND LIABILITIES OF THE BANKING SECTOR OF THE RUSSIAN FEDERATION
(PER CENT)

Table 20

	Foreign assets					Foreign liabilities				
	US dollar	Euro	Russian ruble	other currencies	total	US dollar	Euro	Russian ruble	other currencies	total
Dec 2012	59.1	14.0	20.4	6.5	100.0	49.9	5.3	39.8	5.0	100.0
Mar 2013	62.3	14.4	17.5	5.8	100.0	49.9	6.0	39.2	4.9	100.0
Jun 2013	67.0	11.4	16.0	5.6	100.0	51.5	6.3	37.4	4.9	100.0
Sep 2013	65.2	12.0	16.2	6.5	100.0	51.7	6.5	37.3	4.5	100.0
Dec 2013	65.8	11.2	17.0	6.0	100.0	52.9	7.0	37.3	2.9	100.0
Mar 2014	64.3	12.4	16.6	6.7	100.0	56.0	7.9	32.7	3.4	100.0
Jun 2014	63.7	13.3	16.9	6.2	100.0	52.9	8.8	35.1	3.3	100.0
Sep 2014	63.4	13.4	16.4	6.7	100.0	55.4	9.8	31.3	3.5	100.0
Dec 2014	67.8	15.5	10.8	5.9	100.0	59.9	10.5	26.1	3.5	100.0
Mar 2015	68.6	14.5	11.1	5.8	100.0	59.9	10.0	26.2	3.8	100.0
Jun 2015	67.5	13.6	12.8	6.1	100.0	56.7	10.2	29.1	3.9	100.0
Sep 2015	70.7	13.8	10.1	5.4	100.0	58.6	11.5	26.6	3.4	100.0
Dec 2015	71.1	14.9	8.8	5.3	100.0	58.5	11.4	26.8	3.3	100.0
Mar 2016	69.5	15.1	8.9	6.5	100.0	56.7	11.1	28.5	3.7	100.0
Jun 2016	68.9	14.8	9.8	6.5	100.0	54.1	10.2	32.0	3.7	100.0
Sep 2016	67.8	14.5	10.9	6.8	100.0	52.8	9.9	33.7	3.6	100.0
Dec 2016	67.5	15.5	10.4	6.5	100.0	51.5	8.8	36.8	2.9	100.0
Mar 2017	67.2	16.6	9.9	6.4	100.0	50.4	9.5	37.2	2.9	100.0
Jun 2017	65.7	17.9	9.9	6.5	100.0	48.9	9.9	38.0	3.1	100.0
Sep 2017	63.7	17.5	11.9	7.0	100.0	45.3	9.6	42.1	3.1	100.0
Dec 2017	61.1	18.4	12.8	7.7	100.0	40.0	12.6	44.1	3.3	100.0
Mar 2018	60.5	19.5	12.8	7.2	100.0	39.4	12.5	44.8	3.3	100.0
Jun 2018	61.1	20.2	11.8	7.0	100.0	39.6	12.0	44.7	3.7	100.0
Sep 2018	58.8	23.9	10.9	6.4	100.0	39.9	12.6	43.8	3.8	100.0
Dec 2018	56.7	25.1	11.4	6.8	100.0	39.7	12.1	43.6	4.6	100.0
Mar 2019	55.5	24.7	12.7	7.1	100.0	37.2	11.1	47.2	4.5	100.0
Jun 2019	56.3	23.1	13.4	7.1	100.0	34.4	9.5	51.6	4.5	100.0
Sep 2019	57.4	23.5	13.6	5.6	100.0	35.0	9.5	50.9	4.5	100.0
Dec 2019	53.2	26.2	14.8	5.8	100.0	33.3	8.3	53.9	4.5	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 2019
(MILLIONS OF US DOLLARS)

Table 21

	Foreign assets						Foreign liabilities						Net international position	
	interbank		other		total		interbank		other		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	55,460.2	14,997.0	13,266.7	109,968.5	68,726.9	124,965.5	15,156.1	37,147.7	20,995.6	58,687.8	36,151.7	95,835.5	32,575.2	29,129.9
of which:														
CIS countries	1,444.2	6,404.6	764.2	4,592.0	2,208.4	10,996.6	1,414.7	409.4	2,487.7	987.8	3,902.4	1,397.2	-1,693.9	9,599.4
of which:														
– EAEU countries	1,025.3	3,120.9	703.0	3,802.9	1,728.3	6,923.8	899.8	281.8	1,167.3	423.8	2,067.1	705.6	-338.7	6,218.2
– other countries	418.9	3,283.7	61.2	789.1	480.1	4,072.8	515.0	127.6	1,320.4	564.0	1,835.3	691.6	-1,355.2	3,381.2
Non-CIS countries	50,958.4	7,618.4	11,847.9	99,085.8	62,806.3	106,704.2	12,712.2	33,742.7	16,230.4	51,061.2	28,942.6	84,803.9	33,863.8	21,900.3
of which:														
– EU countries	34,023.5	5,976.4	9,322.5	79,368.0	43,346.0	85,344.4	9,151.6	15,981.3	9,741.8	39,592.4	18,893.4	55,573.6	24,452.5	29,770.8
– APEC countries	12,692.7	84.4	1,189.4	2,119.8	13,882.1	2,204.1	3,560.6	15,797.9	1,475.2	7,878.9	5,035.8	23,676.8	8,846.4	-21,472.7
– other countries	16,934.9	1,642.0	2,525.5	19,717.9	19,460.4	21,359.9	3,560.6	17,761.4	6,488.6	11,468.9	10,049.1	29,230.3	9,411.2	-7,870.5
Unallocated by country	3,055.6	957.8	480.8	5,612.9	3,536.4	6,570.7	1,029.3	2,995.7	1,252.0	6,327.8	2,281.2	9,323.4	1,255.2	-2,752.7
International organisations	2.0	16.2	173.7	677.8	175.7	694.0	0.0	0.0	1,025.5	311.0	1,025.5	311.0	-849.8	382.9

**INTERNATIONAL RESERVES OF THE RUSSIAN FEDERATION
(BILLIONS OF US DOLLARS)**

Table 22

	2018	2019											
	31.12	31.01	28.02	31.03	30.04	31.05	30.06	31.07	31.08	30.09	31.10	30.11	31.12
Reserve assets	468.5	475.9	482.6	487.8	491.1	495.2	518.4	519.8	529.1	530.9	540.9	542.0	554.4
Foreign currency assets	381.6	386.5	391.0	397.8	401.1	405.4	418.1	417.9	419.6	423.1	433.0	436.1	444.0
Monetary gold	86.9	89.5	91.6	90.0	90.0	89.9	100.3	101.9	109.5	107.8	107.9	105.9	110.4

**RETURN¹ ON BANK OF RUSSIA FOREIGN CURRENCY ASSETS IN 2019²
(PER CENT P.A.)**

Table 23

	Actual	Standard
US dollar	1.88	1.61
Euro	-0.40	-0.51
Pound sterling	0.83	0.67
Canadian dollar	1.80	1.71
Australian dollar	2.11	1.98
Chinese yuan	3.05	2.96
Japanese yen	0.04	-0.14

¹ Percentage change in the value of the portfolio during one business day. The daily portfolio rate of return is calculated according to this formula:

$$R = \frac{MV_1 - MV_0 \pm CF}{MV_0},$$

where R is the daily portfolio rate of return;

MV_0 is the market value of the portfolio as of the end of the previous day;

MV_1 is the market value of the portfolio as of the end of the day;

CF is the cash flows into or out of the portfolio during the day.

² Cumulative portfolio rate of return is calculated on the basis of the chained indices method. The rate of return over period is calculated according to this formula:

$$R = (1 + R_1) \times (1 + R_2) \times \dots \times (1 + R_n) - 1,$$

where R_i is the portfolio rate of return over day i .

