



Bank of Russia

The Central Bank of the Russian Federation

**BANK OF RUSSIA  
ANNUAL REPORT  
FOR 2014**

Moscow  
2015

Approved by the Bank of Russia Board of Directors on 30 April 2015

---

© THE CENTRAL BANK OF THE RUSSIAN FEDERATION, 2015  
12 Neglinnaya Street, Moscow 107016

# CONTENTS

<b>INTRODUCTION.....</b>	<b>12</b>
<b>I. THE ECONOMIC AND FINANCIAL SITUATION IN RUSSIA .....</b>	<b>15</b>
I.1. The global economy and international markets .....	16
I.2. The economic situation in Russia .....	19
I.3. The financial sector.....	22
I.3.1. Credit institutions.....	22
I.3.2. Non-bank financial institutions .....	26
I.3.3. Financial markets .....	30
I.4. Government finance and domestic government debt .....	35
I.5. Balance of payments and external debt.....	37
I.6. The national payment system .....	42
<b>II. BANK OF RUSSIA ACTIVITIES.....</b>	<b>45</b>
II.1. Monetary policy.....	46
II.1.1. Monetary policy objectives and results .....	46
II.1.2. Monetary indicators and monetary policy instruments.....	49
II.1.3. Exchange rate policy.....	53
II.2. Reserves management.....	56
II.3. Ensuring financial stability .....	60
II.3.1. Global risks and their impact on the Russian financial sector.....	60
II.3.2. Financial stability of the non-financial sector.....	61
II.3.3. Financial stability and banking sector risks .....	63
II.4. Banking regulation and supervision.....	66
II.4.1. Regulation of credit institutions' activities.....	66
II.4.2. Registration and licensing of banking activities.....	68
II.4.3. Off-site supervision .....	70
II.4.4. Inspection of credit institutions .....	72
II.4.5. Financial resolution and liquidation of credit institutions .....	73
II.4.6. Household deposit insurance.....	75
II.4.7. Supervisory response .....	76
II.4.8. Bank of Russia activities aimed at preventing money laundering and terrorism financing.....	77
II.5. Regulation, control and supervision of the activities of non-bank financial institutions.....	78
II.5.1. Non-bank financial institutions' access to the financial market .....	78
II.5.2. Regulation, control and off-site supervision of the activities of non-bank financial institutions .....	79
II.5.3. Inspection of non-bank financial institutions.....	83
II.5.4. Countering malpractice in the open market .....	84
II.6. Financial market development.....	85
II.6.1. Bank of Russia measures to develop the financial market.....	85
II.6.2. Actuarial activities.....	88
II.6.3. Rating agencies' activities.....	89
II.6.4. Financial market self-regulation .....	90
II.6.5. Commodity market.....	91

II.7. Regulation, control and supervision of corporate relations in joint-stock companies.....	92
II.8. Protecting the rights of financial services consumers and increasing financial literacy of the population and financial services accessibility.....	93
II.8.1. Protecting the rights of financial services consumers and increasing financial services accessibility.....	93
II.8.2. Increasing financial literacy of the population.....	95
II.9. Foreign exchange regulation and foreign exchange control .....	96
II.10. Cash circulation management .....	97
II.11. Stability and development of the national payment system.....	99
II.11.1. Bank of Russia activities to ensure the stability and development of the national payment system .....	99
II.11.2. Development and upgrading of the Bank of Russia payment system.....	101
II.12. Improving the accounting and reporting of credit institutions and non-bank financial institutions.....	102
II.13. Improving legislation .....	103
II.14. Internal auditing .....	105
II.15. Other Bank of Russia activities.....	107
II.15.1. Changes in the Bank of Russia's organisational structure.....	107
II.15.2. Staffing and personnel training .....	109
II.15.3. Bank of Russia information and telecommunications system development .....	112
II.15.4. International cooperation.....	113
II.15.5. Bank of Russia stakeholdings in the capital of Russian and foreign credit institutions and other organisations .....	115
II.15.6. Managing lawsuits and claims .....	117
<b>III. BANK OF RUSSIA ANNUAL FINANCIAL STATEMENTS AS OF 1 JANUARY 2015 AND AUDITORS' REPORTS .....</b>	<b>119</b>
Introduction.....	120
Annual balance sheet as of 1 January 2015.....	121
Statement of financial performance .....	122
Capital, funds and profit allocation .....	123
Notes to annual financial statements as of 1 January 2015.....	126
1. Accounting and financial reporting principles.....	126
2. Impact of economic conditions on Bank of Russia financial statements.....	137
3. Precious metals .....	138
4. Funds placed with non-residents and foreign securities .....	139
5. Loans and deposits.....	140
6. Securities .....	142
7. Claims on the IMF .....	144
8. Other assets .....	145
9. Cash in circulation .....	147
10. Funds on accounts with the Bank of Russia.....	147
11. Float.....	149
12. Securities issued.....	149
13. Obligations to the IMF.....	149

14. Other liabilities .....	150
15. Reporting year profit .....	150
16. Interest income .....	151
17. Income from securities trading .....	152
18. Income from stakeholdings in credit institutions and other organisations .....	152
19. Other income .....	153
20. Interest expenses .....	153
21. Expenses on securities trading .....	154
22. Cash turnover management expenses .....	154
23. Net expenses on (income from) the creation (recovery) of provisions .....	155
24. Expenses on negative revaluation of securities available for sale .....	156
25. Other operating expenses .....	156
26. Personnel costs .....	157
27. Off-balance sheet claims and obligations accounts .....	157
28. Post-accounting date events .....	160
Statement of profit and its allocation .....	161
Statement of Bank of Russia reserves and funds .....	163
Statement of Bank of Russia management of securities and stakeholdings in the capital of organisations constituting Bank of Russia property .....	165
Statement of the volume of Bank of Russia securities trading on organised trading venues .....	168
Statement of Bank of Russia personnel costs .....	169
Statement of capital investment budget performance .....	170
<b>AUDITORS' REPORTS .....</b>	<b>172</b>
<b>IV. ADDENDA .....</b>	<b>177</b>
IV.1. Principal measures to implement the single state monetary policy in 2014 .....	178
IV.2. Principal measures to upgrade banking regulation and supervision in 2014 .....	184
IV.3. Principal measures to improve regulation in the national payment system in 2014 .....	189
IV.4. Principal measures to develop financial markets in 2014 .....	192
IV.5. Statistical tables .....	195

**LIST OF CHARTS**

1. Growth in output of goods and services .....	17
2. Change in exchange rates of some currencies against the US dollar in 2014 .....	18
3. GDP by expenditure .....	20
4. Inflation, core inflation, and change in administered service prices (growth).....	20
5. Key banking sector indicators.....	22
6. Banking sector profit factors .....	25
7. Capital adequacy.....	25
8. Spreads between interest rates and Bank of Russia key rate and turnovers in certain segments of money market in 2014.....	30
9. Dual-currency basket value and US dollar and euro trade volume on Moscow Exchange in 2014.....	31
10. Futures contract trade on Moscow Exchange .....	31
11. Bond yields in secondary market in 2014.....	32
12. Stock price indices in secondary market in 2014 .....	33
13. General government expenditures.....	35
14. Federal budget accounts with the Bank of Russia.....	36
15. Russia's major balance of payments components and international reserves .....	37
16. Russia's external debt (billions of US dollars).....	40
17. Russia's external debt (percent of GDP) .....	40
18. Bank of Russia interest rate corridor and overnight MIACR in 2014 .....	47
19. Money supply (contribution of certain components to M2X annual growth rates) .....	48
20. Banking system main assets and broad money (annual growth) .....	48
21. Liquidity factors and growth in outstanding amount on Bank of Russia operations .....	49
22. Change in volume of cash in circulation, on accrual basis since start of year.....	50
23. Change in balances of general government accounts with the Bank of Russia and other operations in 2014, on accrual basis since start of year .....	50
24. Bank of Russia claims on / obligations to credit institutions on liquidity providing and absorbing operations in 2014 .....	52
25. Bank of Russia interventions in domestic foreign exchange market and dual-currency basket value.....	54
26. Factors behind changes in Bank of Russia foreign currency reserve assets in 2014 .....	56
27. Bank of Russia foreign currency reserve assets by eligible currency as of 1 January 2015 .....	57
28. Bank of Russia foreign currency reserve assets by credit rating as of 1 January 2015 .....	58
29. Bank of Russia foreign currency reserve assets by instrument as of 1 January 2015 .....	58
30. Bank of Russia foreign currency reserve assets by country as of 1 January 2015.....	58
31. Components of annual growth rates in non-financial organisations' deposits.....	64
32. Components of annual growth rates in household deposits.....	64
33. Number of registered operating credit institutions and banking licences granted to them .....	68
34. Operating credit institutions by authorised capital .....	69
35. Trade by commodity in 2014 .....	91
36. Cash in circulation .....	97
37. Detection of counterfeit Bank of Russia notes and coins .....	98
38. Detection of counterfeit foreign banknotes .....	98
39. Number of Bank of Russia personnel by division as of 1 January 2015 (taking account of territorial structure reorganisation).....	107
40. Age structure of Bank of Russia executives and specialists.....	110
41. Ratio of executives and specialists with higher professional education.....	110

**LIST OF TABLES**

1. Key macroeconomic indicators.....	195
2. Consumer prices by group of goods and services (growth) .....	196
3. Consumer price inflation structure .....	196
4. Balance of household money income and expenses .....	197
5. Russia's domestic government debt as of 1 January 2015 (at face value) .....	198
6. Finance Ministry debt to the Bank of Russia as of 1 January 2015.....	198
7. Volume (turnover) of resident operations with non-residents to buy and sell Russian government outstanding foreign currency debt obligations in secondary market (at market prices).....	198
8. Institutionalised financial intermediaries .....	199
9. Balance of payments of the Russian Federation (analytical presentation) .....	200
10. Private sector net capital inflow (outflow) (according to balance of payments data) .....	202
11. Private sector net capital inflow (outflow) by type of investment (according to balance of payments data) .....	203
12. Cross-border transactions of individuals (residents and non-residents).....	204
13. Net incurrence of liabilities by Russian Federation residents by type of investment (according to balance of payments data) .....	205
14. Net acquisition of financial assets by Russian Federation residents, excluding reserve assets, by type of investment (according to balance of payments data) .....	205
15. International investment position of the Russian Federation .....	206
16. Russian banking sector international investment position statement .....	207
17. Currency structure of Russian banking sector foreign assets and liabilities .....	209
18. Russian banking sector foreign assets and liabilities by group of countries as of 1 January 2015 .....	210
19. Russia's international reserves .....	211
20. Return on Bank of Russia foreign currency reserves in 2014 .....	211
21. Bank of Russia foreign exchange interventions in 2014 .....	211
22. Basic indicators of ruble's exchange rates in 2014.....	212
23. External debt of the Russian Federation .....	213
24. External debt of the Russian Federation (analytical presentation) .....	214
25. Money supply (national definition) and its structure.....	215
26. Monetary base and its structure .....	215
27. Bank of Russia interest rates in 2014.....	216
28. Bank of Russia operations to provide and absorb liquidity.....	217
29. Banking sector survey .....	218
30. Survey of credit institutions.....	219
31. Corrective measures taken against credit institutions in 2014.....	220
32. Structure of Bank of Russia banknotes in circulation .....	221
33. Structure of Bank of Russia coins in circulation.....	221
34. National payment system key indicators .....	222
35. Bank of Russia payment system .....	224
36. Structure of Bank of Russia customers other than credit institutions and number of accounts opened for them .....	225



# Board of Directors of the Central Bank of the Russian Federation



Elvira Nabiullina  
Governor of the Bank of Russia



Georgy Luntovskiy  
First Deputy Governor  
of the Bank of Russia



Alexey Simanovskiy  
First Deputy Governor  
of the Bank of Russia



Sergey Shvetsov  
First Deputy Governor  
of the Bank of Russia



Ksenia Yudaeva  
First Deputy Governor  
of the Bank of Russia



Nadezhda Ivanova  
Deputy Governor  
of the Bank of Russia –  
Director,  
General Economic  
Department



Dmitry Skobelkin  
Deputy Governor  
of the Bank of Russia



Mikhail Sukhov  
Deputy Governor  
of the Bank of Russia



Vladimir Chistyukhin  
Deputy Governor of the  
Bank of Russia



Sergey Ignatiev  
Adviser to the Governor  
of the Bank of Russia



Alexey Plyakin  
Head of the Volga-Vyatka  
Main Branch  
of the Bank of Russia



Nadezhda Savinskaya  
Head of the North-Western  
Main Branch  
of the Bank of Russia



## OPENING REMARKS

Dear readers,

The tasks set for 2014 had to be tackled amid serious external challenges. In its decision-making, the Central Bank of the Russian Federation had to strike a balance between its objectives of price and financial stability and take into account the risks of the economy's slowdown. Despite this, the Bank of Russia completed its planned transition to the inflation targeting regime and floating exchange rate. A large-scale project to establish a national payment cards system was launched on a tight schedule. The Russian banking system took on the main role of providing financial resources to the Russian economy amid the restricted external financing.

The year of 2014 was the Bank of Russia's first full year working as a mega-regulator. An integrated approach to regulation gave a fresh impetus to the development of non-bank financial institutions and financial market infrastructure. At the same time, the expansion of the Bank of Russia's powers as a mega-regulator helped improve the effectiveness of banking supervision.

Last year, the Bank of Russia overhauled its organisational structure, including on a regional level. Bank of Russia divisions started operations in the Crimea Federal District, where active efforts are being taken to establish financial and economic conditions to meet the needs of businesses and population in this region.

The Bank of Russia's desire to achieve information transparency remains unchanged. Over the past year, the Bank of Russia significantly expanded its channels of communication with the business community and public and stepped up efforts to raise financial literacy among the Russian population.

The full range of the Bank of Russia's activities are presented in the Annual Report which follows.

Governor of the Bank of Russia



Elvira S. Nabiullina

## INTRODUCTION

The Bank of Russia Annual Report for 2014 prepared in accordance with the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' reflects the results of the bank's performance and contains an analysis of the conditions shaping the bank's activities, its annual financial statements, the auditor's report and a statement by the Audit Chamber of the Russian Federation.

In 2014, the Bank of Russia operated under difficult circumstances. A combination of intensifying geopolitical tensions, a deteriorating external economic environment and negative domestic economic trends called for – in addition to planned on-going work – effective non-standard decision-making in virtually all key areas of the bank's activity. Furthermore, due to the reunion of the Republic of Crimea and the city of Sevastopol with the Russian Federation, the bank had to quickly carry out a range of measures to convert the monetary, payment and banking systems and non-bank financial institutions situated in these areas to operate in accordance with Russian legislation, rules and conditions.

The imposition of economic sanctions against Russia and deterioration of the situation in the global hydrocarbon market led to the ruble depreciation, growing inflation and a drop in business confidence. The result was a slowdown in economic activity and a reduction in fixed capital investment.

As before, structural factors played a role in the economic slowdown in 2014. Amid the on-going contraction of external demand, domestic demand was low. The output gap was estimated to be slightly negative.

Inflation in 2014 was 11.4%, exceeding the target (5%) set in the 'Guidelines for the Single State Monetary Policy in 2014 and for 2015 and 2016', which is primarily due to the direct and indirect effects of

the exchange rate dynamics and foreign trade restrictions.

In 2014, the Bank of Russia finished its preparations to introduce the inflation targeting regime, which prioritises price stability over all other monetary policy objectives. To improve the effectiveness of its interest rate policy, the Bank of Russia increased the exchange rate flexibility and completed transition to a floating ruble exchange rate in the first half of November.

In 2014, the Bank of Russia repeatedly raised its key rate. These actions were aimed at curbing inflation expectations and ensuring that price growth would slow to the target in the medium term, in addition to staving off the emerging inflation risks and risks to financial stability. At the same time, in order to limit significantly increased depreciation and inflation risks, the Bank of Russia implemented a significant one-time increase in its key rate to 17% p.a. in December. The tightening of monetary conditions amid the slowdown in economic growth and the sanctions imposed on the Russian financial sector required the Bank of Russia to implement a number of measures to prevent financial destabilisation and support priority areas for economic development. To increase the opportunities for credit institutions to manage liquidity, the Bank of Russia increased the potential amount of collateral on its loans and extended the maturity of secured loans, and continued its work to improve standard instruments and develop specialised instruments to support certain economic sectors.

In 2014, the role of the domestic banking sector in providing financial resources to the Russian economy increased. The ratio of banking sector assets to GDP was about 110%, which is higher than the target (90%) set in the Russian Banking Sector Development Strategy until 2015. This was generally down to growth in

bank lending to large corporate borrowers amid the restricted access for Russian companies and banks to borrowing in the international financial market. The mortgage lending segment showed the most dynamic growth in the retail lending market.

Banks' funding base expanded in 2014, primarily on account of funds deposited by organisations. At the same time, the slower growth in household deposits and limited access to external funding led to increased demand for loans from the Bank of Russia and Federal Treasury funds.

Due to the sanctions imposed by the EU and the US against Russian major credit institutions and non-financial organisations, the Bank of Russia carried out a number of temporary measures to maintain stability in the Russian banking sector related to banking regulation easing.

In 2014, the Bank of Russia continued implementing its policy of rehabilitating and strengthening the banking sector and took measures to further intensify banking supervision. In organising these efforts, the Bank of Russia was guided by the need to guarantee maximum transparency in bank operations for the regulator and to understand the business model of banks and the economics of the operations carried out by banks.

In supervising the activities of credit institutions, risk-based approaches were developed to improve responsiveness of certain banks to negative developments, offer more conservative assessments of banking risks and select supervisory measures that are effective and fitting for the violations committed. At the same time, the Bank of Russia has improved its approaches to assessing the stability of credit institutions and defining the actual quality of their assets and capital, the peculiarities of their resource base formation, and the reliability of their statements. Changes to legislation, in-

cluding the expansion of the Bank of Russia's powers as a mega-regulator, increased opportunities to implement banking supervision over banks' operations with other financial market participants.

In 2014, significant efforts were made to bring the quality of regulation of non-bank financial institutions closer to the level applicable to banks, grant them access to the financial market, and develop the market infrastructure. The Bank of Russia worked to expand financial services accessibility and increase financial literacy of the population.

A sharp aggravation of geopolitical tensions forced the Bank of Russia to pay particular attention to the risk of Russian banks being disconnected from international payment systems. As a result, in 2014 the Bank of Russia started work to develop a national payment card system. To reduce Russian members' dependence on the SWIFT system, a system was developed to transmit financial messages for operations within the country, based on infrastructure of the Bank of Russia payment system.

In 2014, the Bank of Russia completely overhauled its territorial structure. As a result, 79 regional branches and national banks were restructured into seven main branches with their respective divisions (national bank divisions). Two new regional divisions were formed: one in the Republic of Crimea and another in the city of Sevastopol. An infrastructure of divisions of non-bank financial institutions was formed; the Bank of Russia Chief Inspectorate of Credit Institutions was reorganised into the Bank of Russia Chief Inspection, which was assigned to carry out inspection activities in relation to non-bank financial institutions. The Bank of Russia also set up an expert committee to protect the rights of financial services consumers and minority shareholders.



# **I. THE ECONOMIC AND FINANCIAL SITUATION IN RUSSIA**

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

In 2014, the growth in output of goods and services globally remained unchanged from 2013 at 3.4%, according to International Monetary Fund (IMF) estimates. Economic growth in Russia's trading partners, which had accelerated in 2013 and early 2014, slowed drastically in the second half of 2014, mainly due to a deepening economic recession in Ukraine and a slower growth in other countries in the Commonwealth of Independent States (CIS).

The major nations of the world showed contrasting economic growth rates in 2014. According to the IMF, GDP growth in advanced countries increased in 2014 compared with 2013 from 1.4% to 1.8%, while it slowed from 5.0% to 4.6% in emerging market economies. Economic growth in the US and UK was the highest among advanced countries, with GDP growth at 2.4% and 2.8% respectively (2.2% and 1.7% in 2013). This increase in GDP growth was due to accelerated growth in fixed capital investment and consumer spending, as well as public expenditure dynamics (in the US, the decline in these figures slowed, while they increased in the UK). The main factors underpinning economic recovery were the improved situation in the labour market, the reduction in household debt, and easy monetary policy. In October 2014, the US Federal Reserve System (Fed) fully curtailed its asset purchase programme, but did not move to raise its key rate due to low inflation and unstable economic growth. The Bank of England also kept rates at a low level despite achieving its targets for inflation and unemployment.

GDP growth in the euro area was 0.9% in 2014 (–0.5% in 2013). In the second half of the year, growth accelerated slightly due to an increase in consumer spending, a fall in energy prices, increased exports due to the euro depreciation and improved investor sentiment following the European Central Bank's (ECB) announcements about starting a quantitative easing programme. However, the economic situation of countries in the region differed significantly. GDP growth in Germany and Spain increased from 0.2% and –1.2% in 2013 to 1.6% and 1.4% in 2014 respectively, whereas the French economy grew by only 0.4% and in Italy it shrank by 0.4% (0.3% and –1.7% in 2013 respectively). The high level of unemployment in certain countries

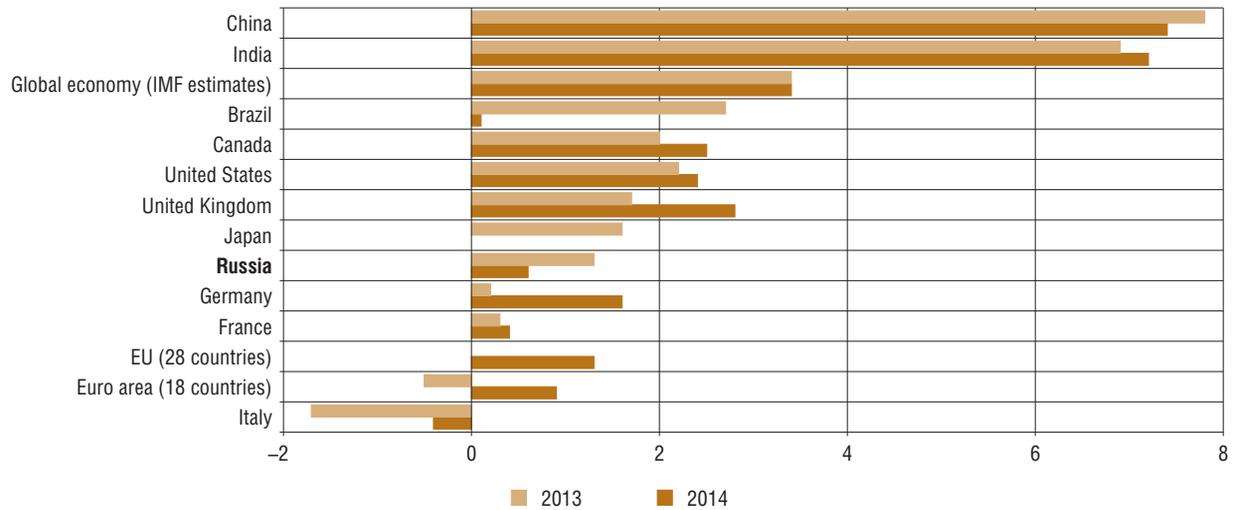
in the region continues to pose a serious problem: in Greece and Spain unemployment reached 26.5% and 24.5%, while in Germany it was 5.0% (in 2014, the average figure for the euro area was 11.6%).

Faced with a weak economic activity, deteriorating consumer and investor sentiment, a slow growth in money supply and lending and the threat of deflation, the ECB twice – in June and September 2014 – reduced the refinancing rate, setting it at a minimum of 0.05% p.a. Deposit rates were cut to negative values (–0.20%). In addition, the ECB decided to cease sterilising the liquidity formed during the Securities Markets Programme (May 2010 – February 2012), which was similar in effect to injecting 160 billion euros of liquidity. Amid slowing inflation and low economic growth rates in the euro area, in October–November 2014 the ECB launched a programme to repurchase covered bonds and asset-backed securities (ABS), which, together with targeted longer-term refinancing operations (TLTRO), should lead to a significant expansion in the ECB's balance sheet and give an impetus to economic activity.

The GDP of Japan did not change in 2014 (in 2013 it increased by 1.6%). In April 2014, the sales tax was increased from 5% to 8%, resulting in a sharp reduction in consumer and investment spending. To encourage economic growth, the Japanese government decided to defer the next tax hike (from 8% to 10%) from October 2015 to April 2017. The Bank of Japan in turn started to implement stimulus measures. In particular, it extended and expanded its asset purchase programme from 60–70 trillion yen to 80 trillion yen.

GDP growth in emerging market economies declined, according to IMF estimates, from 5.0% in 2013 to 4.6% in 2014 due to a slowdown in exports to advanced and major developing countries, including China, a decline in capital inflow and deteriorating funding conditions for this group of countries, and geopolitical tensions. The GDP of China increased by 7.4% in 2014 (in 2013 it increased by 7.8%). A significant slowdown in economic growth was observed in the CIS countries (from 2.2% to 1.0%), Latin America and the Caribbean (from 2.9% to 1.3%). Economic growth in emerging markets of European and Asian countries dropped less

### Growth in output of goods and services\* (percent)



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

markedly: from 2.9% and 7.0% in 2013 to 2.8% and 6.8% in 2014 respectively.

Growth in international trade in goods and services slowed to 3.4% from 3.5% in 2013, according to the IMF. However, growth in the import of goods and services by advanced countries increased from 2.1% to 3.3%, whereas emerging market economies and developing countries witnessed the opposite, with a fall from 5.5% to 3.7%.

Expectations that interest rates in the US will rise further have led to a strengthening of the US dollar against world currencies since 2014 Q3, which, together with the increase in surplus supply and weak demand, was a factor underlying a fall in commodity prices in the global market.

Global oil prices fell in 2014 (in particular, the average price of Urals crude dropped by 9.5%) as a result of renewed oil supplies from the Middle East previously affected by armed conflicts and a significant expansion in oil production and exports from the US, largely due to the development of shale deposits. A weak growth in global demand, a decision of the Organisation of the Petroleum Exporting Countries (OPEC) to maintain its production quota and the strengthening of the US dollar against the majority of world currencies also exerted downward pressure on oil prices.

The annual average prices for foodstuffs in the global markets (index published by the UN Food and Agriculture Organisation (FAO)) dropped by 3.8% in 2014 due to a fall in prices for grain, dairy products, vegetable oil and sugar (in 2013 it fell by 1.6%). Increased production amid poor growth in demand and the global eco-

nomy's uncertain recovery put a downward pressure on prices.

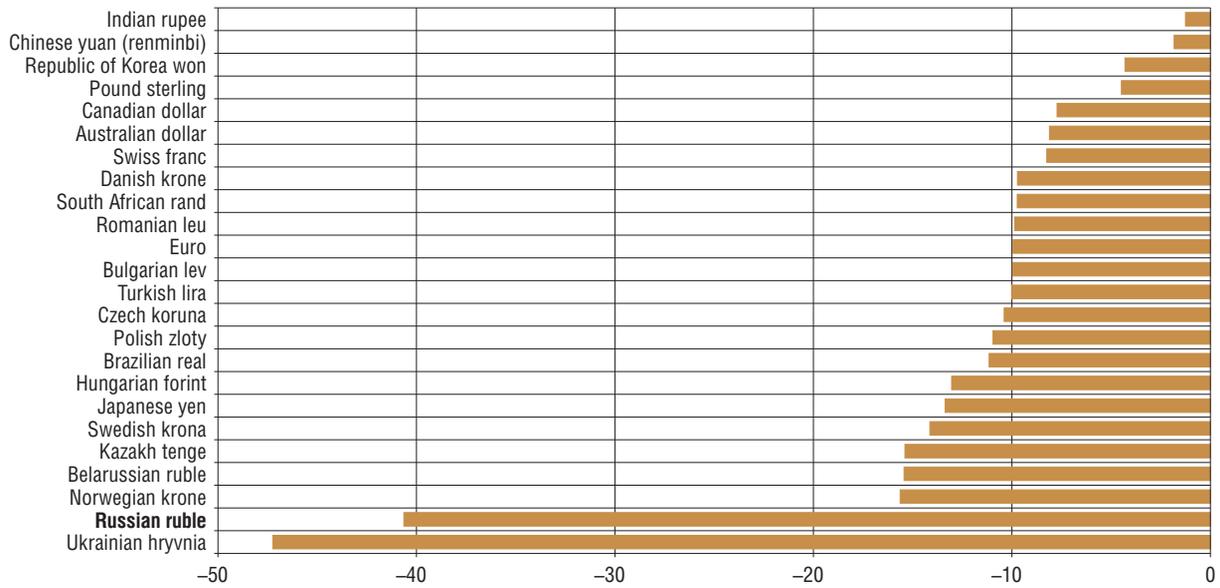
The slowing GDP growth of Russia's trading partners and the deteriorating situation in the global commodity markets led to a reduction in Russia's export income. Together with the financial sanctions against Russian companies and banks and the increased external economic uncertainty, this put pressure on the ruble exchange rate.

The fall in energy and food prices combined with a continued weak economic activity contributed to inflation reduction in many countries around the world. In the last few months of 2014, some countries (primarily advanced countries) saw deflation. Annual price growth (December on December of the previous year) in the euro area fell from 0.8% in 2013 to -0.2% in 2014 and in the US from 1.5% in 2013 to 0.8% in 2014.

For Russia, the reduction in external inflationary pressure was offset by the embargo on supplies of a number of food products from certain countries and the ruble depreciation given the falling prices for Russia's main exports. In December 2014, the nominal effective exchange rate of the Russian ruble fell by 32.7% compared with December 2013.

The situation in the financial markets of advanced countries improved on the whole in 2014. With a low volatility in the first half of the year, stock indices increased moderately, setting new all-time highs. However, in 2014 Q3 the increased geopolitical tensions led to growth in indicators of global investors' risk aversion and the transition to less risky assets. As a result, the tapering of the US Fed's quantitative easing programme,

**Change in exchange rates of some currencies against the US dollar in 2014\*  
(December 2014 as a percentage of December 2013)**



\* A '-' denotes the appreciation of the US dollar.

expectations of a rising interest rates cycle, and the publication of economic statistics of major countries, which indicate a slowdown in growth, all contributed to a short-term drop in stock indices. In 2014 Q4, the launch of the ECB's asset purchase programme somewhat restored demand for risky assets, but indicators of global investors' risk aversion remained at an elevated level.

A large-scale capital outflow and a fall in asset prices seen in 2013 in the majority of emerging market economies intensified in 2014. Expectations that the US Fed would increase its key rate, growing geopolitical tensions around the world, and the fall in global commodity market prices, which had a negative impact on exporting nations, were the main factors behind this outflow. According to the data from the Emerging Port-

folio Fund Research (EPFR) Global, the capital outflow from emerging market economies increased by 6.8% in 2014 compared with 2013. A sharp decrease in the value of currencies was witnessed by the countries whose economies were dependent on commodity exports or foreign capital inflows to finance the current account deficit. The central banks of a number of countries (including Brazil, India, Turkey and South Africa) took measures to stabilise their national currencies, including key rate increases and interventions in the foreign exchange market. However, as inflationary pressure fell and the situation in the foreign exchange markets stabilised, the central banks of the majority of developing countries (including China, Hungary, Turkey and Poland) started to ease their monetary policies to stimulate the economy.