BASIC DERIVED INDICATORS OF RUBLE'S EXCHANGE RATE DYNAMICS IN 2019

Table 24

	January	February	March	April	May	June	July	August	September	October	November	December
Nominal exchange rate of US dollar against ruble, end of period	66.10	65.76	64.73	64.69	65.06	63.08	63.38	66.49	64.42	63.87	64.08	61.91
Nominal exchange rate of US dollar against ruble, period averages	67.33	65.86	65.14	64.62	64.82	64.22	63.20	65.53	64.98	64.35	63.87	62.94
Nominal exchange rate of US dollar against ruble, period averages from the beginning of the year	67.33	66.59	66.11	65.73	65.55	65.32	65.02	65.08	65.07	65.00	64.89	64.73
Nominal exchange rate of euro against ruble, end of period	75.57	74.82	72.72	72.20	72.42	71.82	70.60	73.38	70.32	71.01	70.55	69.34
Nominal exchange rate of euro against ruble, period averages	76.92	74.78	73.75	72.61	72.51	72.43	70.99	72.88	71.61	71.06	70.66	69.90
Nominal exchange rate of euro against ruble, period averages from the beginning of the year	76.92	75.84	75.14	74.50	74.10	73.82	73.41	73.34	73.15	72.93	72.73	72.49
Percentage change over December 2018¹												
Nominal exchange rate of ruble against US dollar	-0.0	2.2	3.3	4.2	3.8	4.8	6.5	2.7	3.6	4.6	5.4	6.9
Nominal exchange rate of ruble against euro	-0.4	2.5	3.9	5.5	5.7	5.8	8.0	5.2	7.0	7.8	8.5	9.6
Nominal effective exchange rate of ruble vis-à-vis foreign currencies	-0.4	1.8	3.0	4.5	5.1	5.4	6.9	4.4	6.0	6.8	7.1	8.5
Real exchange rate of ruble against US dollar	0.8	3.0	3.9	4.5	4.2	5.2	6.9	2.9	3.5	4.4	5.5	7.6
Real exchange rate of ruble against euro	1.0	3.9	5.1	6.4	6.8	6.8	8.9	5.7	7.6	8.3	9.7	11.1
Real effective exchange rate of ruble vis-à-vis foreign currencies	0.3	2.5	3.8	5.1	5.6	6.0	7.5	4.4	5.5	5.9	6.6	8.1
Percentage change over previous period¹												
Nominal exchange rate of ruble against US dollar	-0.0	2.2	1.1	0.8	-0.3	0.9	1.6	-3.6	0.8	1.0	0.8	1.5
Nominal exchange rate of ruble against euro	-0.4	2.9	1.4	1.6	0.1	0.1	2.0	-2.6	1.8	0.8	0.6	1.1
Nominal effective exchange rate of ruble vis-à-vis foreign currencies	-0.4	2.3	1.2	1.5	0.5	0.3	1.5	-2.4	1.5	0.7	0.3	1.3
Real exchange rate of ruble against US dollar	0.8	2.2	0.8	0.6	-0.2	0.9	1.7	-3.7	0.6	0.8	1.1	2.0
Real exchange rate of ruble against euro	1.0	2.9	1.2	1.2	0.4	-0.0	2.0	-3.0	1.8	0.7	1.2	1.3
Real effective exchange rate of ruble vis-à-vis foreign currencies	0.3	2.2	1.2	1.2	0.5	0.3	1.5	-2.9	1.1	0.3	0.6	1.4
Percentage change over corresponding period of 2018¹												
	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	-15.7	-14.7	-14.0	-12.2	-10.6	-9.3	-8.1	-7.0	-5.8	-5.0	-4.3	-3.4
Nominal exchange rate of ruble against euro	-10.3	-8.2	-7.0	-4.8	-3.5	-2.8	-1.9	-1.1	0.1	0.7	1.2	1.9
Nominal effective exchange rate of ruble vis-à-vis foreign currencies	-9.5	-7.8	-6.8	-4.7	-3.3	-2.4	-1.6	-1.0	-0.1	0.3	0.7	1.4
Real exchange rate of ruble against US dollar	-12.7	-11.6	-10.9	-9.1	-7.5	-6.2	-5.1	-4.1	-3.0	-2.3	-1.6	-0.9
Real exchange rate of ruble against euro	-7.0	-4.8	-3.6	-1.4	-0.1	0.6	1.3	2.0	3.2	3.7	4.2	4.7
Real effective exchange rate of ruble vis-à-vis foreign currencies	-7.8	-6.0	-5.0	-2.9	-1.6	-0.7	-0.0	0.5	1.3	1.7	2.0	2.5

¹ '+' denotes appreciation of the Russian ruble vis-à-vis foreign currencies, '-' denotes depreciation of the Russian ruble vis-à-vis foreign currencies.

EXTERNAL DEBT OF THE RUSSIAN FEDERATION
(MILLIONS OF US DOLLARS)

Table 25

	31.12.2018	31.03.2019	30.06.2019	30.09.2019	31.12.2019
Total	455,002	469,296	483,552	474,840	490,811
General government	43,955	53,329	64,487	64,789	69,978
Federal government	43,801	53,164	64,323	64,638	69,830
New Russian debt	43,292	52,655	63,848	64,164	69,390
Multilateral creditors	539	526	465	455	396
<i>IBRD</i>	447	435	385	376	330
<i>Other</i>	92	92	79	79	66
Foreign currency bonds	16,686	20,220	22,522	22,793	22,344
<i>Eurobonds</i>	16,682	20,211	22,491	22,724	22,243
<i>Eurobonds (related to the second London Club debt restructuring)</i>	4	9	31	69	102
Ruble-denominated bonds	25,772	31,609	40,566	40,631	46,359
<i>OFZ</i>	25,772	31,609	40,566	40,631	46,359
<i>Eurobonds</i>	0	0	0	0	0
Other debt liabilities	294	299	296	285	291
Debt of the former USSR	510	509	475	475	440
Debt owed to former socialist countries	20	20	21	20	21
Other official creditors	489	489	454	454	419
Local government	154	164	164	151	147
Ruble-denominated bonds	154	164	164	151	147
Central bank	12,152	14,446	11,803	11,915	13,914
Loans	1,998	4,101	1,486	2,035	4,153
Currency and deposits	2,251	2,456	2,417	2,136	1,908
Other (SDR allocations)	7,902	7,888	7,900	7,744	7,853
Banks	84,609	84,481	80,705	74,596	76,954
Debt liabilities to direct investors and to direct investment enterprises	4,416	4,454	4,515	3,798	4,560
Loans	820	684	193	230	312
Currency and deposits	73,130	71,429	66,469	63,690	64,402
Debt securities	4,478	4,525	4,572	4,450	4,431
Other debt liabilities	1,764	3,389	4,955	2,428	3,249
Other sectors	314,286	317,040	326,558	323,538	329,965
Debt liabilities to direct investors and to direct investment enterprises	136,262	142,357	144,125	145,716	144,787
Loans and deposits	158,969	157,118	157,029	155,890	151,473
Debt securities	7,427	7,773	8,066	7,626	8,444
Trade credits	3,063	3,041	5,898	6,403	9,300
Financial leases	3,698	3,576	3,466	3,334	9,945
Other debt liabilities	4,868	3,174	7,925	4,571	6,015

Notes. 1. Information on external debt 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) and in the External Debt Statistics. Guide for Compilers and Users (2013).