## I.2. THE ECONOMIC SITUATION IN RUSSIA

The deteriorating external economic conditions, amid the exhaustion of traditional sources of economic growth which had begun in previous years, became a challenge to the Russian economy in 2014. The imposition of economic sanctions against Russia and the fall in oil prices since mid-2014 led to the ruble depreciation, increased inflation, lower incomes of economic agents, heightened uncertainty, worsening consumer sentiment and a fall in business confidence. The result was a slow economic activity and a prolongation of the break in investment. The slowdown in production growth led to a fall in the production capacity utilisation in industry. However, with weakening demand, import substitution stimulated by the trade sanctions and a drastic price hike for imported goods developed only in the production of certain categories of goods.

As a result, **GDP growth** dropped from 1.3% in 2013 to 0.6% in 2014. As in previous years, the growth in gross value added (GVA) came largely from an increase in the intermediary services sector (real estate transactions, financial services) and manufacturing industries. High harvest figures for major crops resulted in a positive contribution from agricultural production.

In 2014, the **financial results** of Russian organisations<sup>1</sup> were shaped by demand constraints and a stricter price and non-price borrowing conditions in the domestic and foreign markets. The impact of the ruble depreciation on financial indicators in various types of activity was largely dependent on the relationship between the increased expenditures (on imports, debt servicing in foreign currency) and income from export operations.

A drastic decline in the balance of profits and losses was seen in the core types of activity: manufacturing industries, transport and communications, and the wholesale and retail trades. At the same time, the balance of profits and losses saw a significant growth in mining, agriculture, and electricity, gas and water production and distribution.

At the end of 2014, the economy's positive financial result shrank by 9.1% year on year. The share of

loss-making enterprises increased by 1.3 percentage points to 28.1%.

Weakening demand and worsening financial standing of organisations were accompanied by growth in non-payments. The share of overdue receivables increased by 0.9 percentage points to 6.5% at the end of 2014 and the share of overdue payables went up by 0.4 percentage points to 5.7%. The share of overdue bank loans at the end of 2014 remained at the 2013 level (0.6%).

In 2014, the number of **employed in the economy** increased by 0.2% (in 2013 this figure fell by 0.2%). At the same time, labour supply continued to decline due to long-term demographic factors. As a result, unemployment fell to 5.2%. The adjustment of the Russian labour market to the new conditions came about primarily through a change in wages rather than the number of employed. Real imputed wage growth slowed to 1.3% in 2014 compared with 4.8% in 2013.

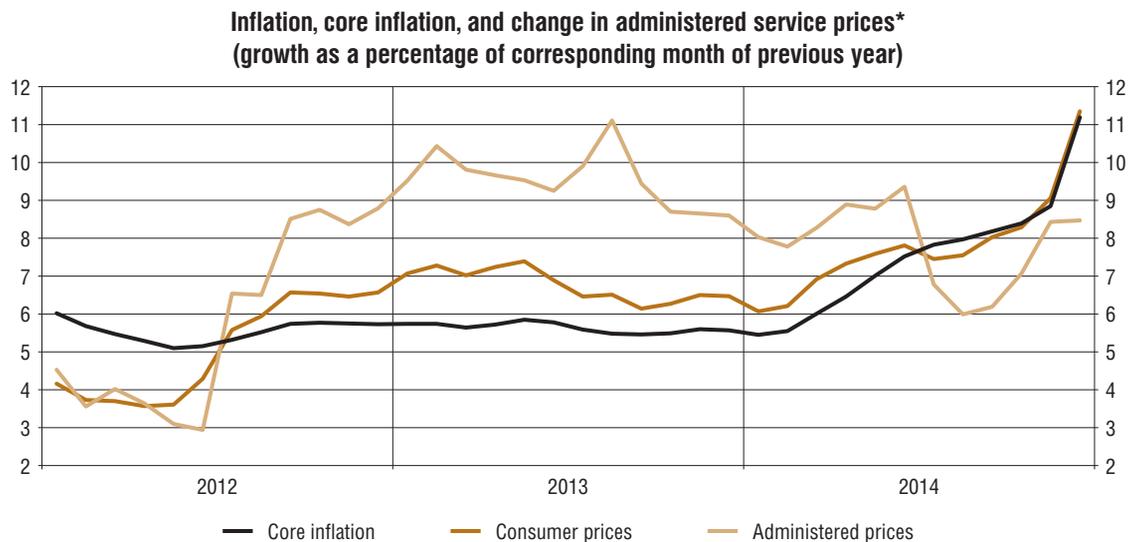
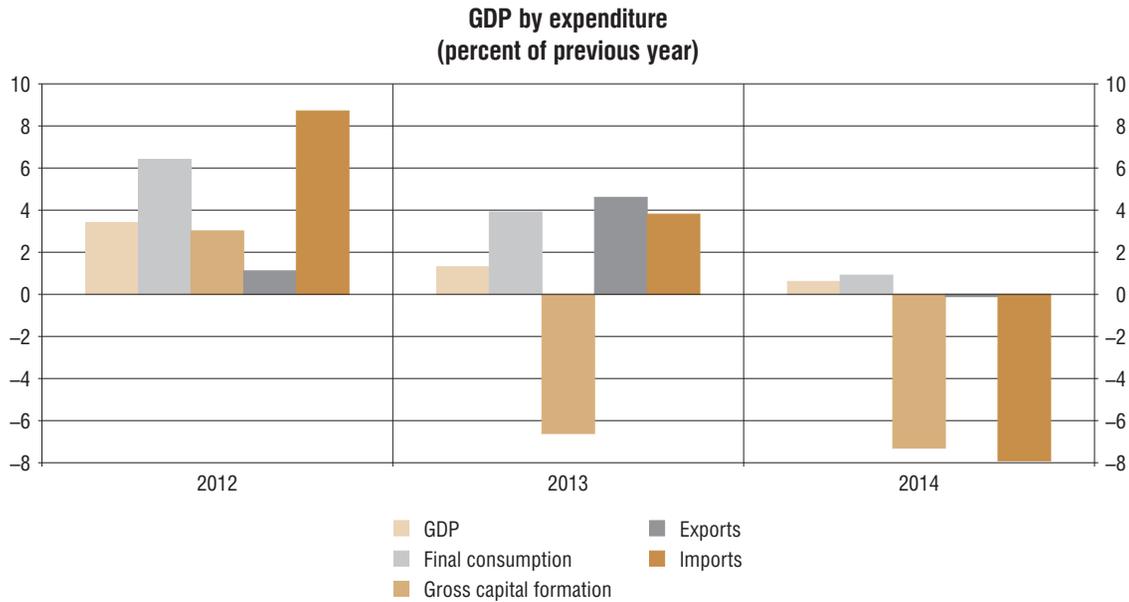
In these conditions, the positive contribution of final consumption expenditures to economic growth fell significantly. Despite a surge in demand caused by the increase in inflation and depreciation expectations at the end of 2014, growth in household final consumption spending fell overall in 2014 to 1.3% (in 2013 it was 5.0%). Amid the contraction in household real disposable income, consumption was buoyed by a reduction in households' propensity to save<sup>2</sup> in 2014, down to 7.9% (11.1% in 2013).

The fiscal policy was pursued in line with budgetary regulations and had a neutral impact on the economy as a whole. The general government expenditures on final consumption made a small negative contribution to GDP growth.

Growing economic risks, the ruble depreciation and the resulting rising costs of imported investment goods, a fall in organisations' profits, worsening non-price lending conditions and the growing cost of credit resources led to a decrease in fixed capital investment by 2.7% in 2014 compared with the previous year. The low business activity provoked a reduction in inventories. As a result, gross capital formation's contribution to economic growth in 2014 was negative.

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

<sup>2</sup> Savings include growth (drop) in deposits, acquisition of securities, changes in funds in the accounts of individual entrepreneurs, changes in overdue loans, purchasing of real estate, and purchasing of livestock and poultry by households.



\* Bank of Russia estimate.

In 2014, a large proportion of GDP growth came from growth in net exports, which was the result of a slower decline in the export quantities of goods and services as compared with imports, which decreased as a result of the ruble depreciation and the contraction of aggregate demand in the economy.

According to estimates, the output gap was negative in 2014, which was one factor holding back price growth in the economy. Moreover, a low indexation of administered prices and tariffs for infrastructure companies' output and the fall in global energy prices had a constraining impact on costs and prices. In December 2014, **producer prices** in the mining industry were lower than in December 2013; price growth was significantly lower in electricity, gas and water production and distribution and in freight transportation.

Pro-inflationary factors dominated in 2014, especially the ruble depreciation, which led to growth in prices for imported intermediate and finished goods. Under these conditions, price growth among producers in the manufacturing industries, construction and agriculture was higher than in 2013.

The direct and indirect impact of exchange rate dynamics and a number of specific factors caused an increase in **consumer price** growth for all of the main groups of goods and services in 2014.

The main factor underlying the accelerated price growth for a wide range of non-food goods was the ruble depreciation. In addition, the increased inflation expectations in certain periods of the year led to a surge in demand and price growth for durable goods (household appliances and electronics). Overall, prices for non-

food goods increased by 8.1% over 2014 (4.5% over 2013).

Prices of services increased by 10.5% in 2014 (8.0% in 2013). On the one hand, their growth was restricted by the tight indexation parameters for public utilities and railway transport tariffs. On the other hand, the pro-inflationary effect of the exchange rate dynamics was amplified by other one-time factors (in particular, the implementation of a new mechanism to finance capital repairs of apartment buildings was reflected in the rapid rise in prices for housing services).

Food price dynamics were affected not only by the direct, but also the indirect effects of the ruble depreciation. Increased returns on export operations at the end of 2014 gave rise to accelerated growth in producer prices for grain, oil crops and products derived from them, which resulted in faster price rises for flour, bread and

bakery products, and sunflower oil in the consumer market. Moreover, the impact of supply-side factors was perceptible. The restrictions on imports introduced at the beginning of the year and in August led to accelerated price growth for certain types of fruit and vegetables, meat and dairy products. The reduced harvest of certain crops was reflected in higher prices for sugar, buckwheat, sunflower oil and other substitute cereals and oils. As a result, in 2014 the increase in food prices was the largest among the main components of the consumer basket, reaching 15.4% (compared with 7.3% in 2013).

Overall, inflation in 2014 (December on December of the previous year) was 11.4% (6.5% in 2013), exceeding the target set in the 'Guidelines for the Single State Monetary Policy in 2014 and for 2015 and 2016' (5.0%), which was primarily due to unforeseen factors. Core inflation rose to 11.2% (5.6% in 2013).

## I.3. THE FINANCIAL SECTOR

### I.3.1. Credit institutions

The dynamics of key banking sector indicators in 2014 were largely shaped by the situation in external markets, the slowdown in the growth of the Russian economy, and changes in the ruble exchange rate.

In 2014, significant changes took place in the funding of banking operations: amid the sanctions against a number of Russian banks, in 2014 the funding base was expanded primarily using internal funding sources – corporate funds and household savings. The funds received by credit institutions from the Bank of Russia played an important role. The total funds attracted from non-residents in dollar terms fell over the year by 19.9%.

Growth in banking sector assets over 2014 was 35.2% (18.3% when adjusted for foreign exchange revaluation<sup>1</sup>) compared with 16.0% (14.1%) in 2013. The total assets held by Russian banks as of 1 January 2015 reached 77.7 trillion rubles. As a result of the rapid growth in bank assets, assets outstripped the country's GDP for the first time: the assets to GDP ratio increased from 86.8% to 108.7%.

Banking sector equity capital increased by 12.2% over 2014 (15.6% over 2013) to 7.9 trillion rubles, and the capital to GDP ratio rose from 10.7% to 11.1%.

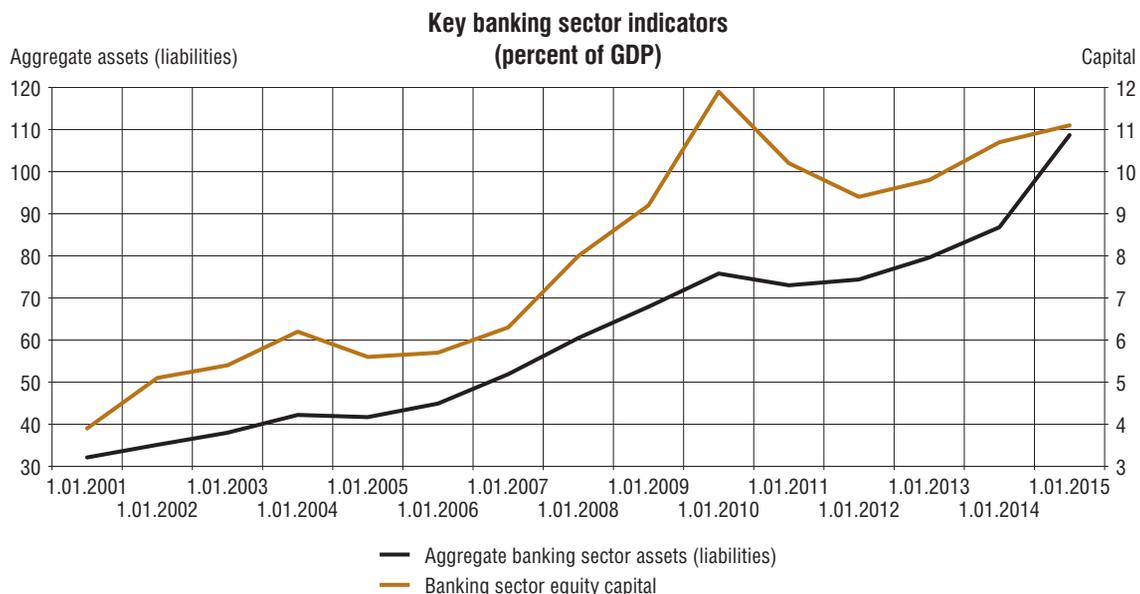
The total number of operating credit institutions shrank from 923 to 834 over the year.

#### Credit institution liability structure

The resource base of credit institutions continued to expand in 2014 from funds in customer accounts<sup>2</sup>: growth in customer funds was 25.4% (16.0% in 2013) and the total amount reached 43.8 trillion rubles. However, the share of these funds in banking sector liabilities fell from 60.8% to 56.4%.

The significance of corporate sector funds in bank liabilities increased in 2014, while that of household funds fell somewhat.

The total amount of funds from organisations (excluding banks)<sup>3</sup> rose by 40.6% over 2014 to 25.0 trillion rubles, or 32.2% of credit institutions' liabilities as of 1 January 2015 (31.0% as of 1 January 2014). Growth



<sup>1</sup> Here and throughout this section, the figures given in brackets (unless otherwise indicated) are calculated taking into account the adjustment for foreign exchange revaluation (excluding the impact of exchange rate changes).

<sup>2</sup> Corporate account balances (including funds of budgets of all levels and government extra-budgetary funds), household funds, as well as customer float, for factoring and forfaiting transactions, and funds written off from customers' accounts but not accounted for in the correspondent account of a credit institution.

<sup>3</sup> Calculated on the basis of reporting data from credit institutions on form 0409101 'Credit institution trial balance of accounts' in rubles and in a foreign currency for operations with residents and non-residents.

in ruble-denominated funds was 17.6% and in foreign currencies (in dollar terms) 10.2%. The active growth in corporate funds came mostly from a significant increase (by 56.9%) in deposits by corporate entities (excluding credit institutions), the value of which increased to 17.0 trillion rubles. Excluding the foreign exchange revaluation, growth in this source of funding was 24.0%. Corporate funds in settlement and other accounts increased by 14.1% (by 2.0% excluding the foreign exchange revaluation) to 7.4 trillion rubles.

Total household deposits<sup>1</sup> for 2014 rose by 9.4% (19.0% in 2013) to 18.6 trillion rubles, but fell by 2.5% taking into account the foreign exchange revaluation. The share of deposits in a foreign currency increased from 17.4% to 26.1% (excluding the foreign exchange factor, their share fell to 17.1%). Deposits accounted for 23.9% of banking sector liabilities as of 1 January 2015 (29.5% as of 1 January 2014). The share of OJSC Sberbank of Russia in the household deposits market fell over the year from 46.7% to 45.0%.

Amid the slowing household deposits dynamics and restricted access to external funding, the debt of credit institutions to the Bank of Russia increased by a factor of 2.1 over 2014 to 9.3 trillion rubles; the debt on deposits placed with banks by the Federal Treasury rose by a factor of 6 to 0.6 trillion rubles. As a result, the share of funds from the Bank of Russia in banks' liabilities increased from 7.7% to 12.0%, and from the Federal Treasury from 0.2% to 0.7%.

In 2014, interest rates on ruble deposits by non-financial organisations with terms of more than one year saw some fluctuation: in January interest rates were at 8.0% p.a., the lowest rate was seen in March at 7.7% p.a., while in December the rate increased to 13.5% p.a. The interest rate on household ruble deposits for terms over one year increased from 7.3% p.a. in January to 11.7% p.a. in December.

### Credit institution asset structure

In 2014, high growth rates in lending continued: the amount of lending to the economy (to non-financial organisations and households)<sup>2</sup> rose by 25.9% (17.1% in 2013) to 40.9 trillion rubles. The share of these loans in banking sector assets fell from 56.5% to 52.6% over 2014. Relative to GDP, the growth in lending to the economy was quite noticeable (rising from 49.0% to 57.2%).

The growth in lending to non-financial organisations was 31.3% over 2014 (12.7% over 2013) and the debt on these loans reached 29.5 trillion rubles. The share of corporate lending in banking sector assets was 38.0% as of 1 January 2015 (39.2% as of 1 January 2014). Despite resident non-financial organisations' increased needs for external debt refinancing, demand for loans at the end of the year held back growth in the cost of borrowing.

Overdue loans to small and medium-sized businesses fell by 0.9% over 2014 (in 2013 they increased by 14.8%) to 5.1 trillion rubles, or 17.3% of banks' total corporate loan portfolio.

Overdue loans to households increased by 13.8% over 2014 (28.7% in 2013) to 11.3 trillion rubles. Predictably, in 2014, growth in household lending declined, mostly due to a drastic contraction of the unsecured consumer lending segment.

In the mortgage sector, a persistently high growth remained: in 2014, the mortgage debt increased by 33.2% to 3.5 trillion rubles. Over 2014, more than one million mortgages were approved, which is 22.8% higher than in 2013. The majority of these mortgages (96.1%) were issued in rubles.

Credit institutions' total claims against the Bank of Russia (for deposit and correspondent accounts) increased by 51.8% over 2014 (7.4% in 2013) to 2.8 trillion rubles; the share of such claims in banking sector assets increased from 3.2% to 3.6%.

Interest rates on lending to non-financial organisations increased in 2014: the rate on ruble-denominated loans for terms over one year was 12.9% p.a. in December, which is 2.3 percentage points higher than in January. For ruble-denominated household loans of the same terms, the rate fell from 18.3% p.a. in January to 17.4% p.a. in December. However, this fall in rates did not cover all retail lending segments. In 2014, mortgage rates remained relatively stable at an average of 12.3% p.a. However, in December, with growing interest rates in the economy, the average rate on mortgages increased to 13.2% p.a.

Total bank investment in securities increased by 24.3% in 2014 (11.2% in 2013) to 9.7 trillion rubles, primarily thanks to a 24.2% growth in debt securities investments (to 7.7 trillion rubles). At the same time, investments in equity securities shrank by 38.2% and in promissory notes by 20.5%.

<sup>1</sup> Including savings certificates. Calculated on the basis of reporting data from credit institutions on form 0409101 'Credit institution trial balance of accounts' in rubles and in a foreign currency for operations with residents and non-residents.

<sup>2</sup> Calculated on the basis of reporting data from credit institutions on form 0409101 'Credit institution trial balance of accounts' in rubles and in a foreign currency for operations with residents and non-residents.

The assets of credit institutions in foreign currency increased by 6.7% over 2014 in dollar terms.

### Claims and obligations on interbank loans

The geopolitical situation affected dynamics of the interbank lending market<sup>1</sup>: the growth in interbank loans largely came about through operations in the domestic market. The amount of interbank loans offered to resident banks increased by 80.9% and to non-resident banks by 2.4% (excluding the foreign exchange revaluation, they fell by 37.1%). The total portfolio of interbank loans granted in 2014 increased by 34.4% (21.3% in 2013) to 6.9 trillion rubles, but the share of interbank loans in banking sector assets remained virtually unchanged (8.9%).

The amount of interbank loans attracted in 2014 increased by 37.2% (1.4% in 2013) to 6.6 trillion rubles, and the share of interbank loans in banking sector liabilities increased from 8.4% to 8.5%. Furthermore, the amount of interbank loans from non-resident banks increased by 14.6%.

In 2014, the Russian banking sector continued to be a net creditor in operations with non-resident banks: net claims to non-residents in the interbank market amounted to 537 billion rubles as of 1 January 2015 (792 billion rubles as of 1 January 2014).

### Banking sector financial results and capital

In 2014, the net profit of operating credit institutions was 589 billion rubles (994 billion rubles in 2013). The main factor behind this fall in profits was the formation of additional loss provisions: the amount allocated to reserves net of recovered amounts rose by 892 billion rubles in 2014 year on year, or by nearly 2.5 times.

The net interest income remained the most significant item in banks' financial results: its share in the factors of profit growth was 60.8% (67.3% in 2013). The net interest income in 2014 increased by 308 billion rubles or by 13.8% (21.6% in 2013). The growth in this figure in 2014 was largely down to operations with households and legal entities (excluding credit institutions); their share in the factors of the net interest income growth stood at 48.6% and 37.3% respectively. For interbank lending operations, net interest income fell in 2014.

The net fee income continued to be important: in 2014, this income rose by 71 billion rubles or by 10.8%

(15.7% in 2013). However, the share of the net fee income in the structure of profit growth factors fell from 19.8% to 17.4% over the year.

Due to the negative revaluation of securities included in the financial results statement and net expenditures on operations with these instruments, a net loss of 155 billion rubles was recorded for securities operations in 2014.

At the same time, the share of net income from foreign currency operations (primarily, revaluation) in the structure of profit growth factors increased over the year from 3.4% to 10.3%.

In addition, in 2014 credit institutions witnessed growth in the share of net other income in profit growth factors (from 9.6% to 11.4%), largely due to operations with financial derivatives.

Expenses related to supporting credit institutions' operations increased by 12.6% in 2014, which is significantly lower than the growth in the banking sector assets.

Amid a stable growth in the banking sector assets and capital and the fall in credit institutions' profits, return on assets in 2014 fell from 1.9% to 0.9% and return on capital fell from 15.2% to 7.9%.

The share of profit-making credit institutions shrank over the course of the year from 90.5% to 84.9%. In 2014, 126 credit institutions reported losses totalling 264 billion rubles.

As many as 170 credit institutions experienced a decline in their equity capital by a total of 280 billion rubles; banks undergoing bankruptcy-prevention measures accounted for 86% of this reduction.

More than one-third of the capital growth in 2014 came from an increase in authorised capital and share premium (growth of 455 billion rubles or 36.4% of all sources of growth). The second most important source of capital growth was profit and the funds formed from profit (growth of 384 billion rubles or 30.7% of all sources of growth). Growth in subordinated loans amounted to 295 billion rubles or 23.6% of all sources of growth.

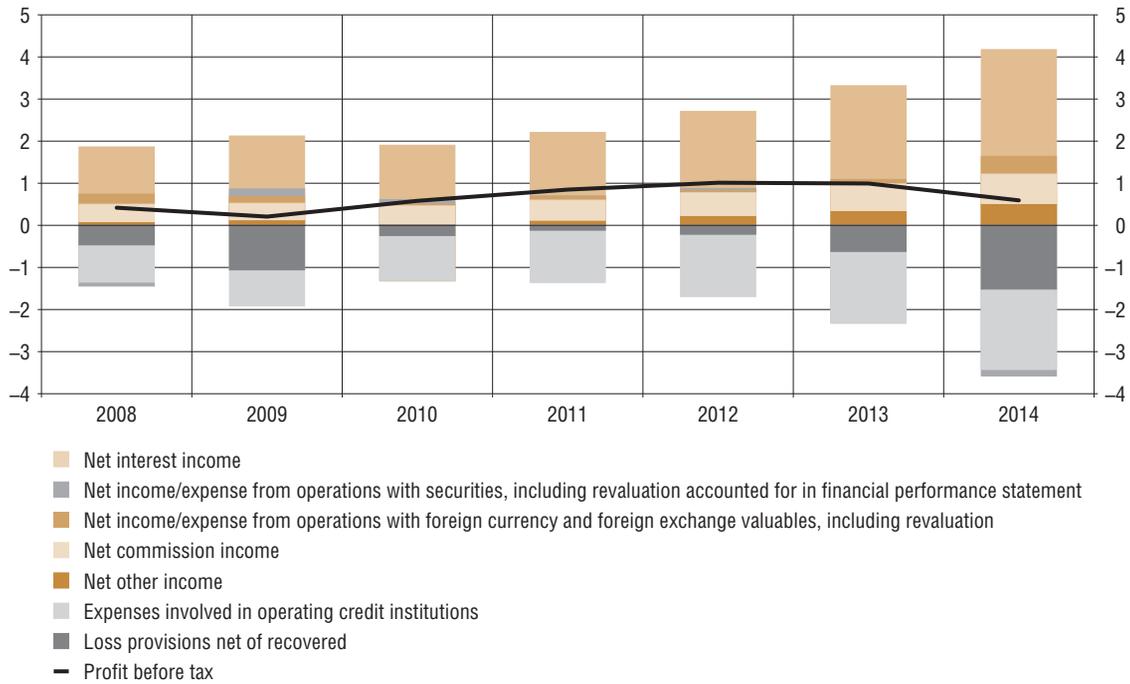
The number of credit institutions with capital exceeding 1 billion rubles increased in 2014 from 367 to 369.

In view of the rapid asset growth, the banking sector capital adequacy ratio fell in 2014 from 13.5% to 12.5%.

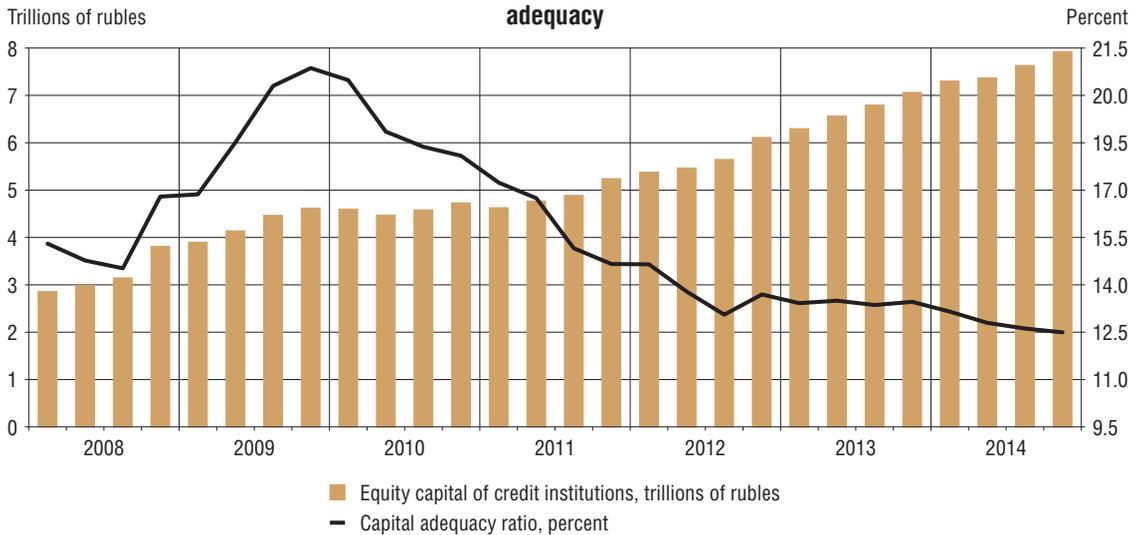
In 2014, legislative enactments introducing measures to recapitalise Russian banks were adopted to maintain the required level of lending to priority sectors of the economy and infrastructure projects (totalling 1.4 trillion rubles). A portion of these funds was provided to banks at the end of 2014.

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

**Banking sector profit factors  
(trillions of rubles)**



**Capital adequacy**



**Foreign-controlled banks**

In 2014, the number of foreign-controlled banks<sup>1</sup> fell from 122 to 113. As of 1 January 2015, 15 foreign-controlled banks rank among Russia’s top 50 credit institutions in terms of assets. Foreign-controlled banks’ share in the Russian banking sector assets fell from 15.3% to 13.9%, and in equity capital from 17.3% to 17.2%. At 30 out of these 113 banks, their non-resident owners were controlled by residents of the Russian Federation.

The share of loans provided by foreign-controlled banks to non-financial organisations increased by 26.8% over 2014, while loans to households rose by only 0.7%.

However, these banks’ share in corporate loans provided by the banking sector as a whole fell from 12.0% to 11.6%, and in retail loans from 21.0% to 18.6%.

The share of foreign-controlled banks in the household deposit market also fell slightly over 2014, from 12.5% to 12.0%.

In 2014, the role of this group of banks changed in interbank operations with non-residents: they turned into net borrowers (the total net obligations to non-resident banks as of 1 January 2015 stood at 155 billion rubles) from net creditors (the total net claims to non-resident banks as of 1 January 2014 equalled 42 billion rubles).

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

### I.3.2. Non-bank financial institutions

In 2014, the number of non-bank financial institution (NFO) licences fell by 305 licences, or by 7.5%, to 4,084 licences as of 1 January 2015. The number of NFOs operating on the basis of information in the register<sup>1</sup> increased by 349, or by 8.8%, compared with 2013 to 4,299 NFOs as of 1 January 2015.

**Insurance entities.** As of 1 January 2015, 567 insurance entities were registered in the single state register of insurance entities: 404 insurance companies, 12 mutual insurance companies and 151 insurance brokers. Over 2014, the number of insurance companies fell by 16 and insurance brokers by 14.

The total assets held by insurers as of 31 December 2014 was 1,539.1 billion rubles (1,316.8 billion rubles as of 31 December 2013). The concentration of the Russian insurance market remains consistently high. As of 31 December 2014, the number of insurance companies controlling 80% of total assets was 57 (65 as of 31 December 2013). The ratio of insurance companies' total assets to GDP was 2.2% as of 31 December 2014 (2.0% as of 31 December 2013). The total capital held by insurers as of 31 December 2014 was 387.5 billion rubles (364.0 billion rubles as of 31 December 2013) and the total insurance reserves were 897.4 billion rubles (731.3 billion rubles as of 31 December 2013). The net profit of insurers in 2014 stood at 51.3 billion rubles (32.0 billion rubles in 2013).