2. Included is the indebtedness in domestic and foreign currencies.

3. Only non-resident holdings of government securities are reported. Data are presented at face value.

4. Debt securities of other sectors are stated at face value since 31 December 2017.

5. Data on banks includes data of State Development Corporation VEB.RF.

EXTERNAL DEBT OF THE RUSSIAN FEDERATION
(IN DOMESTIC AND FOREIGN CURRENCIES BY MATURITY, MILLIONS OF US DOLLARS)

Table 26

	31.12.2018	31.03.2019	30.06.2019	30.09.2019	31.12.2019
Total	455,002	469,296	483,552	474,840	490,811
Foreign currency	342,397	347,322	340,903	338,974	343,389
Domestic currency	112,605	121,974	142,649	135,865	147,422
General government	43,955	53,329	64,487	64,789	69,978
Foreign currency	18,029	21,555	23,757	24,007	23,471
Short-term	294	299	296	285	291
Long-term	17,735	21,256	23,461	23,722	23,180
Domestic currency	25,925	31,773	40,729	40,783	46,506
Short-term	0	0	0	0	0
Long-term	25,925	31,773	40,729	40,783	46,506
Central bank	12,152	14,446	11,803	11,915	13,914
Foreign currency	9,901	11,990	9,385	9,779	12,006
Short-term	1,998	4,101	1,486	2,035	4,153
Long-term	7,902	7,888	7,900	7,744	7,853
Domestic currency	2,251	2,456	2,417	2,136	1,908
Short-term	2,251	2,456	2,417	2,136	1,908
Long-term	0	0	0	0	0
Banks (excluding debt liabilities to direct investors and to direct investment enterprises)	80,193	80,028	76,190	70,798	72,394
Foreign currency	63,490	62,421	57,009	54,697	54,259
Short-term	18,955	19,288	17,919	17,268	18,657
Long-term	44,535	43,133	39,090	37,429	35,601
Domestic currency	16,703	17,606	19,180	16,102	18,135
Short-term	10,821	11,259	12,910	9,942	11,364
Long-term	5,882	6,347	6,270	6,159	6,771
Other sectors (excluding debt liabilities to direct investors and to direct investment enterprises)	178,024	174,683	182,434	177,823	185,178
Foreign currency	142,367	138,483	139,443	139,055	143,282
Short-term	8,720	8,292	11,117	11,812	14,689
Long-term	133,647	130,191	128,325	127,243	128,593
Domestic currency	35,658	36,199	42,991	38,768	41,896
Short-term	5,349	3,828	8,733	5,359	6,636
Long-term	30,309	32,372	34,258	33,410	35,260
Banks and other sectors — debt liabilities to direct investors and to direct investment enterprises	140,678	146,811	148,640	149,513	149,347
Foreign currency	108,610	112,873	111,308	111,437	110,371
Domestic currency	32,068	33,938	37,331	38,077	38,976

Notes. 1. Information on external debt 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) and in the External Debt Statistics. Guide for Compilers and Users (2013).

2. Included is the indebtedness in domestic and foreign currencies.

3. Only non-resident holdings of government securities are reported. Data are presented at face value.

4. Debt securities of other sectors are stated at face value since 31 December 2017.

5. Data on banks includes data of State Development Corporation VEB.RF.

MONEY SUPPLY (NATIONAL DEFINITION) AND ITS STRUCTURE

Table 27

	31.12.2018		31.12.2019		31.12.2019 as a percentage of 31.12.2018
	billions of rubles	per cent	billions of rubles	per cent	
Money supply (M2), total	47,109.3	100.0	51,681.2	100.0	109.7
of which:					
– currency in circulation (M0) ¹	9,339.0	19.8	9,658.4	18.7	103.4
– deposits	37,770.3	80.2	42,022.8	81.3	111.3
of which:					
– non-financial and financial organisations ²	14,884.1	31.6	16,754.7	32.4	112.6
– households	22,886.1	48.6	25,268.0	48.9	110.4

¹ Currency in circulation outside the banking system.² Except credit institutions.

MONETARY BASE (BROAD DEFINITION) AND ITS STRUCTURE

Table 28

	31.12.2018		31.12.2019		31.12.2019 as a percentage of 31.12.2018
	billions of rubles	per cent	billions of rubles	per cent	
Monetary base (broad definition)	16,063.4	100.0	16,822.1	100.0	104.7
of which:					
– currency in circulation, including balances in credit institutions' cash vaults ¹	10,312.5	64.2	10,616.1	63.1	102.9
– credit institutions' correspondent accounts with the Bank of Russia ²	1,898.2	11.8	2,625.5	15.6	138.3
– required reserves ³	575.3	3.6	617.4	3.7	107.3
– credit institutions' deposits with the Bank of Russia	1,903.5	11.8	1,026.4	6.1	53.9
– Bank of Russia bonds with credit institutions ⁴	1,373.9	8.6	1,936.7	11.5	141.0

¹ Excluding cash rubles in Bank of Russia vaults, ATMs and in transit, as well as precious metal coins in circulation.² Balances of ruble-denominated accounts, including the average amount of required reserves.³ Balances of required reserve accounts deposited by credit institutions with the Bank of Russia on funds raised in rubles and foreign currency.⁴ At market value.

INTEREST RATES ON BANK OF RUSSIA OPERATIONS TO PROVIDE AND ABSORB RUBLE LIQUIDITY
(PER CENT P.A.)

Table 29

Purpose	Type of instrument	Instrument	Maturity	Frequency	As of 01.01.2019	From 17.06.2019	From 29.07.2019	From 09.09.2019	From 28.10.2019	From 16.12.2019	Common approach to rate setting ¹
Liquidity provision	Standing facilities	Overnight loans; lombard loans; loans secured by non-marketable assets; FX swaps (ruble leg); ² repos	1 day	Daily	8.75	8.50	8.25	8.00	7.50	7.25	Key rate + 1.00
		Loans secured by non-marketable assets ³	2 to 549 days		9.50	9.25	9.00	8.75	8.25	8.00	Key rate + 1.75
	Open market operations (minimum interest rates)	Auctions to provide loans secured by non-marketable assets ³	3 months	Monthly ⁴	8.00	7.75	7.50	7.25	6.75	6.50	Key rate + 0.25
		Repo auctions	1 week	Weekly ⁵	7.75 (key rate)	7.50 (key rate)	7.25 (key rate)	7.00 (key rate)	6.50 (key rate)	6.25 (key rate)	Key rate
			1 to 6 days	Occasionally ⁶							
FX swap auctions (ruble leg) ²	1 to 2 days										
Liquidity absorption	Open market operations (maximum interest rates)	Deposit auctions	1 to 6 days	Weekly ⁵							
			1 week								
	Standing facilities	Deposit operations	1 day ⁷	Daily	6.75	6.50	6.25	6.00	5.50	5.25	Key rate – 1.00

¹ From 4 June 2018, interest rates on Bank of Russia operations with credit institutions are set as key rate spreads. See [the press release published on the Bank of Russia's website on 1 June 2018](#).

² From 23 December 2016, interest rates on the foreign currency leg equal LIBOR on overnight loans in US dollars or euros (depending on the currency of the transaction).

³ Operations conducted at a floating interest rate linked to the Bank of Russia key rate.

⁴ Operations have been discontinued since April 2016.

⁵ Either a repo or a deposit auction is held depending on the situation with liquidity.

⁶ Fine-tuning operations.

⁷ Until 16 May 2018, also call deposits. Since 17 May 2018, the Bank of Russia only conducts overnight deposit operations with credit institutions.

Memo item: From 1 January 2016, the value of the Bank of Russia refinancing rate equals its key rate as of the respective date.

Source: Bank of Russia.