The total insurance premiums of insurers in 2014 rose by 8.5% compared with 2013 to 987.8 billion rubles. The twenty largest insurers collected 72.6% of premiums in 2014 (71.4% in 2013) and the hundred largest insurers – 93.7% (94.6% in 2013). Total indemnities to insurance policy holders increased by 11.4% to 472.3 billion rubles in 2014. The indemnity ratio for 2014 was 47.8%, which is 1.3 percentage points higher than the figure for 2013, including: 78.6% for land-based transport (excluding railway transport) insurance (an increase of 5.3 percentage points), 76.7% for voluntary medical insurance (a decrease of 1.7 percentage points), 59.8% for compulsory motor third party liability insurance (hereinafter, CMTPLI) (an increase of 2.1 percentage points), and 53.4% for property insurance (an increase of 2.1 percentage points).

The intensive growth witnessed in the savings and investment life insurance segment, a potential source

of long-term investment in the economy, was a positive trend in 2014. The life insurance market is still one of the few segments of the insurance market showing sustained growth. The total life insurance premiums in 2014 amounted to 108.5 billion rubles with the market share of the segment increasing over the year by 1.7 percentage points to 11%. Compared with 2013, the total life insurance premiums increased by 27.9% in 2014. Total indemnities amounted to 14.2 billion rubles.

The total insurance premiums for CMTPLI amounted to 150.9 billion rubles in 2014. Growth was 11.9% compared with the same period in 2013. Despite the increase in tariffs in October 2014, there was no appreciable acceleration in the growth of CMTPLI premiums (an increase of 11.9% in 2014 compared with 2013). The 10.3% fall in sales of new motor cars and light commercial vehicles in 2014 had a significant impact on the slowdown in the growth of land-based transport insurance premiums.

A key problem in the market in 2014 was losses in the car insurance segment. The combined loss ratio (excluding administrative expenses) on land-based transport (excluding railway transport) insurance increased by 6.3 percentage points over the year to 99.9% in January–September 2014; for CMTPLI for vehicle owners, it increased by 5.1 percentage points to 92.0%. In some regions, the growing losses outstripped the market averages.

**Non-governmental pension funds (NPFs).** As of 31 December 2014, there were 120 NPFs registered in the single state register of NPFs, of which 90 offered compulsory pension insurance. The number of NPFs has not changed since the start of 2014.

The total assets held by NPFs as of 31 December 2014 amounted to 2,187.3 billion rubles (3.1% of GDP) with 80% of the assets held by operating NPFs concentrated in 18 of them.

In 2014, the main changes in the pension savings market were linked to NPFs being incorporated, their joining the guaranteed pension savings system, and tougher requirements for credit institutions whose accounts may be used to hold pension savings. The moratorium on transferring pension savings to NPFs was also extended. In 2014, 47 NPFs completed the process of restructuring. As a result of the increased re-

<sup>1</sup> Based on data from the state register of microfinance organisations, the state register of housing savings cooperatives, and the state register of self-regulatory organisations of microfinance organisations.

quirements for the equity capital of NPFs being incorporated, the combined total equity capital and assets for NPFs' statutory activities increased by 12.3% in 2014 to 143.2 billion rubles (16.0% in 2013).

Liabilities on the key type of NPF activities<sup>1</sup> in 2014 increased by 5.8%, reaching 2,029.0 billion rubles as of 31 December 2014. The ratio of equity capital to liabilities from the key type of NPF activities increased from 6.7% to 7.1%. Net profit in 2014 was 59.8 billion rubles, a reduction of 35.1% compared with 2013 data.

The amount of pension savings in NPFs<sup>2</sup> as of 31 December 2014 was 1,132.8 billion rubles (an increase of 4.1% in 2014 and 62.6% in 2013).

A substantial proportion of these funds were placed in corporate bonds (39.1% or 445.1 billion rubles), funds in current accounts and deposits (34.0% or 386.6 billion rubles) and mortgage securities (7.3% or 83.0 billion rubles). In 2014, the structure of NPF pension savings funds changed considerably: the fall in placements in funds in current accounts and deposits (by 6.8 percentage points or 59.6 billion rubles) was accompanied by an increase in the share of investments in corporate bonds (by 2.9 percentage points or 48.6 billion rubles) and mortgage securities (by 4.6 percentage points or 53.3 billion rubles).

The amount of NPF pension reserves as of 31 December 2014 amounted to 905.0 billion rubles, of which 25.2% (228.1 billion rubles) was invested in corporate stocks, 22.1% (199.6 billion rubles) in corporate bonds, 19.4% (175.3 billion rubles) in funds in current accounts and deposits, and 15.8% (142.9 billion rubles) in investment units of unit investment funds. The structure of NPF pension reserves placed in 2014 was virtually unchanged: there was a slight increase in the share of investments in funds in current accounts and deposits (by 2.3 percentage points or 32.2 billion rubles), mortgage securities (by 1.3 percentage points or 12.1 billion rubles) and foreign securities (by 1.1 percentage points or 11.5 billion rubles), mostly due to the reduced share of investments in investment units of unit investment funds (by 2.7 percentage points or 11.7 billion rubles) and corporate stocks (by 2.4 percentage points or 2.6 billion rubles).

The Pension Fund of the Russian Federation accounted for 63.1% of the pension savings structure as of 31 December 2014 (1,942.7 billion rubles). The majority of these funds were placed in government

securities (44.7% or 868.1 billion rubles), corporate bonds (32.4% or 630.1 billion rubles) and funds (15.0% or 292.3 billion rubles). In the investment structure of the Pension Fund's pension savings in 2014, a fall in the share of investments in funds (by 2.5 percentage points or 42.0 billion rubles) was accompanied by an increase in the share of investments in mortgage securities (by 1.1 percentage points or 22.0 billion rubles) and government securities (by 0.7 percentage points or 30.7 billion rubles).

**Unit investment funds (PIFs).** In 2014, the number of PIFs increased by 2.9% to 1,534 PIFs as of 1 January 2015. The growth in the number of PIFs was due to a 10.1% increase in the number of closed-end PIFs to 1,075, while the number of open-end and interval PIFs fell by 12.0% to 403 funds and by 1.8% to 56 funds respectively.

These dynamics had little impact on the structure of the PIF market: as of 1 January 2015, closed-end PIFs still accounted for the largest number of all PIFs (their share increased by 4.6 percentage points to 70.1%). The share of open-end PIFs fell in 2014 by 4.4 percentage points to 26.3% and the share of interval PIFs fell by 0.2 percentage points to 3.7%.

The total net inflow of funds into PIFs in 2014 amounted to 65.6 billion rubles (156.3 billion rubles in 2013).

In 2014, the net inflow of investments into closed-end PIFs remained largely unchanged (the inflow totalled 101.0 billion rubles in 2014 and 138.3 billion rubles in 2013) and the net outflow of investments from interval PIFs likewise (the net outflow of funds amounted to 0.7 billion rubles in 2014 and 0.8 billion rubles in 2013). The net inflow of funds into open-end PIFs (which totalled 18.7 billion rubles in 2013) transformed into an outflow in 2014, reaching 34.7 billion rubles by the end of the year.

Due to the amendments to Federal Law No. 39-FZ, dated 22 April 1996, 'On the Securities Market' coming into effect from 1 July 2014, which are intended to simplify the requirements for recognising entities as qualified investors, the number of PIFs for qualified investors increased by 11.8%, reaching 708 funds by the end of the year (the number of PIFs for non-qualified investors fell by 3.7% to 826 funds).

The total net asset value (NAV) of PIFs in 2014 increased by 13.8% to 2,123.7 billion rubles as of the end of the year.

<sup>1</sup> Liabilities on the key type of NPF activities are the total pension reserves and pension savings held by NPFs.

<sup>2</sup> Based on data from Section 3 (Pension savings in non-governmental pension funds as of the start and end of the reporting period) of Form 1 (Statement of Pension Savings Funds).

The value of PIF assets increased in 2014 by 14.2% to 2,408.9 billion rubles (3.4% of GDP) with 208 PIFs accounting for 80% of PIF assets. The biggest shares in the structure of PIF assets fell on investment in real estate and mortgage securities (44.0% of total PIF assets) and common and preferred stocks (16.7%).

In 2014, the total PIF assets increased due to investment growth: by 5.6 times in Russian companies' promissory notes (to 65.5 billion rubles), by 1.5 times in the authorised capital of organisations (to 208.3 billion rubles) and by 1.3 times in foreign securities (to 77.4 billion rubles). PIFs reduced their investments in bank deposits by 1.2 times (to 73.3 billion rubles).

The weighted average yield of PIFs (the change in the value of the unit, hereinafter, yield) in 2014 was 7.1%, which is significantly lower than inflation in 2014 (11.4%). At the same time, the yield of various categories of PIFs varied from –10.3% (for closed-end PIFs of artistic valuables) to 66.5% (for interval PIFs of funds).

**Joint-stock investment funds (AIFs).** The number of AIFs in operation by the end of 2014 was four (five AIFs were operating as of 31 December 2013). The NAV of AIFs fell by 12.0% over the year to 5.1 billion rubles.

**Professional securities market participants.** In 2014, the Russian financial market saw downward trends in the number of non-bank financial institutions (NFI) with professional securities market participant licences<sup>1</sup> (hereinafter, professional participants): their number fell from 1,149 as of 1 January 2014 to 1,079 as of 1 January 2015. The number of licences to conduct professional activities in the securities market stood at 2,944 as of 1 January 2015. During the reporting period, the Bank of Russia cancelled 280 professional participant licences and revoked the qualification certificates of 46 financial market specialists. The number of broker licences fell in 2014 by 82 to 803 licences, together with the number of dealer licences by 70 to 817, trust manager licences by 76 to 706 and depository licences by 36 to 579. The number of registrar licences rose by two over the reporting period to 39 licences. During this period, the number of infrastructure organisations fell from 14 to 13. The number of operating clearing houses fell by one to five organisations and the number of trading

(exchange) organiser licences remained unchanged – eight exchanges were operating by the end of the reporting period.

In 2014, consolidation of the broker services market continued, which had been observed since 2008 due to the exit of foreign funds from the Russian market and, as a result, a fall in market liquidity. The main growth in trading turnovers among professional securities market participants in 2014 fell on the foreign exchange and forward segments of the market, due to an increased demand for foreign currency amid the ruble depreciation.

The amount of equity capital held by professional NFI securities market participants (hereinafter, professional NFI participants) fell by 26.2% in January–September 2014<sup>2</sup> to 158.3 billion rubles.

The amount of professional NFI participants' assets fell by 6.9% in January–September 2014 to 776.4 billion rubles as of 30 September 2014 (1.1% of GDP), with 60 organisations accounting for 80% of the assets of all professional NFI participants.

The ratio of equity capital to all professional NFI participants' assets, reflecting the level of financial independence, shrank from 25.7% as of 31 December 2013 to 20.4% as of 30 September 2014.

Liabilities on the key type of activities carried out by professional NFI participants<sup>3</sup> fell by 27.4% as of 30 September 2014 compared with 30 September 2013, to 94.3 billion rubles, while net profit increased by 11.1% to 153.5 billion rubles.

**Microfinance market participants.** The number of microfinance organisations (MFOs) in the state register of MFOs rose by 11% in 2014 to 4,200 as of 1 January 2015, while the number of consumer credit cooperative (CCCs) shrank by 2% to 3,545. As of 1 January 2015, there were 10 operating self-regulatory CCCs, and the register of housing savings cooperatives contained 88 cooperatives. The number of pawnshops was 8,762 as of 1 January 2015.

In January–September 2014, the portfolio of microloans issued by MFOs amounted to 51 billion rubles. Of these, 48% were microloans to households (excluding microloans issued to households for up to 45,000 rubles with terms of up to 2 months), 39% were micro-

<sup>1</sup> Statistics on licensing of professional securities market participants are provided for credit and non-bank financial institutions.

<sup>2</sup> Here and throughout this section, data are given as of 30 September 2014. Professional securities market participants are obliged to submit their statements for 2014 to the Bank of Russia no later than 25 April 2015, in accordance with FFMS Order No. 12-108/pz-n, dated 6 December 2012.

<sup>3</sup> Liabilities on the key type of activities carried out by professional securities market NFI participants are the total value of short-term loans.

loans to small and medium-sized businesses, and 13% were microloans to households for up to 45,000 rubles with terms of up to 2 months.

The number of CCC members was 1.1 million as of 30 September 2014. The total portfolio of loans issued by CCCs was valued at 42.5 billion rubles as of 30 September 2014.

According to data from an analysis of outstanding loans<sup>1</sup> in the microfinance market, as of 30 September 2014 the annual rate of growth in overdue loans signifi-

cantly outstripped the growth in the microloan portfolio: 57.7% and 21.2% respectively.

In 2014, the Bank of Russia published average market figures for the effective interest rate in the microfinance market for the first time. Depending on the consumer loan category, they range from 30.1% to 651.3% (according to data for 2014 Q4). These high MFO rates can in part be explained by the unsecured nature of microloans, as well as the higher share of operating costs for each loan.

---

<sup>1</sup> From 2014, the Bank of Russia has been carrying out quarterly surveys of outstanding loans in the microfinance market by surveying some of the largest market participants. In 2014 Q3, 80 private and public MFOs took part in the project, representing 46.5% of the market in terms of outstanding loans.

### I.3.3. Financial markets

In the **money market**, amid the continuing structural liquidity deficit, in January–July 2014 the MIACR on overnight ruble-denominated interbank loans was in the upper half of the Bank of Russia’s interest rate corridor, deviating from the key rate by 0.7 percentage points on average.

In August–September 2014, due to the restricted access of Russian banks to external markets, credit institutions’ demand for dollar-denominated liquidity increased significantly, which led to a fall in ruble rates on overnight FX swaps to the bottom of the Bank of Russia’s interest rate corridor. Under these conditions, short-term interest rates in the ruble interbank lending market dropped, stabilising close to the Bank of Russia key rate. The Bank of Russia’s substantial sales of foreign currency as part of the exchange rate policy in effect in October 2014 led to a slight improvement in the situation with dollar liquidity. Under these conditions, ruble rates on FX swaps rose, and from 10 October 2014 ruble rates in the money market were mostly in the upper half of the Bank of Russia’s interest rate corridor.

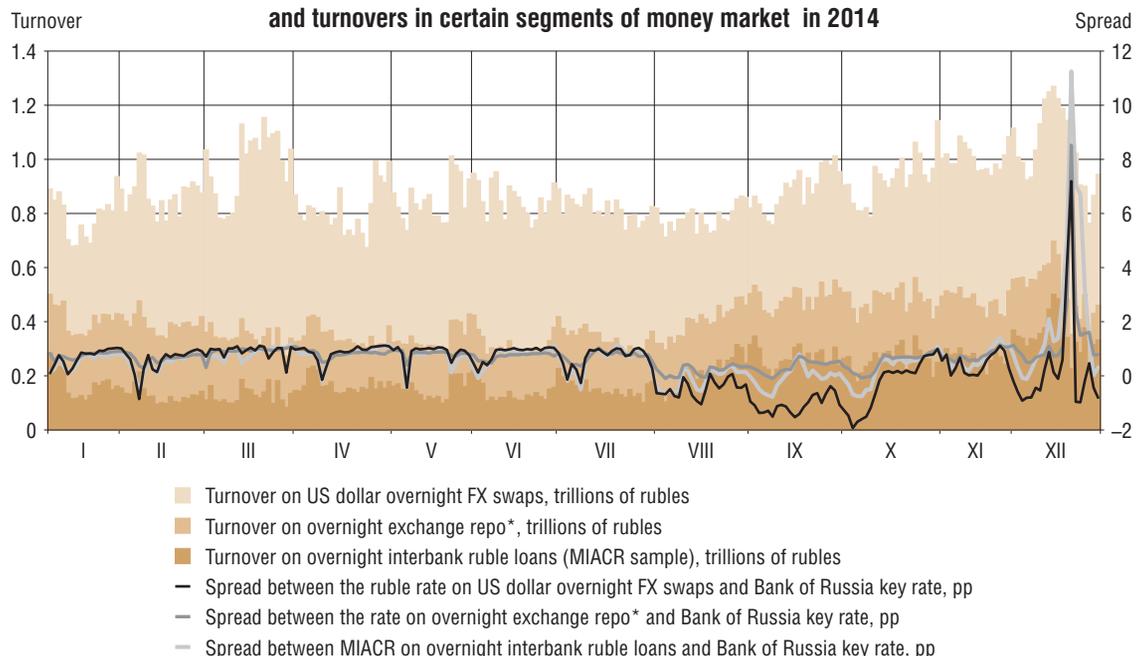
In December 2014, growth was seen in short-term money market rates, linked to the high level of uncertainty and growing distrust in the interbank market amid the significant ruble depreciation and deficit of accessible marketable collateral among certain market par-

ticipants. As a result of these factors, money market rates repeatedly exceeded the upper bound of the Bank of Russia’s interest rate corridor. The average spread between the MIACR on overnight ruble-denominated interbank loans and the Bank of Russia’s key rate from 20 November to the end of December 2014 was 1.8 percentage points.

Turnovers in certain segments of the money market rose significantly in the second half of 2014, due to increased borrowing by certain major money market participants in the interbank segment and growing ruble FX swap volumes due to the decline in the ruble exchange rate. Turnovers of overnight exchange repos in 2014 were relatively stable excluding the second half of December, when they fell sharply due to a drop in the value of the securities used as collateral for such operations. The average daily turnover of overnight ruble-denominated money market transactions (interbank loans at the MIACR sample, US dollar FX swaps, overnight exchange repos) in August–December 2014 amounted to 925 billion rubles compared with 855 billion rubles in January–July 2014.

The ruble exchange rate remained relatively stable in the Russian **foreign exchange market** in the first half of 2014. From August to the first half of November 2014, the ruble exchange rate dropped significantly

**Spreads between interest rates and Bank of Russia key rate and turnovers in certain segments of money market in 2014**



\* Calculations include interdealer repos with stocks and bonds (MICEX BORR and MICEX EQRR samples) and central counterparty repos with stocks and OFZs. Sources: Bank of Russia, Thomson Reuters, and Moscow Exchange OJSC.

amid the intensified geopolitical risks and the emerging deficit of FX liquidity in the domestic foreign exchange market due to the imposition of sanctions against major Russian banks and companies. From late November to December 2014, the ruble exchange rate was shaped by a significant fall in global oil prices and the high demand of credit institutions for FX liquidity, including for the purposes of settling large volumes of external debt.

In 2014, the official US dollar / ruble exchange rate rose by 72% as against 31 December 2013, to 56.2584 rubles as of 31 December 2014, the euro/ruble exchange rate increased by 52% to 68.3427 rubles, and the value of the dual-currency basket rose by 61% to 61.6963 rubles.

Trading volumes in the spot segment of the FX market in the US dollar / ruble and euro/ruble currency pairs were relatively stable in 2014, totalling \$7.5 billion per day on average.

The total turnover of **futures and options trading** on Moscow Exchange amounted to 61.3 trillion rubles in 2014, an increase of 26% compared with 2013. The average annual volume of open positions on exchange derivatives (in contracts) increased in 2014 by 34% year on year.

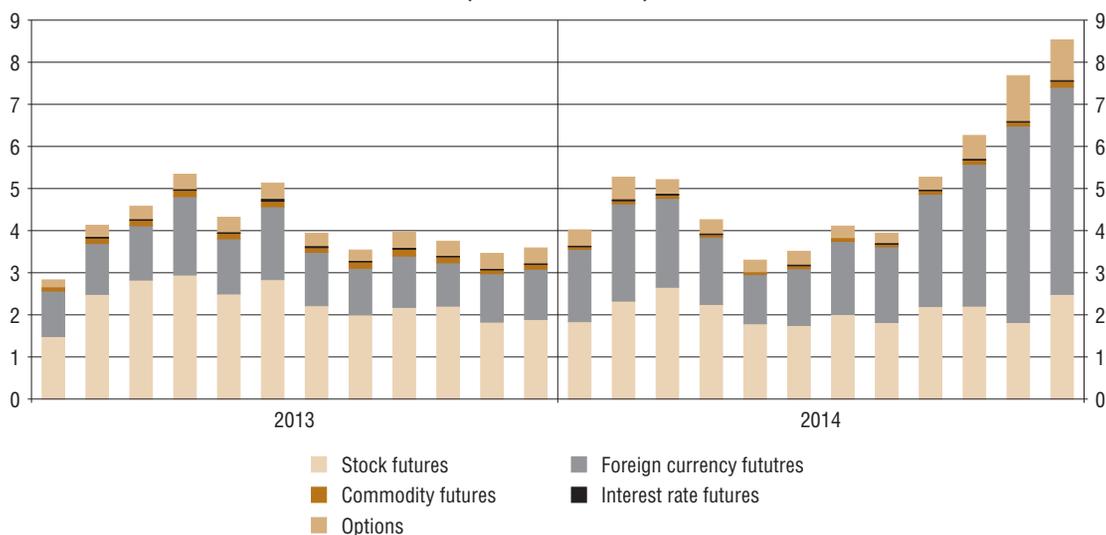
Amid the growing volatility in the ruble exchange rate in 2014, an increased interest was observed in FX derivatives used both to hedge exchange rate risk and to engage in speculative transactions and arbitrage.

**Dual-currency basket value and US dollar and euro trade volume on Moscow Exchange in 2014**



Source: Moscow Exchange OJSC.

**Futures contract trade on Moscow Exchange (trillions of rubles)**



Sources: Moscow Exchange OJSC, Bank of Russia calculations.

As a result, the FX futures segment took the lead in terms of the volume of transactions in the structure of exchange trading in the derivatives market. The share of transactions with FX futures in the total turnover of exchange derivatives trading rose to 48% (32% in 2013). At the same time, the share of stock futures (futures on stock indices and shares) in the total turnover of futures and options trading fell to 41% (56% in 2013). Among commodity futures, which account for 2% of the total turnover of exchange derivatives trading, the most liquid were contracts for Brent crude, gold and silver. The interest rate futures segment showed a low trading activity: less than 1% of the total turnover of futures and options trading. The activity of options market participants (9% of the total turnover of exchange derivatives trading) increased compared with 2013, mainly as a result of a growth in transactions involving FX options.

The most actively traded exchange derivatives in 2014 were US dollar / rouble exchange rate futures and RTS index futures yielding turnovers of 26.8 trillion rubles and 21.6 trillion rubles respectively.

**Debt securities market** participants significantly increased risk premiums for investments in Russian financial assets in 2014 due to growth in depreciation and inflation risks. Yields of government and corporate bonds rose from the start of 2014 and, by mid-December 2014, were approaching the ten-year highs recorded during the global economic crisis in 2008–2009. By late December 2014, thanks to the situation stabilising in

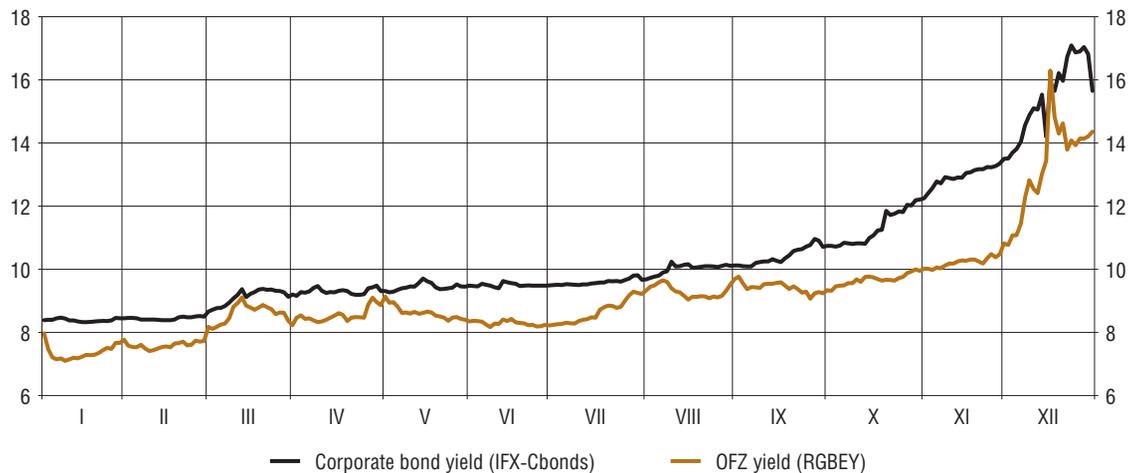
the domestic FX and money markets, bond quotations in the Russian debt securities market had started to recover. As of the end of 2014, OFZ yields (the RGBEY index<sup>1</sup>) increased to 14.36% p.a. from 7.15% p.a. at the end of 2013, and corporate bond yields (the IFX-Cbonds index<sup>2</sup>) rose to 15.65% p.a. from 8.39% p.a. at the end of 2013.

Amid the growth in bond yields in the secondary market, issuer activity in the primary market was low for the most of 2014. The Russian Ministry of Finance cancelled or aborted about half of the OFZ auctions planned for 2014. The amount of OFZ issues outstanding in 2014 fell by 1.1% compared with late 2013 to 3.6 trillion rubles<sup>3</sup> at face value.

At the same time, in the corporate bonds market, primary lending volumes increased significantly in December 2014, partly due to the fact that Russian companies' and banks' access to external funding was limited by the sanctions imposed by the US and the European Union. The market portfolio of corporate bond issues outstanding in the domestic market increased by 27.6% in 2014 compared with late 2013 to 6.6 trillion rubles at face value. Secondary trading volumes in OFZs and corporate bonds on Moscow Exchange fell by 35.7% and 30.9% to 3.9 trillion rubles and 4.3 trillion rubles respectively.

The volatility of Russian **stock market** price indicators increased significantly in 2014. The RTS index (calculated on the basis of equity prices in US dol-

**Bond yields in secondary market in 2014**  
(percent p.a.)



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

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

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

<sup>3</sup> Excluding OFZ issues (with a total nominal value of 1 trillion rubles) transferred by the Russian Ministry of Finance to the state corporation Deposit Insurance Agency (DIA) to recapitalise Russian banks.

### Stock price indices in secondary market in 2014 (points)



Source: Moscow Exchange OJSC.

lars) fell by 45.2% in 2014 compared with late 2013 to 790.71 points. The MICEX index (calculated on the basis of equity prices in rubles) fell by 7.1% to 1,396.61 points. Stock market capitalisation on Moscow Exchange decreased by 8.6% to 23.2 trillion rubles. The turnover of secondary trading in stocks and depository receipts for Russian-issued equities on Moscow Exchange increased in 2014 by 18.6% compared with 2013 to 10.1 trillion rubles.

**Securities issued by credit institutions.** In 2014, the Bank of Russia registered 180 issues of credit institutions' securities. The nominal value of equity issues amounted to 603.4 billion rubles with 162 issues<sup>1</sup> (in 2013, 199 issues with a value of 224.4 billion rubles) and the nominal value of bond issues amounted to 48.7 billion rubles with 18 issues (in 2013, 51 issues with a value of 189.6 billion rubles).

Reports on 192 issues of securities were registered (in 2013, 229 issues), resulting in the nominal value of floated equities amounting to 431.6 billion rubles (in 2013, 198.0 billion rubles) and bonds to 70.6 billion rubles (in 2013, 108.9 billion rubles).

Over the reporting period, 36 securities issues by credit institutions (amounting to a total of 40.5 billion rubles) were cancelled as a result of non-placement of securities during the issue and due to violation of Russian Federation laws on securities (in 2013, 28 issues totalling 48.8 billion rubles).

In 2014, the Bank of Russia registered 39 terms of issue and trade for the following certificates: 9 terms

of issue and trade for registered certificates of deposit, 4 terms of issue and trade for bearer certificates of deposit, 10 terms of issue and trade for registered savings certificates, and 16 terms of issue and trade for bearer savings certificates.

**Securities issued by issuers other than credit institutions.** In 2014, the Bank of Russia registered 4,791 issues of securities by issuers other than credit institutions. The nominal value of equity issues amounted to 2,026.7 billion rubles with 4,642 issues and the nominal value of bond issues amounted to 725.3 billion rubles with 149 issues. Issues of securities placed on a subscription basis made up the largest share of the nominal value of securities issues (76%): the nominal value of securities issues placed through public subscription amounted to 343.1 billion rubles (of which 60.6 billion rubles were equities and 282.5 billion rubles were bonds) and the nominal value of securities issues placed through private subscription amounted to 1,757.7 billion rubles (of which 1,314.9 billion rubles were equities and 442.8 billion rubles were bonds).

Reports on 4,758 issues of securities were registered, resulting in the nominal value of floated equities amounting to 1,285.49 billion rubles and bonds to 718.8 billion rubles.

In 2014, the Bank of Russia registered 128 securities prospectuses, of which 50 were for equities and 78 were for bonds.

In the period under review, the Bank of Russia cancelled 135 securities issues by non-bank financial insti-

<sup>1</sup> Of which the nominal value of equity issues related to increases in the authorised capital of credit institutions was 596.5 billion rubles, with 146 issues; six equity issues for 0.8 billion rubles were registered with a view to reducing the nominal value of stocks; and the nominal value of equity issues not affecting the size of the authorised capital of credit institutions amounted to 6.1 billion rubles, with 10 issues (in 2013, 187 issues totalling 222.4 billion rubles, 2 issues totalling less than 0.1 billion rubles and 10 issues totalling 1.9 billion rubles).

tutions (amounting to a total of 301.4 billion rubles) as a result of non-placement of securities during the issue and due to violation of Russian Federation laws on securities.

The most active in issuing equities in 2014 were issuers registered in Moscow (39% of all registered issues of equities), Saint Petersburg (9%), the Moscow Region (5%), the Sverdlovsk Region (4%), the Novo-

sibirsk Region (2%), the Krasnodar Territory (2%), the Republic of Crimea (1%), the Republic of Tatarstan (1%), the Rostov Region (1%), the Tyumen Region (1%), the Leningrad Region (1%), and the Primorye Territory (1%). The share of equities issues by issuers registered in other constituent territories of the Russian Federation amounted to less than 1%.

## I.4. GOVERNMENT FINANCE AND DOMESTIC GOVERNMENT DEBT

According to the Federal Treasury's report, Russia's general government revenues in 2014 were 26,371.1 billion rubles. The ratio of this figure to GDP was 36.9%, as in the previous year. Oil and gas revenues increased (by 0.5 percentage points of GDP, largely as a result of the ruble depreciation), while non-oil and gas revenues, primarily insurance premiums for compulsory social insurance and revenues from external economic activity, decreased (by 0.5% of GDP). Russia's general government expenditures were 0.1 percentage points lower in 2014 than in 2013 and stood at 27,216.0 billion rubles, or 38.1% of GDP. As a result, the general government deficit for 2014 was 844.9 billion rubles, or 1.2% of GDP, which is 3.3 billion rubles (0.1 percentage points) lower than in 2013.