**BANK OF RUSSIA OPERATIONS TO PROVIDE AND ABSORB LIQUIDITY IN 2019
(BILLIONS OF RUBLES)**

Table 30

Purpose	Type of instrument	Instrument	Maturity	Frequency	Claims and liabilities of the Bank of Russia				
					as of 01.01.2019	as of 01.04.2019	as of 01.07.2019	as of 01.10.2019	as of 01.01.2020
Liquidity provision	Standing facilities	Overnight loans	1 day	Daily	8.1	0.0	1.1	0.0	0.0
		Lombard loans			0.0	0.0	0.0	0.0	0.0
		FX swaps			4.1	32.8	3.6	0.0	12.6
		Repo operations			3.6	2.6	1.4	0.0	0.0
		Loans secured by non-marketable assets	1 to 549 days		5.1	8.1	5.1	5.1	5.1
	Open market operations	Auctions to provide loans secured by non-marketable assets	3 months	Monthly ¹	0.0	0.0	0.0	0.0	0.0
		Repo auctions	1 week	Weekly ²	0.0	0.0	0.0	0.0	0.0
			1 to 6 days	Occasionally ³					
		FX swap auctions	1 to 2 days		0.0	0.0	0.0	0.0	0.0
Liquidity absorption	Open market operations	Deposit auctions	1 to 6 days	Weekly ²	1,478.2	1,680.0	704.4	2,180.0	696.6
			1 week						
		Auctions for the placement and additional placement of coupon OBRs ⁴	Up to 3 months	Occasionally	1,391.3	1,515.3	1,716.6	808.2	1,956.3
	Standing facilities	Deposit operations	1 day ⁵	Daily	423.8	136.4	152.8	135.1	329.7

¹ Operations have been discontinued since April 2016.

² Either a repo or a deposit auction is held depending on the situation with liquidity.

³ Fine-tuning operations.

⁴ If the reporting date falls on a weekend or holiday, the indicated amount of outstanding coupon OBRs includes the accrued coupon interest as of the first working day following the reporting date.

⁵ Until 16 May 2018, also call deposits. Since 17 May 2018, the Bank of Russia only conducts overnight deposit operations with credit institutions.

Source: Bank of Russia.

BANK OF RUSSIA SPECIAL REFINANCING INSTRUMENTS¹

Table 31

Area of indirect support of bank lending	Maturity	Security	Interest rate, per cent p.a.							Bank of Russia claims on credit institutions, billions of rubles		Limit as of 01.01.2020, billions of rubles
			common approach to rate setting ²	as of 01.01.2019	from 17.06.2019	from 29.07.2019	from 09.09.2019	from 28.10.2019	from 16.12.2019	as of 01.01.2019	as of 01.01.2020	
Large-scale investment projects ³	Up to 3 years	Receivables on bank loans to implement investment projects, obligations under which are secured by state guarantees of the Russian Federation	The least of two values: 9.00% p.a. or the key rate less 1.00 pp.	6.75	6.50	6.25	6.00	5.50	5.25	94.6	89.0	150.00
		Bonds placed for investment project funding and included in the Bank of Russia Lombard List								0.0	0.0	
Non-commodity exports	Up to 3 years	Credit claims on agreements backed by insurance contracts of JSC EXIAR	The least of two values: 6.50% p.a. or the key rate	6.50	6.50	6.50	6.50	6.50	6.25	39.1	54.5	75.00
Small and medium-sized enterprises	Up to 3 years	Claims under loan agreements of JSC SME Bank ⁴		7.9	3.7	175.00						
		Guarantees of JSC Russian Small and Medium Business Corporation issued under the programme to stimulate lending to small and medium-sized businesses		85.0	50.7							
Leasing	Up to 3 years	Credit claims on leasing companies	6.50	6.50	6.50	6.50	6.50	6.25	0.2	0.0	10.00	
Military mortgage	Up to 3 years	Mortgages issued under the Military Mortgage programme	Bank of Russia key rate	7.75	7.50	7.25	7.00	6.50	6.25	8.3	0.0	30.00

¹ Special refinancing facilities are Bank of Russia instruments aimed at encouraging bank lending to certain segments of the economy whose development is hampered by structural factors. Under these facilities, the Bank of Russia provides funds to credit institutions at lower rates and for longer maturities compared with standard Bank of Russia operations. Specialised refinancing facilities are temporary Bank of Russia instruments, which will be valid until conditions for their replacement with market instruments are created in the financial market. The provision of funds under the specialised facilities is restricted, because their application should not distort the stance of the monetary policy and prevent the achievement of its key objective of ensuring price stability.

² Effective from 4 June 2018. See [the press release published on the Bank of Russia's website on 1 June 2018](#).

³ Projects are selected in compliance with the rules established by Regulation of the Government of the Russian Federation No. 1016, dated 14 December 2010, 'On Approving the Rules to Select Investment Projects and Principals for the Provision of the Russian Federation State Guarantees on Loans or Bonded Loans Attracted to Carry out Investment Projects' or Regulation of the Government of the Russian Federation No. 1044, dated 11 December 2014, 'On Approving the Programme to Support Investment Projects Implemented in the Russian Federation Based on Project Financing'.

⁴ Loans extended to banks and microfinance organisations, which are JSC SME Bank partners under the programme for financial support of small and medium-sized enterprises, for the purposes of lending to SMEs, and also to leasing companies, which are JSC SME Bank partners, for the purposes of leasing property to SMEs.

Source: Bank of Russia.

**BANKING SYSTEM SURVEY
(BILLIONS OF RUBLES)**

Table 32

	31.12.2018	31.12.2019	31.12.2019 as a percentage of 31.12.2018
Net foreign assets	39,692.8	40,805.7	102.8
Claims on non-residents	46,346.5	46,362.8	100.0
Monetary gold and SDR	6,505.2	7,247.9	111.4
Foreign currency and deposits	14,468.0	14,780.0	102.2
Debt securities	17,987.4	18,193.8	101.1
– in rubles	168.3	174.1	103.4
– in foreign currency	17,819.1	18,019.7	101.1
Loans	5,846.7	5,439.4	93.0
– in rubles	1,046.7	1,239.9	118.5
– in foreign currency	4,800.0	4,199.5	87.5
Equity and investment fund shares	1,526.4	688.0	45.1
– in rubles	12.3	9.6	78.0
– in foreign currency	1,514.1	678.3	44.8
Other claims	12.7	13.7	107.9
– in rubles	3.5	3.8	108.6
– in foreign currency	9.2	9.9	107.6
Liabilities to non-residents	6,653.7	5,557.1	83.5
Deposits	5,562.0	4,470.7	80.4
– in rubles	933.3	913.4	97.9
– in foreign currency	4,628.8	3,557.2	76.8
Debt securities	275.7	265.2	96.2
– in rubles	275.7	265.2	96.2
– in foreign currency	0	0	–
Loans	263.4	331.4	125.8
– in rubles	20.1	17.1	85.1
– in foreign currency	243.3	314.3	129.2
Liabilities on SDR allocations	549.0	485.2	88.4
Other liabilities	3.6	4.6	127.8
– in rubles	0.1	0.3	300.0
– in foreign currency	3.5	4.2	120.0
Domestic claims	55,563.9	57,801.8	104.0
Net claims on general government	–7,986.8	–11,156.7	–
Claims on federal government	4,663.1	4,651.1	99.7
Debt securities	4,572.8	4,568.2	99.9
– in rubles	3,672.7	3,929.9	107.0
– in foreign currency	900.1	638.4	70.9
Loans	90.3	82.9	91.8
– in rubles	90.3	82.9	91.8
– in foreign currency	0	0	–
Other claims	0	0	–
– in rubles	0	0	–
– in foreign currency	0	0	–
Claims on state and local government	1,301.4	1,206.8	92.7
Debt securities	415.4	385.2	92.7
– in rubles	415.4	385.2	92.7
– in foreign currency	0	0	–

Cont.