Federal budget revenues in 2014 totalled 14,496.8 billion rubles, or 20.3% of GDP, which is 0.6 percentage points higher than the similar figure for 2013. Federal budget expenditures in 2014 were 14,830.6 billion rubles, or 20.8% of GDP, which is 0.6 percentage points higher than the corresponding figure for 2013. The federal budget deficit in 2014, relative to GDP, remained at the 2013 level (0.5% of GDP) increasing in absolute terms by 10.8 billion rubles.

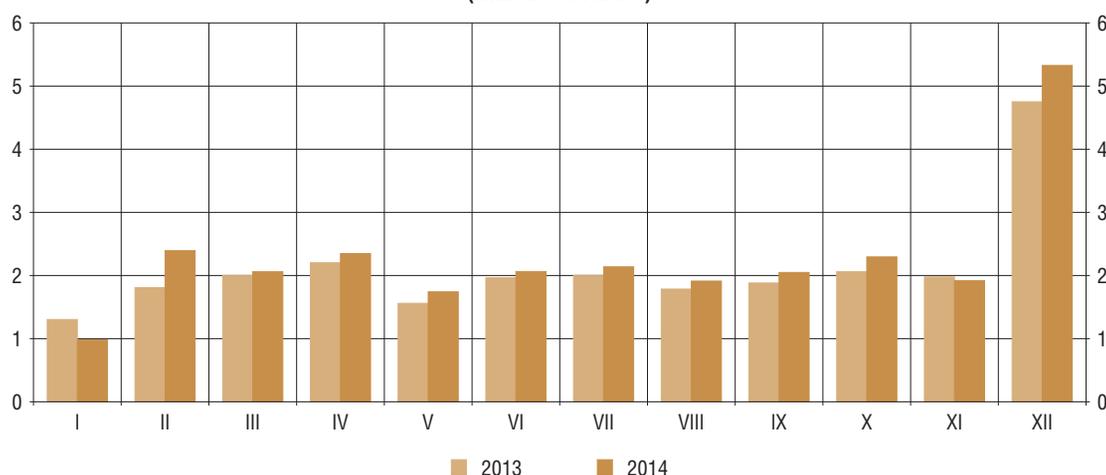
The revenues and expenditures of the consolidated budgets of the constituent territories of the Russian Federation in 2014 stood at 8,905.5 billion rubles and 9,353.3 billion rubles respectively, and the deficit amounted to 447.8 billion rubles (12.5%, 13.1% and

0.6% of GDP respectively). The revenues of the Russian Federation Pension Fund in 2014 totalled 6,159.1 billion rubles and its expenditures 6,190.1 billion rubles, giving a deficit of 31.1 billion rubles. The corresponding figures for the Federal Compulsory Medical Insurance Fund were 1,250.5, 1,268.7 and 18.1 billion rubles respectively. The budget of the Social Insurance Fund of the Russian Federation resulted in a surplus of 23.6 billion rubles in 2014 with revenues and expenditures of 175.1 and 151.4 billion rubles respectively.

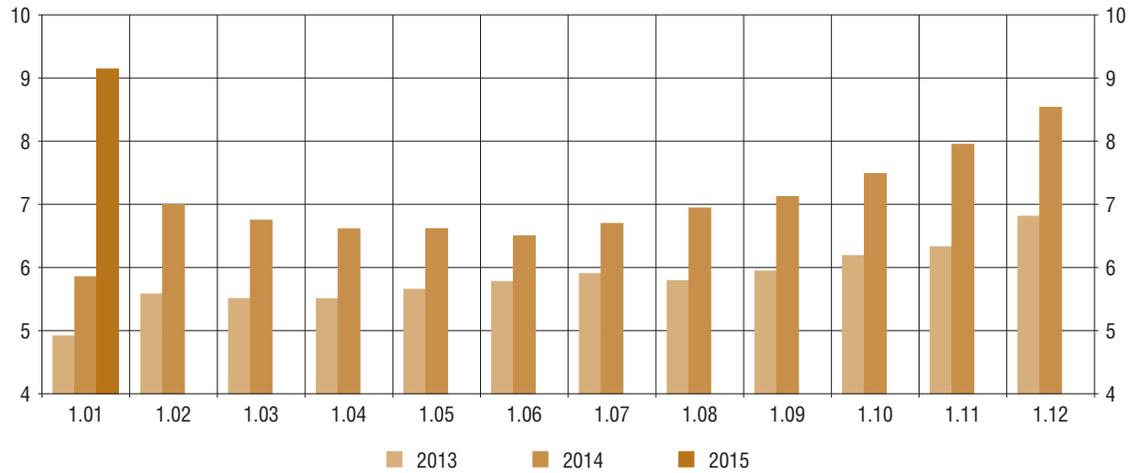
According to the Ministry of Finance, Russia's total domestic government and municipal debt as of 1 January 2015 was 9,615.6 billion rubles, or 13.5% of GDP, an increase over the year by 24.4% in absolute terms, or 1.8 percentage points of GDP. The share of domestic debt in total government and municipal debt was 75.7%, which is 5.1 percentage points lower than a corresponding value as of 1 January 2014.

The amount of the Russian government domestic debt as of 1 January 2015 was 7,241.2 billion rubles, or 10.1% of GDP, which is 1.5 percentage points higher than on 1 January 2014. Government securities of the Russian Federation accounted for 5,475.7 billion rubles, or 75.6% of the Russian government domestic debt, an increase of 1,043.3 billion rubles, or 23.5%, while government guarantees accounted for 1,765.5 billion rubles, or 24.4%, an increase of 475.6 billion rubles, or 36.9%. The volume of outstanding government securities in the domestic securities market decreased over

General government expenditures  
(trillions of rubles)



### Federal budget accounts with the Bank of Russia (trillions of rubles)



the year by 1.0% and, as of 1 January 2015, totalled 3,593.2 billion rubles, or 65.6% of the total outstanding volume.

The Ministry of Finance's ruble-denominated debt to the Bank of Russia measured at the nominal value of government securities, including government securities purchased by the Bank of Russia under repo transactions, contracted by 26.9% over 2014 to 1,172.2 billion rubles, while excluding repos, it fell by 1.7% to 254.6 billion rubles.

The Ministry of Finance's foreign currency debt to the Bank of Russia in ruble terms, including repo transactions, as of 1 January 2015, increased 2.3-fold and accounted for 501.7 billion rubles at the nominal value of government securities, while excluding repos, it in-

creased by 71.8% (due to foreign exchange revaluation) to 177.3 billion rubles.

Federal budget funds held in the currency of the Russian Federation in accounts with the Bank of Russia amounted to 757.1 billion rubles as of 1 January 2015, an increase over the year by 78.6 billion rubles, or 11.6%. Federal budget funds held in foreign currencies in ruble terms totalled 8,387.3 billion rubles as of 1 January 2015, an increase over the year by 3,217.0 billion rubles, or 1.6-fold, of which the funds of the Reserve Fund and the National Wealth Fund (excluding accrued interest) totalled 4,945.5 billion rubles and 3,288.3 billion rubles (increasing by 2,085.8 and 1,164.6 billion rubles respectively). This growth in the amount of funds is largely down to foreign exchange revaluation.

## I.5. BALANCE OF PAYMENTS AND EXTERNAL DEBT

### Balance of payments<sup>1</sup>

In 2014, the balance of payments developed amid a deteriorating foreign economic climate and intensified geopolitical risks. A slight improvement in the balance of trade and growth in the current account surplus were not enough to offset the capital outflow that had been triggered. With restricted access to external markets, the use of FX reserves made it possible to offset the growing imbalance in the domestic foreign exchange market.

#### Current account and capital account

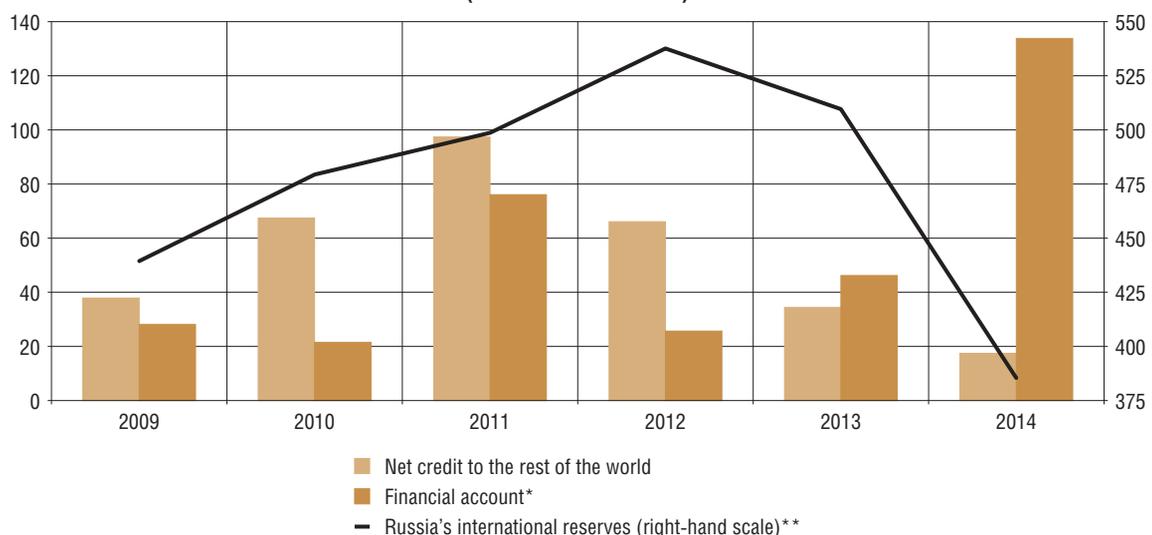
The **current account** surplus in 2014 was \$59.5 billion (\$34.8 billion in 2013). Its growth was linked to a reduction in the deficit of the balance of primary income and services amid growth in trade surplus. The latter increased under a rapid decline in goods imports compared with exports.

The **export of goods** fell to \$497.8 billion (by 4.9%). The slight increase in this figure in the first half of the year gave way to a decline in the second half of the year. With the slowing growth in the global econo-

my, which had caused a deterioration in external prices for key Russian exports, prices of export goods fell by 4.9%. Crude oil was supplied to external consumers by 6.2% cheaper than last year, natural gas by 7.4%, and petroleum products by 2.8%. Prices of other goods fell by 4.3% on average. However, Russian exporters managed to keep their export quantities unchanged compared with 2013: the reduction in the supplies of three main energy goods by 2.1% in real terms was largely offset by growth in exports of other goods by 4.3%.

The value of fuel and energy exports fell to \$346.2 billion (\$372.0 billion in 2013), causing the share of this commodity group in the export structure to shrink from 70.6% in 2013 to 69.6% in 2014<sup>2</sup>. At the same time, exports of ferrous and non-ferrous metals, including their corresponding products, remained at the 2013 level: \$40.5 billion. Shipments of chemicals fell slightly (\$29.1 billion in 2014). Exports of machinery products decreased considerably to \$26.3 billion (or 8.7%) and the share of this product group in total exports fell from 5.5% to 5.3%. Despite the reduction in imports of food-

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



\* Net of change in reserves.

\*\* As of end of year.

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

<sup>2</sup> The structure of exports and imports and the geographical distribution of external trade are based on customs statistics.

stuffs and raw materials for their production from a number of countries, the Russian Federation not only managed to satisfy its internal demand, but also increased exports of goods in this group by 16.5% to \$18.9 billion.

The reduced shipments of hydrocarbons caused a decreased share of EU countries in the geographical export structure, which fell to 52.1% (53.6% in 2013). At the same time, the share of Asia-Pacific Economic Cooperation (APEC) countries increased to 21.5% (18.8%), largely as a result of exports of other product groups. The total share of Russia's partners in the Customs Union (the Republic of Belarus and the Republic of Kazakhstan) fell slightly to 6.8% (7.2%). The largest volumes went to the Netherlands (13.7%), China, Germany (7.5% each) and Italy (7.2%).

**The import of goods** totalled \$308.0 billion in 2014, shrinking by 9.8% compared with 2013. This reduction was caused by both a 4.3% fall in prices and a 5.7% decrease in import quantities. The decrease in imports accelerated in the second half of 2014. These negative dynamics, combined with the reduced demand following slowing economic growth and the ruble depreciation, were also linked to restrictions introduced by the Russian Federation on imports of certain categories of goods from foreign countries.

The pause in investment in the economy caused a decline in imports of cars, equipment and transport vehicles by 10.8% to \$136.2 billion, with the biggest drop witnessed in the land-based transport segment. The share of this group in the product structure of imports fell from 48.5% to 47.6%. Imports of chemicals and related products fell relatively slowly, by 7.2% to \$46.4 billion, largely due to pharmaceutical products. As a result of the restrictions, imports of foodstuffs dropped to \$39.7 billion (or by 8.0%).

The partial replacement of European imports with supplies of products from the Asia-Pacific region caused the share of EU countries in the geographical distribution of imports in 2014 to decline to 41.4% (42.6% in 2013) amid an increase in the contribution of APEC countries to 36.4% (34.7%). The share of Customs Union countries also rose to 6.6% (6.3%). China, which worked to consolidate its position, continued to be a major partner (17.8%). Other important trading partners were Germany (11.5%), the USA (6.5%) and Italy (4.5%).

The deficit in the **balance of external trade in services** shrank from \$58.3 billion in 2013 to \$55.2 billion in 2014 as a result of a more significant reduction in the amount of services received.

**The export of services** fell to \$65.8 billion (\$70.1 billion in 2013), largely due to a decline in investment activity in Russia and abroad caused by the substantial decrease in the cost of services in construction and other business services.

**The import of services** shrank to \$121.0 billion in 2014, or by \$7.3 billion compared with 2013. The main factor was the reduction in the amount of services under the 'Trips' item to \$50.4 billion (\$53.5 billion) as a result of the fall in household income in dollar terms.

The deficit in **the compensation of employees' balance** fell to \$10.1 billion (or by 23.5% relative to 2013) due to the fall in payments to foreign citizens working in Russia for less than one year to \$14.2 billion (\$17.4 billion in 2013) as a result of a decrease in the number of non-resident workers and the dollar equivalent of their average compensation. The amount payable to Russian citizens working abroad was close to the figure for the previous year: \$4.1 billion.

The deficit in the **balance of investment income** shrank to \$57.2 billion (\$66.5 billion in 2013). A considerable drop in incomes payable to non-residents resulted in the declining profits of Russian companies and banks. Banks' investment income deficit shrank almost two-fold to \$3.9 billion, and for other sectors it fell by \$5.5 billion to \$52.8 billion.

**The balance of secondary income** showed a deficit of \$7.9 billion in 2014. The decrease, compared with \$9.3 billion in 2013, was mostly caused by the reduction in free funds transfers abroad by residents.

The **capital account** deficit of \$42.0 billion was generated by major transactions to forgive debt under government loans granted by the former USSR, and other debts of foreign states owed to the former USSR.

**Net lending to the rest of the world (the cumulative balance from the current and capital account)** almost halved in 2014 to \$17.5 billion. The ratio of net lending to GDP shrank from 1.7% in 2013 to 0.9% in 2014.

## Financial account

The positive financial account balance (excluding reserve assets) in 2014 rose to \$133.8 billion (\$46.2 billion in 2013) due to a reduction in foreign liabilities and high rates of financial asset accumulation.

**The negative value of net incurrence of liabilities** amounted to \$50.7 billion (in 2013, it was positive: \$124.4 billion).