	31.12.2018	31.12.2019	31.12.2019 as a percentage of 31.12.2018
Loans	886.0	821.6	92.7
– in rubles	885.9	821.5	92.7
– in foreign currency	0.1	0.1	100.0
Other claims	0	0	–
– in rubles	0	0	–
– in foreign currency	0	0	–
Liabilities to federal government	11,621.5	14,656.3	126.1
Deposits	11,269.7	14,440.0	128.1
– in rubles	4,080.0	4,666.0	114.4
– in foreign currency	7,189.8	9,774.0	135.9
Other liabilities	351.7	216.4	61.5
– in rubles	245.4	90.3	36.8
– in foreign currency	106.3	126.1	118.6
Liabilities to state and local government	2,329.8	2,358.2	101.2
Deposits	2,329.8	2,358.2	101.2
– in rubles	2,329.8	2,358.2	101.2
– in foreign currency	0.1	0.1	100.0
Other liabilities	0	0	–
– in rubles	0	0	–
– in foreign currency	0	0	–
Claims on other sectors	63,550.7	68,958.5	108.5
– in rubles	54,769.6	61,262.2	111.9
– in foreign currency	8,781.0	7,696.2	87.6
Claims on other financial institutions	9,669.6	10,460.3	108.2
In rubles	8,140.2	9,017.0	110.8
– debt securities	678.7	946.4	139.4
– loans	5,985.6	6,391.0	106.8
– other claims	1,476.0	1,679.6	113.8
In foreign currency	1,529.4	1,443.4	94.4
– debt securities	106.9	47.8	44.7
– loans	979.4	964.2	98.4
– other claims	443.1	431.4	97.4
Claims on non-financial organisations	37,815.8	39,397.7	104.2
In rubles	30,728.2	33,274.1	108.3
– debt securities	1,258.0	1,392.3	110.7
– loans	26,916.1	29,086.8	108.1
– other claims	2,554.2	2,794.9	109.4
In foreign currency	7,087.6	6,123.7	86.4
– debt securities	10.5	8.4	80.0
– loans	6,901.8	5,941.9	86.1
– other claims	175.3	173.4	98.9
Claims on households	16,065.2	19,100.4	118.9
In rubles	15,901.2	18,971.2	119.3
– debt securities	0	0	–
– loans	15,901.2	18,971.2	119.3
– other claims	0	0	–

End

	31.12.2018	31.12.2019	31.12.2019 as a percentage of 31.12.2018
In foreign currency	164.1	129.2	78.7
– debt securities	0	0	–
– loans	164.1	129.2	78.7
– other claims	0	0	–
Broad money liabilities	61,401.6	64,535.5	105.1
Money supply (national definition)	47,109.3	51,660.3	109.7
In rubles			
Currency outside banking system	9,339.0	9,658.4	103.4
Transferable deposits	12,285.1	14,203.3	115.6
Other financial institutions	480.1	511.8	106.6
Non-financial organisations	6,104.4	6,821.2	111.7
Households	5,700.5	6,870.2	120.5
Other deposits	25,485.2	27,798.6	109.1
Other financial institutions	1,309.4	1,557.1	118.9
Non-financial organisations	6,990.1	7,843.7	112.2
Households	17,185.6	18,397.8	107.1
In foreign currency	14,139.8	12,837.9	90.8
Transferable deposits	0	0	–
Other financial institutions	0	0	–
Non-financial organisations	0	0	–
Households	0	0	–
Other deposits	14,139.8	12,837.9	90.8
Other financial institutions	237.0	235.9	99.5
Non-financial organisations	8,009.3	6,794.1	84.8
Households	5,893.4	5,807.9	98.5
Securities other than shares included in broad money ¹	152.5	37.3	24.5
Other financial institutions	0	0	–
Non-financial organisations	0.1	3.7	3,700.0
Households	152.5	33.6	22.0
Deposits excluded from broad money	1,126.3	1,241.4	110.2
Debt securities excluded from broad money	1,531.3	1,991.0	130.0
Shares and other equity	21,268.8	21,587.2	101.5
Other items (net)	9,928.6	9,102.4	91.7
Other liabilities	18,782.0	19,151.6	102.0
Other assets	5,953.6	6,402.7	107.5
Consolidating adjustment	–2,899.7	–3,646.4	–

¹ Certificates of deposit and savings certificates.

CREDIT INSTITUTIONS SURVEY
(BILLIONS OF RUBLES)

Table 33

	31.12.2018	31.12.2019	31.12.2019 as a percentage of 31.12.2018
Net foreign assets	7,862.6	7,188.0	91.4
Claims on non-residents	13,825.3	12,001.0	86.8
Foreign currency and deposits	4,174.2	3,945.5	94.5
Debt securities	2,360.9	2,218.2	94.0
Loans	5,754.3	5,138.4	89.3
Equity and investment fund shares	1,526.4	688.0	45.1
Other claims	9.5	10.9	114.7
Liabilities to non-residents	5,962.6	4,813.0	80.7
Deposits	5,558.8	4,469.0	80.4
Debt securities	275.7	265.2	96.2
Loans	124.6	74.4	59.7
Other liabilities	3.6	4.6	127.8
Claims on central bank	6,725.0	7,166.4	106.6
Currency	973.4	957.7	98.4
Deposits, of which	4,377.7	4,272.1	97.6
– required reserves	575.3	617.4	107.3
Debt securities	1,373.9	1,936.7	141.0
Net claims on general government	1,164.7	607.9	52.2
Claims on federal government	4,485.5	4,332.8	96.6
Debt securities	4,395.2	4,249.9	96.7
– in rubles	3,672.7	3,717.0	101.2
– in foreign currency	722.5	532.9	73.8
Loans	90.3	82.9	91.8
– in rubles	90.3	82.9	91.8
– in foreign currency	0	0	–
Other claims	0	0	–
– in rubles	0	0	–
– in foreign currency	0	0	–
Claims on state and local government	1,301.4	1,206.8	92.7
Debt securities	415.4	385.2	92.7
– in rubles	415.4	385.2	92.7
– in foreign currency	0	0	–
Loans	886.0	821.6	92.7
– in rubles	885.9	821.5	92.7
– in foreign currency	0.1	0.1	100.0
Other claims	0	0	–
– in rubles	0	0	–
– in foreign currency	0	0	–
Liabilities to federal government	3,246.3	3,422.4	105.4
Deposits	3,000.8	3,332.1	111.0
– in rubles	2,930.5	3,265.5	111.4
– in foreign currency	70.3	66.6	94.7
Other liabilities	245.6	90.4	36.8
– in rubles	245.4	90.3	36.8
– in foreign currency	0.2	0.1	50.0

Cont.

	31.12.2018	31.12.2019	31.12.2019 as a percentage of 31.12.2018
Liabilities to state and local government	1,375.8	1,509.2	109.7
Deposits	1,375.8	1,509.2	109.7
– in rubles	1,375.8	1,509.2	109.7
– in foreign currency	0.1	0.1	100.0
Other liabilities	0	0	–
– in rubles	0	0	–
– in foreign currency	0	0	–
Claims on other sectors	61,564.8	67,173.2	109.1
– in rubles	52,783.7	59,477.0	112.7
– in foreign currency	8,781.0	7,696.2	87.6
Claims on other financial institutions	7,685.8	8,676.7	112.9
In rubles	6,156.4	7,233.3	117.5
– debt securities	678.7	946.4	139.4
– loans	4,064.9	4,682.0	115.2
– other claims	1,412.9	1,604.9	113.6
In foreign currency	1,529.4	1,443.4	94.4
– debt securities	106.9	47.8	44.7
– loans	979.4	964.2	98.4
– other claims	443.1	431.4	97.4
Claims on non-financial organisations	37,813.8	39,396.1	104.2
In rubles	30,726.2	33,272.4	108.3
– debt securities	1,258.0	1,392.3	110.7
– loans	26,916.1	29,086.8	108.1
– other claims	2,552.1	2,793.3	109.5
In foreign currency	7,087.6	6,123.7	86.4
– debt securities	10.5	8.4	80.0
– loans	6,901.8	5,941.9	86.1
– other claims	175.3	173.4	98.9
Claims on households	16,065.2	19,100.4	118.9
In rubles	15,901.2	18,971.2	119.3
– debt securities	0	0	–
– loans	15,901.2	18,971.2	119.3
– other claims	0	0	–
In foreign currency	164.1	129.2	78.7
– debt securities	0	0	–
– loans	164.1	129.2	78.7
– other claims	0	0	–
Liabilities to central bank	3,304.3	2,910.1	88.1
In rubles	3,301.4	2,907.7	88.1
– loans and deposits, of which	3,088.8	2,907.7	94.1
– repo	3.6	0	0
– debt securities	212.7	0	0
– other liabilities	0	0	–

End

	31.12.2018	31.12.2019	31.12.2019 as a percentage of 31.12.2018
In foreign currency	2.9	2.4	82.8
– loans and deposits, of which	2.9	2.4	82.8
– repo	0	0	–
– debt securities	0	0	–
– other liabilities	0	0	–
Deposits included in broad money	51,843.9	54,803.1	105.7
In rubles	37,704.2	41,965.2	111.3
Transferable deposits	12,269.9	14,189.1	115.6
Other financial institutions	478.3	510.3	106.7
Non-financial organisations	6,091.0	6,808.6	111.8
Households	5,700.5	6,870.2	120.5
Other deposits	25,434.3	27,776.1	109.2
Other financial institutions	1,258.5	1,534.6	121.9
Non-financial organisations	6,990.1	7,843.7	112.2
Households	17,185.6	18,397.8	107.1
In foreign currency	14,139.8	12,837.9	90.8
Transferable deposits	0	0	–
Other financial institutions	0	0	–
Non-financial organisations	0	0	–
Households	0	0	–
Other deposits	14,139.8	12,837.9	90.8
Other financial institutions	237.0	235.9	99.5
Non-financial organisations	8,009.3	6,794.1	84.8
Households	5,893.4	5,807.9	98.5
Debt securities included in broad money	152.5	37.3	24.5
Deposits excluded from broad money	1,126.3	1,241.4	110.2
Debt securities excluded from broad money	1,531.3	1,991.0	130.0
Shares and other equity	8,006.5	9,396.6	117.4
Other items (net)	11,352.3	11,606.0	102.2
Other liabilities	17,323.4	17,766.3	102.6
Other assets	5,544.8	5,797.9	104.6
Consolidating adjustment	–426.3	–362.4	–

MEASURES TAKEN AGAINST CREDIT INSTITUTIONS IN 2019

Table 34

No.	Measures	Number of credit institutions
Measures taken as part of advisory supervision		
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	474
2	Calling a meeting ¹	421
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.)	24
Measures applied in line with Article 74 of Federal Law No. 86-FZ		
4	Fines ²	254
	of which:	
4.1	for non-compliance with reserve requirements	27
4.2	for breaches of federal laws and Bank of Russia rules and regulations issued in pursuance thereof and for non-reporting, under-reporting, or false reporting	241
5	Restrictions on individual banking operations conducted by credit institutions ²	44
	of which:	
5.1	taking household funds on deposit	28
5.2	settlements on behalf of corporate entities relating to transfer of funds to budgets of all levels and government extra-budgetary funds	—
5.3	opening bank accounts to corporate entities and households	27
5.4	interest rate on bank deposit agreements concluded (prolongated) in the restriction period	—
6	Prohibiting credit institutions from conducting certain banking operations ²	—
	of which:	
6.1	taking household funds on deposit	—
6.2	opening bank accounts to households, including unallocated metal accounts (demand and time accounts)	—
6.3	Other	—
	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 ³	—
7	Prescriptive orders ²	359
	of which:	
7.1	orders to comply with Bank of Russia required ratios	1
7.2	orders to replace persons whose positions are indicated in Article 60 of Federal Law No. 86-FZ due to their failure to comply with the qualification requirements and/or requirements for business reputation in accordance with Russian laws	18
7.3	orders to reclassify receivables	187
7.4	orders to build up loan loss provisions	210
8	Prohibiting credit institutions from opening branches	7
9	Appointing provisional administrations to credit institutions without revoking their licences (including provisional administrations whose functions have been assigned to the DIA and the FBSC AMC Ltd.)	2
10	Banking licence revocation	28

¹ This does not include meetings conducted at the credit institution's request.

² 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.

³ Federal Law No. 177-FZ, dated 23 December 2003, 'On the Insurance of Deposits with Russian Banks'.

**STATE CORPORATION DEPOSIT INSURANCE AGENCY'S DEBT TO THE BANK OF RUSSIA
(MILLIONS OF RUBLES)**

Table 35

	01.01.2019	01.01.2020
Bank of Russia loans, total	1,879,889	1,668,503
of which:		
– extended for the purpose of taking measures to prevent bankruptcy of credit institutions	1,082,889	1,084,503
– extended for the purpose of ensuring the financial stability of the deposit insurance system and financing the payment of indemnities in respect of deposits	797,000	584,000

PROTECTION OF BANK DEPOSITORS

Table 36

	01.01.2019	01.01.2020
Number of banks participating in the deposit insurance system	757 ¹	723 ²
of which:		
– operating banks	407 ¹	371 ²
– under liquidation	350	352
Number of banks included in the deposit insurance system in the reporting period	2	0
Number of banks excluded from the deposit insurance system in the reporting period	26	34
Insured events in the reporting period	57	24
of which the moratorium on meeting creditor claims imposed	2	0

¹ Banks participating in the deposit insurance system include seven credit institutions that used to attract deposits but lost the right to attract household funds.

² Banks participating in the deposit insurance system include six credit institutions that used to attract deposits but lost the right to attract household funds.

**OUTCOMES OF BANK OF RUSSIA ACTIVITY TO COUNTER ABUSES ON RUSSIAN ORGANISED TRADING
(UNITS)**

Table 37

Indicator	2017	2018	2019
Number of inspections with respect to possible MIIMM, ¹ total	72	36	33
of which:			
– held in the reporting year	20	15	16
Number of disclosures with regard to violations of the Russian Federation legislation on CMIIMM, ² total	12	16	16 ³
of which:			
– as a result of market manipulation	10	14	16
– as a result of misuse of insider information	2	2	1
Measures taken as a result of inspections with respect to possible MIIMM			
of which:			
– number of licences of financial market participants cancelled	2	0	12
– number of certificates of financial market experts cancelled	14	6	9
– number of orders to eliminate violations of the Russian Federation legislation and take measures to prevent future violations	40	84	69
– number of instances of blocking accounts of persons involved in market manipulation	4	10	0
Number of instances the materials of which have been submitted to law enforcement agencies	6	3	7
Number of financial instruments analysed with respect to possible organised market manipulation	254	290	358

¹ MIIMM means misuse of insider information and market manipulation.² CMIIMM means countering the misuse of insider information and market manipulation.³ One of cases of disclosure contained information on an identified misuse of insider information and market manipulation case.

OUTCOMES OF BANK OF RUSSIA ACTIVITY TO COUNTER ORGANISATIONS BEING FINANCIAL PYRAMID SCHEMES

Table 38

Indicator	2017	2018	2019
Number of organisations being financial pyramid schemes exposed by the Bank of Russia, units	137	168	237
Amount of damage inflicted by financial pyramid schemes (according to law enforcement agencies), billions of rubles	0.8	2.4	8.4

OUTCOMES OF COUNTERING UNLICENSED ACTIVITY IN THE FINANCIAL MARKET (UNITS)

Table 39

Indicator	2017	2018	2019
Number of organisations supposedly acting as illegal creditors exposed by the Bank of Russia	1,344	2,293	1,845
Number of organisations supposedly performing other activity in the financial market without a proper licence exposed by the Bank of Russia	data were not gathered	88	308
Number of websites of illegal forex dealers exposed by the Bank of Russia	129	223	314

OUTCOMES OF BANK OF RUSSIA ACTIVITY TO EXCHANGE INFORMATION, INCLUDING CONFIDENTIAL ONE, WITH FOREIGN FINANCIAL MARKET REGULATORS UNDER IOSCO MMOU¹

Table 40

Indicator	2017	2018	2019
Number of Bank of Russia requests to provide information and documents	48	77	130
Number of requests to provide information and documents answered by foreign regulators	39	46	63
Number of foreign regulators' requests to render assistance	30	22	35
of which:			
– with regard to business reputation of owners, managers and employees of organisations, financial market participants	17	11	13

¹ IOSCO MMoU means a multilateral memorandum of understanding concerning consultation and cooperation and the exchange of information under the International Organization of Securities Commissions.

STRUCTURE OF BANK OF RUSSIA BANKNOTES IN CIRCULATION

Table 41

Denomination, rubles	Total in circulation, millions of rubles		01.01.2020 as a percentage of 01.01.2019	Share, per cent	
	as of 01.01.2019	as of 01.01.2020		as of 01.01.2019	as of 01.01.2020
5,000	7,656,655.9	8,077,858.0	105.5	74.9	76.8
2,000	447,021.0	477,688.9	106.9	4.4	4.5
1,000	1,663,463.8	1,528,042.9	91.9	16.3	14.5
500	271,111.0	257,126.8	94.8	2.6	2.5
200	31,635.1	32,108.2	101.5	0.3	0.3
100	117,922.8	115,458.7	97.9	1.2	1.1
50	28,690.3	28,295.4	98.6	0.3	0.3
10	3,847.1	3,684.1	95.8	0.0	0.0
5	35.6	35.6	100.0	0.0	0.0
Total balance sheet number of banknotes	10,220,382.6	10,520,298.6	102.9	100.0	100.0

STRUCTURE OF BANK OF RUSSIA COINS IN CIRCULATION¹

Table 42

Denomination	Total in circulation, millions of rubles		01.01.2020 as a percentage of 01.01.2019	Share, per cent	
	as of 01.01.2019	as of 01.01.2020		as of 01.01.2019	as of 01.01.2020
1 kopeck	72.8	72.8	100.0	0.1	0.1
5 kopecks	288.4	288.3	100.0	0.3	0.3
10 kopecks	2,543.1	2,541.1	99.9	2.5	2.4
50 kopecks	3,649.5	3,648.8	100.0	3.5	3.4
1 ruble	8,241.5	8,610.1	104.5	8.0	8.0
2 rubles	7,251.6	7,607.4	104.9	7.1	7.1
5 rubles	14,230.0	14,919.1	104.8	13.9	13.9
10 rubles	62,672.2	65,486.1	104.5	61.2	61.3
25 rubles	3,474.8	3,693.1	106.3	3.4	3.5
Total balance sheet number of coins	102,423.9	106,866.8	104.3	100.0	100.0

¹ Excluding coins made of precious metals.

NATIONAL PAYMENT SYSTEM KEY INDICATORS

Table 43

	2018	2019
National payment system participants¹		
Number of money transfer operators	485	443
of which:		
– Bank of Russia	1	1
– VEB.RF ²	1	1
– credit institutions	483	441
Number of payment system operators	36	32
of which:		
– Bank of Russia	1	1
– credit institutions	15	14
– organisations other than credit institutions	20	17
Number of operators of payment infrastructure services	45	43
of which:		
– operating centres	32	28
– payment clearing centres	31	28
– settlement centres	28	27
Number of e-money operators	93	86
Number of federal post offices ²	2	2
<i>Memo item</i>		
Number of Bank of Russia establishments	253	231
Number of branches of credit institutions	709	618
Number of establishments of federal post offices ³	42,948	42,946
of which rendering payment services	38,712	38,765
Number of payment systems operating in the Russian Federation	36	32
of which:		
– Bank of Russia Payment System	1	1
– Mir payment system	1	1
– payment systems registered by the Bank of Russia	34	30
of which:		
– nationally important	17	15
– systemically important	2	2
– socially important	4	4
Money transfer operators – credit institutions		
Number of payments effected by credit institution customers being credit institutions, million	162.1	167.0
Number of payments effected by credit institution customers other than credit institutions, ⁴ million	35,638.5	46,704.3
of which, by payment instrument:		
– credit transfers ⁵	2,568.3	2,721.4
– direct debits ⁶	143.9	199.2
– payment cards ⁷	29,127.8	39,217.0
– electronic means of payment to transfer e-money ⁸	2,165.7	2,778.1
– other payment instruments ⁹	1,632.8	1,788.6
Volume of payments effected by credit institution customers being credit institutions, trillions of rubles	696.6	720.6
Volume of payments effected by credit institution customers other than credit institutions, ⁴ trillions of rubles	758.6	836.8
of which, by payment instrument:		
– credit transfers ⁵	696.1	755.4
– direct debits ⁶	2.0	2.4
– payment cards ⁷	49.7	63.7
– electronic means of payment to transfer e-money ⁸	1.6	1.9
– other payment instruments ⁹	9.2	13.4

End

	2018	2019
Number of payment cards issued by Russian credit institutions, ¹ million	272.6	285.8
Number of payment card operations in Russia and abroad, ¹⁰ million	32,324.1	42,305.2
of which:		
– cash withdrawals	3,196.3	3,088.2
– cashless operations	29,127.8	39,217.0
of which payments of goods and services	24,638.6	32,807.8
Volume of payment card operations in Russia and abroad, ¹⁰ trillions of rubles	77.9	92.6
of which:		
– cash withdrawals	28.1	28.9
– cashless operations	49.8	63.7
of which payments of goods and services	21.3	26.8
Share of cashless operations ¹¹ in the total turnover of retail trade, public catering and paid services, per cent	55.6	64.7
E-money transfer operators		
Number of electronic means of payment to transfer e-money used since start of year, million	376.0	534.6
Number of operations using electronic means of payment to transfer e-money, million	2,175.2	2,794.1
Volume of operations using electronic means of payment to transfer e-money, billions of rubles	1,675.3	1,967.6
Federal post offices³		
Number of money orders and household payments accepted by federal post offices as payment agents and operations effected by federal post offices as bank payment agents, million	519.8	527.2
Volume of money orders and household payments accepted by federal post offices as payment agents and operations effected by federal post offices as bank payment agents, billions of rubles	521.5	514.2
Payment agents and bank payment agents (subagents)		
Number of accounts opened with credit institutions for payment agents and bank payment agents (subagents), ¹ thousand	20.3	17.2
of which:		
– payment agents (subagents)	16.7	13.7
– bank payment agents (subagents)	3.6	3.5
Volume of operations effected through payment agents and bank payment agents (subagents), billions of rubles	1,604.8	1,340.9
of which:		
– payment agents (subagents)	843.0	635.2
– bank payment agents (subagents)	761.8	705.7

¹ As of end of year.² JSC Russian Post, FSUE Post of Crimea.³ According to JSC Russian Post, FSUE Post of Crimea.⁴ Including payments of credit institution customers — households and legal entities other than credit institutions and credit institutions' own payments.⁵ Including payments effected using payment orders and letters of credit as well as household remittances without opening a bank account.⁶ Including payments effected using payment requests and collection orders.⁷ Excluding operations to withdraw cash.⁸ Excluding operations to transfer e-money balance withdrawn in cash.⁹ Including payments effected using cheques and bank orders.¹⁰ 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.¹¹ Including operations using payment cards and e-money as well as other payment instruments (e.g. payment orders generated based on invoices).

BANK OF RUSSIA PAYMENT SYSTEM

Table 44

	2018	2019
Number of remittances effected, million	1,591.3	1,715.7
of which:		
– by credit institutions (branches)	1,316.7	1,404.8
– by customers other than credit institutions	274.2	310.5
– by Bank of Russia divisions	0.4	0.4
including via transfer services:		
– via the non-speedy funds transfer service	5.2	4.4
– via the speedy funds transfer service	1,586.1	1,704.5
– via the faster payments service	–	6.8
Volume of remittances effected, trillions of rubles	1,715.1	1,566.5
of which:		
– by credit institutions (branches)	1,334.8	1,250.9
– by customers other than credit institutions	148.6	155.4
– by Bank of Russia divisions	231.7	160.2
including via transfer services:		
– via the non-speedy funds transfer service	1,447.7	1,304.6
– via the speedy funds transfer service	267.4	261.8
– via the faster payments service	–	0.1

STRUCTURE OF BANK OF RUSSIA CUSTOMERS OTHER THAN CREDIT INSTITUTIONS
AND NUMBER OF ACCOUNTS OPENED FOR THEM
(THOUSAND)

Table 45

	Number of customers			Number of accounts		
	as of 01.01.2019	as of 01.01.2020	change over 2019	as of 01.01.2019	as of 01.01.2020	change over 2019
Total	0.9	0.7	–0.2	49.4	48.3	–1.1
Federal Treasury	0.2	0.1	–0.1	47.4	46.6	–0.8
Regional and local budget management bodies	0.4	0.3	–0.1	1.6	1.3	–0.3
State-owned institutions financed from budgets of all levels	0.1	0.1	0.0	0.1	0.1	0.0
Government and other extra-budgetary funds	0.01	0.01	0.00	0.02	0.02	0.00
Election commissions (referendum commissions)	0.1	0.1	0.0	0.1	0.1	0.0
Other organisations	0.1	0.1	0.0	0.2	0.2	0.0

List of abbreviations

- ACCC** – agricultural consumer credit cooperative
- AFD** – Association of Forex Dealers
- AFI** – Alliance for Financial Inclusion
- AML/CFT/CFPMD** – countering the legalisation (laundering) of criminally obtained incomes, financing terrorism and proliferation of weapons of mass destruction
- ANPF** – Self-regulatory organization Association of Non-state Pension Funds
'Alliance of Pension Funds'
- APEC** – Asia-Pacific Economic Cooperation
- API** – application programming interface
- Bank of Russia PS** – Bank of Russia Payment System
- BCBS** – Basel Committee on Banking Supervision
- BESP** – banking electronic speedy payment system
- BIS** – Bank for International Settlements
- BPM6** – the 6th edition of the IMF's Balance of Payments and International Investment Position Manual
- BRICS** – Brazil, Russia, India, China, South Africa
- CCC** – consumer credit cooperative
- CCCH** – Central Catalogue of Credit Histories
- CCP** – central counterparty
- CD** – central depository
- CDS** – credit default swap
- CHB** – credit history bureau
- CI** – credit institution
- CI PSMP** – credit institution that is a professional securities market participant
- CIS** – Commonwealth of Independent States
- CMTPLI** – compulsory motor third-party liability insurance
- Coupon OBR** – Bank of Russia coupon bonds
- CPMI** – BIS Committee on Payments and Market Infrastructures
- CSC** – Bank of Russia cash settlement centre
- DBR** – debt burden ratio
- DIA** – State Corporation Deposit Insurance Agency
- EAEU** – Eurasian Economic Union
- ECB** – European Central Bank
- ELA** – emergency liquidity assistance mechanism
- EME** – emerging market economies
- E-money** – electronic money
- EMP** – electronic means of payment
- EROPS** – early-retirement occupational pension schemes
- EU** – European Union

EXIAR – Russian Agency for Export Credit and Investment Insurance

FAO – UN Food and Agriculture Organisation

FAS – Federal Antimonopoly Service

FATF – Financial Action Task Force

FBSC – Fund of Banking Sector Consolidation

FBSC AMC Ltd. – Limited Liability Company Fund of Banking Sector Consolidation Asset Management Company

FCS – Federal Customs Service

Federal Law No. 115-FZ – Federal Law No. 115-FZ, dated 7 August 2001, ‘On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism’

Federal Law No. 161-FZ – Federal Law No. 161-FZ, dated 27 June 2011, ‘On the Central Bank of the Russian Federation (Bank of Russia)’

Federal Law No. 395-1 – Federal Law No. 395-1, dated 2 December 1990, ‘On Banks and Banking Activities’

Federal Law No. 86-FZ – Federal Law No. 86-FZ, dated 10 July 2002, ‘On the Central Bank of the Russian Federation (Bank of Russia)’

FGUP – federal state unitary enterprise

FinCERT – Financial Sector Computer Emergency Response Team of the Bank of Russia Information Security Department

FMII – financial market infrastructure institution

FMS – Financial messaging system Bank of Russia

FPS – Faster Payments System

FSB – Financial Stability Board

FSES – federal state educational standard

FSS Conso File – functional sub-system Supervised Institution Consolidated File

FTS – Federal Tax Service

GDP – gross domestic product

GKO – government short-term bonds

GSO – government savings bonds

HML – housing mortgage loans

HSC – housing savings cooperative

IAIS – International Association of Insurance Supervisors

IBL – loans, deposits and other funds placed (raised) in the interbank market

IBRD – International Bank for Reconstruction and Development

ICAAP – internal capital adequacy assessment process

ICL – irrevocable credit line

IE – insurance entities

IFRS – International Financial Reporting Standards

IFX-Cbonds – Russian corporate bond index (calculated by Interfax and Cbonds.ru news agencies)

IIA – individual investment account

IMF – International Monetary Fund

IOSCO – International Organisation of Securities Commissions

IOSCO MMoU – IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information

IQA – independent qualification assessment

IRB approach – internal ratings-based approach to calculating credit risk

IT – information technologies

JSC RNRC – Joint-stock Company Russian National Reinsurance Company

JSC SPCEX – Joint-stock Company Saint Petersburg Currency Exchange

JSC SPIMEX – Joint-stock Company Saint Petersburg International Mercantile Exchange

JSIF – joint-stock investment fund

LCR – liquidity coverage ratio

LIBOR – London Interbank Offered Rate

MC – management company

MCC – microcredit company

MFC – microfinance company

MFO – microfinance organisation

NAB – non-core asset bank

NAPF – Self-regulatory organization National Association of Non-state Pension Funds

NAUFOR – National Association of Securities Market Participants

NCI – non-bank credit institution

NCI JSC NSD – Non-bank Credit Institution Joint-stock Company
National Settlement Depository

NCI NCC (JSC) – Non-bank Credit Institution – Central Counterparty National Clearing Centre
(Joint-stock Company)

NFI – non-bank financial institution

NFI PSMP – non-bank financial institution that is a professional securities market participant

NPCS – National Payment Card System

NPF – non-governmental pension fund

NPS – national payment system

NRU HSE – National Research University Higher School of Economics

NSD PS – NSD payment system

NWF – National Wealth Fund

OBR – Bank of Russia bonds

OECD – Organisation for Economic Cooperation and Development

OFZ – federal government bonds

OFZ-AD – debt depreciation federal government bonds

OFZ-IN – inflation-indexed federal government bonds

OFZ-n – federal government bonds for individuals

OFZ-PD – permanent coupon-income federal government bonds

OFZ-PK – variable coupon-income federal government bonds

OPEC – Organisation of the Petroleum Exporting Countries

OPEC+ – OPEC countries and other countries that are participants of oil production
restriction agreements

PFR – Pension Fund of the Russian Federation

PJSC Moscow Exchange — Public Joint-stock Company Moscow Exchange MICEX-RTS
PJSC Sberbank — Public Joint-stock Company Sberbank of Russia
PSMP — professional securities market participant
RGBEY — Russian Government Bonds Effective Yield to Redemption
RTS — Russian Trading System
RUONIA — Ruble OverNight Index Average (reference weighted rate of overnight ruble deposits in the Russian interbank market)
SDR — Special Drawing Rights
SIBSD — Systematically Important Banks Supervision Department of the Bank of Russia
SICI — systemically important credit institution
SME — small and medium-sized enterprises
SOBS — Service for Ongoing Banking Supervision of the Bank of Russia
SRO — self-regulatory organisation
SRO NFA — self-regulatory organisation National Finance Association
SROFM — self-regulatory organisation in the financial market
SRP — solvency recovery plan of an insurance company
SWIFT — Society for Worldwide Interbank Financial Telecommunications
TCC — total cost of credit
UIF — unit investment fund
UN — United Nations
UPSS — unified portal of state and municipal services (functions)
US Fed — US Federal Reserve System
VAT — value added tax
VEB.RF — State Development Corporation VEB.RF
XBRL — eXtensible Business Reporting Language

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