The general government's external liabilities shrank by \$9.5 billion (they grew by \$9.3 billion a year earlier).

Growing sales of sovereign securities of the Russian Federation by foreign investors in the secondary market (up to \$7.2 billion) played a key role in the dynamics of this indicator. Payments related to the repayment and servicing of external government debt decreased from \$5.8 billion in 2013 to \$5.2 billion in 2014.

The net reduction in private sector liabilities was \$38.5 billion.

The reduction in banking sector foreign liabilities, which amounted to \$37.3 billion (in 2013 they grew by \$20.4 billion), was largely the result of the restrictions introduced on raising capital in the international market beginning in the second half of 2014 for a number of systemically important Russian banks, which made re-financing their external debt difficult. In particular, credit institutions decreased the issue of new Eurobond loans nearly by a factor of 2. Other sectors also encountered the reduced external funding, leading to a decrease in their net liabilities by \$1.2 billion (in 2013 they grew by \$94.2 billion). Direct investment totalling \$16.6 billion, secured predominantly by the reinvestment of non-residents' income in the equity capital of Russian companies, was offset by a \$12.3-billion outflow of foreign portfolio investors' funds from Russian-issued corporate securities and a net reduction in outstanding loans by \$5.7 billion.

The **net acquisition of financial assets**, excluding reserve assets, reached \$83.1 billion in 2014 (\$170.6 billion a year earlier).

The general government's foreign assets shrank by \$39.5 billion, mainly as a result of the aforementioned forgiveness of foreign governments' debts to the former USSR. In 2014, loans were issued to the amount of \$3.2 billion; redemption totalled \$1.5 billion.

The net acquisition of financial assets by the private sector<sup>1</sup> in 2014 amounted to \$124.4 billion (\$166.0 billion in 2013).

A \$9.6-billion increase in banks' foreign assets (\$27.9 billion in 2013) was linked in part to the redistribution of a portion of other sectors' foreign assets and the Bank of Russia's FX reserves in favour of credit institutions.

The net acquisition of financial assets by other sectors amounted to \$114.9 billion (\$138.1 billion in 2013)<sup>1</sup>.

With the exception of a large one-off transaction in the mergers and acquisitions market in 2013, growth in other sectors' external claims was higher in 2014 than in 2013. However, direct investments covered about a half of the financial assets acquired (\$54.5 billion). Among these, investment in foreign corporate debt instruments rose considerably, as well as investment by resident households, which is considered to be linked to the acquisition and maintenance of foreign real estate. The growth in investment in the form of a new stake in the share capital of non-resident companies fell to \$21.2 billion (\$23.3 billion in 2013<sup>2</sup>).

The increase in foreign currency cash balances of residents (excluding banking system organisations) amounted to \$30.4 billion (in 2013, balances fell by \$0.3 billion).

The value of suspicious transactions<sup>3</sup> fell by more than threefold compared with 2013 to \$8.6 billion.

**Net outflow of private capital** in the period under review rose to \$154.1 billion (\$61.6 billion in 2013).

**The international reserves of the Russian Federation** amounted to \$385.5 billion as of 1 January 2015. In 2014, they fell by \$124.1 billion (\$28.0 billion in 2013).

Due to transactions accounted for in the balance of payments, in 2014 reserves decreased by \$107.5 billion, mainly as a result of foreign exchange interventions and the provision of FX liquidity to resident banks on a reverse transaction basis.

Among other changes, the negative exchange rate revaluation, totalling \$25.8 billion, which resulted from the dynamic consolidation of the US dollar in the international market and the fall in global gold prices, had the greatest impact on the amount of reserve assets.

The value of monetary gold as of 1 January 2015 was \$46.1 billion. The \$6.1-billion increase in the metal component of the reserves in 2014 came about as a result of growth in asset quantities. Since the start of the year, the share of gold in the international reserves increased from 7.8% to 12.0%.

As of 1 January 2015, the international reserves were sufficient to finance the import of goods and services for 11 months (as of 1 January 2014 it was 13 months).

<sup>1</sup> Excluding debt for shipments based on intergovernmental agreements.

<sup>2</sup> Excluding the large one-off transaction in the mergers and acquisitions market.

<sup>3</sup> Suspicious operations include those showing signs of being fictitious and those related to trading in goods and services, the sale/purchase of securities, the issuance of loans and the transfer of funds to private accounts outside Russia with the purpose of cross-border money transferring.

## External debt

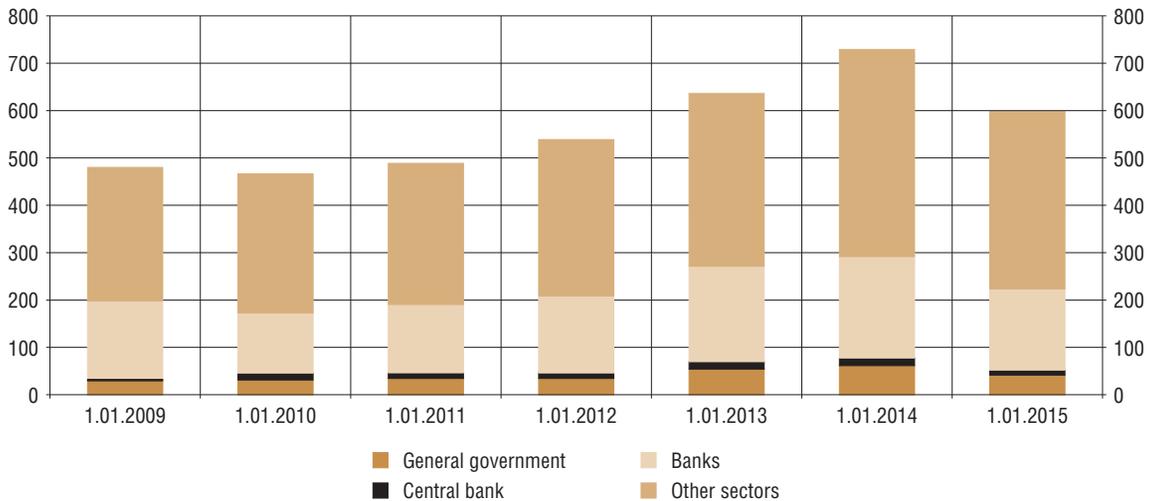
The external debt of the Russian Federation decreased over 2014 by \$131.6 billion (or by 18.1%) to reach \$597.3 billion as of 1 January 2015. As a result of operations recorded in the balance of payments, outstanding loans decreased by \$39.6 billion, but due to other changes, including exchange rate and cost revaluations, they decreased by \$92.0 billion.

The external debt obligations of the private sector fell by \$106.1 billion and as of 1 January 2015 accounted for 91.3% of the total external debt of the Russian Federation. The debt obligations of the general gov-

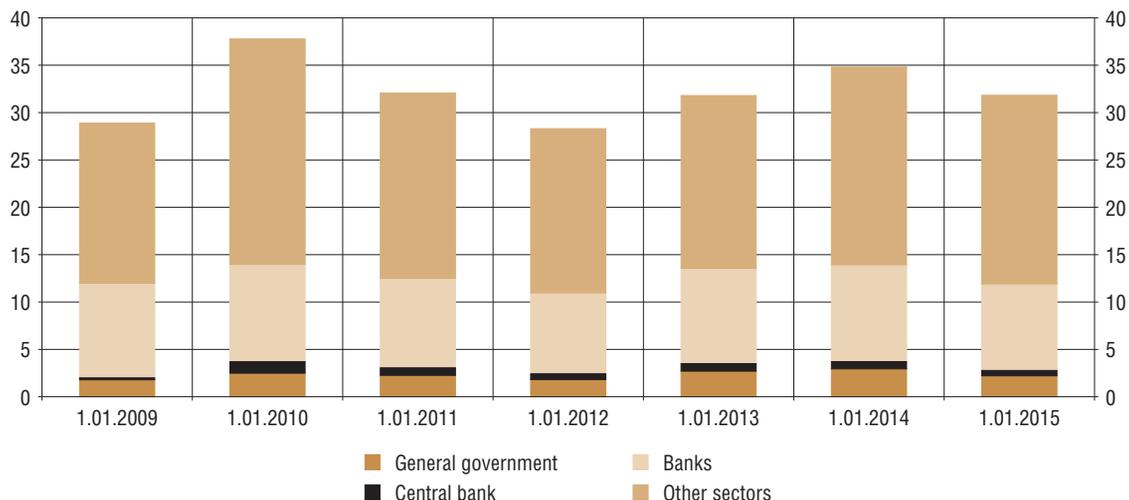
ernment and the central bank fell to \$52.2 billion (their share was equal to 8.7%). The external debt of the extended government<sup>1</sup> decreased to \$303.8 billion, and its share stood at 50.9% of the total debt.

The federal government debt shrank by \$19.9 billion to \$41.0 billion. The liabilities accepted by the Russian Federation as the successor of the former USSR decreased to \$1.8 billion. In the new Russian debt structure, the decrease came largely in the segment of ruble-denominated debt instruments (by \$12.9 billion) and the foreign currency securities component fell by \$6.3 billion.

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



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



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

The external debt of the Russian Federation's constituent territories fell to \$0.6 billion as of 1 January 2015.

The Bank of Russia's liabilities to the IMF, on SDR distributed to the Russian Federation, accounted for 77.5% of its liabilities totalling \$10.6 billion, while cash rubles held by non-residents as well as accounts and deposits accounted for 22.5%.

The external debt of banks shrank in 2014 by \$42.9 billion, or 20%, to \$171.5 billion.

The external debt of other sectors decreased by \$63.2 billion to \$373.6 billion.

As a result of the prevailing settlement of short-term debts, the share of long-term liabilities in total ex-

ternal debt rose from 88.3% to 89.7% (\$535.7 billion) and the share of short-term liabilities fell from 11.7% to 10.3% (\$61.6 billion). The significant depreciation of ruble-denominated liabilities contributed to the reduction in the share of external debts denominated in rubles from 25.7% to 17.8% (\$106.1 billion), while the share of debts denominated in foreign currencies increased from 74.3% to 82.2% (\$491.1 billion).

As of 1 January 2015, the Russian Federation's debt sustainability indicators remained moderate, according to international standards: the ratio of external debt to GDP was 32% (35% at the beginning of 2014), and the ratio of external debt of the general government to GDP fell to 2% (3%).

## I.6. THE NATIONAL PAYMENT SYSTEM

In 2014, the development of the national payment system (NPS) was characterised by the expansion of services enabling customers both to make fast and secure payments using remote and mobile forms of access to their money and to more effectively manage their liquidity. Negative external factors did not have a significant impact on the payment infrastructure. This was helped by measures undertaken by the Bank of Russia to develop the payment infrastructure with a view to guarantee uninterrupted payment services within the Russian Federation.

As of 1 January 2015, there were 833 money transfer operators, 33 payment system operators, 35 operations offices, 36 payment clearing centres, 32 settlement centres, 97 electronic money operators, the Federal State Unitary Enterprise Russian Post (FSUE Russian Post), payment agents and bank payment agents (as of 1 January 2015, they were opened 29,700 accounts with credit institutions).

As of 1 January 2015, 33 payment systems were in operation in the Russian Federation, of which two were systemically important, five were socially important, and 10 were nationally important.

Figures reflecting the functioning of the Bank of Russia's systemically and nationally important payment system remained at the 2013 levels at 1.4 billion funds transfers, amounting to a total of 1,205.2 trillion rubles. On average, 5.5 million transfers totalling 4.9 trillion rubles were made daily (in 2013, 5.4 million totalling 5.0 trillion rubles). The amount of funds transfers made through the Bank of Russia payment system in 2014 exceeded GDP by a factor of 17.

Transfers by credit institutions, the main user of the Bank of Russia payment system, accounted for 85.9% of operations in terms of the number of transfers and 80.2% in terms of their value. Transfers made by Bank of Russia customers other than credit institutions stood at 14.1% and 9.7% respectively. Of these, the majority were transfers by Federal Treasury bodies involved in

the exchange of electronic messages with the Bank of Russia. In 2014, they made 143.3 million transfers totalling 106.9 trillion rubles through the Bank of Russia payment system. Moreover, 90.4% of the total value of transfers by Federal Treasury bodies were made electronically.

As of 1 January 2015, the number of participants in the banking electronic speedy payment (BESP) system was 2,495, of which 356 were direct settlement participants, 2,053 were associated settlement participants, and 86 were special settlement participants. In 2014, 2.9 million transfers were made through the BESP system, totalling 475.6 trillion rubles (growing by a factor of 1.4 in number and falling by 5.7% in value), of which about 39% were transfers by Federal Treasury bodies.

In 2014, 448.0 million funds transfers totalling 121.9 trillion rubles were made through the interregional electronic settlement (MER) system (an increase of 10.8% and 4.8% respectively compared with 2013). The number and value of funds transfers through the intraregional electronic settlement (VER) system remained virtually unchanged at 919.7 million transfers and 607.7 trillion rubles respectively.

The Bank of Russia payment system's<sup>1</sup> average monthly accessibility ratio ranged from 99.92% to 100% in the reporting year (in 2013, from 99.80% to 99.99%) and the accessibility ratio of BESP system services<sup>2</sup> changed from 99.69% to 100%.

The value of funds transfers through the NKO ZAO National Settlement Depository payment system, a systemically and nationally important payment system that effects settlements under deals concluded at organised trading (Moscow Exchange) and OTC markets, reached 129.8 trillion rubles. On average, 525.4 billion rubles worth of funds transfers were made daily<sup>3</sup>. The amount of funds transfers made through the payment system of NKO ZAO National Settlement Depository in 2014 exceeded GDP by a factor of 1.8.

<sup>1</sup> Readiness to execute money transfer orders from Bank of Russia customers making intraregional and interregional electronic settlements.

<sup>2</sup> Ability to access settlement and information services offered by the Bank of Russia to BESP participants during the timeframe stated in Bank of Russia regulations.

<sup>3</sup> According to data compiled in compliance with the reporting methodology introduced by Bank of Russia Ordinance No. 3304-U, dated 27 June 2014, 'On Reporting by Payment System Operators Regarding Payment Systems Used to Make Funds Transfers in Organised Trading'.

In 2014, money transfer operators (credit institutions) executed 12.6 billion payments totalling 983.4 trillion rubles<sup>1</sup> (in 2013, 9.7 billion payments totalling 961.3 trillion rubles). The rates of growth in the number (by 24.5%) and value (by 13.1%) of payments by households and legal entities other than credit institutions continued to be high. The number and value of payments by credit institutions fell by 6.7% and 11.7% respectively.

Payment volumes in the corporate sector continued to grow: in 2014, credit institutions executed 1.6 billion money transfer orders from corporate customers other than credit institutions, totalling 500.7 trillion rubles (2.9% and 17.3% respectively more than in 2013).

As of 1 January 2015, the overwhelming majority of credit institutions (about 95%) granted their customers remote access to their accounts to make payments. The number of such accounts opened to households and legal entities other than credit institutions rose by 12.4% (to 125.8 million accounts) and the number and value of orders sent by customers electronically increased by 37.9% and 11.5% respectively (to 10.7 billion transactions totalling 471.0 trillion rubles). This accounted for 89.7% of the total number and 89.4% of the total value of orders sent to credit institutions by households and legal entities.

The number of payment cards issued by Russian credit institutions was 227.7 million at the start of 2015 (or 1.6 cards per capita), of which 86.1% were settlement (debit) cards and 13.9% were credit cards. Growth in the efficiency of their use was also observed. With the number of payment cards increasing by 4.7% over the year, transactions using cards within the Russian Federation and abroad rose by 30.7% in number (to 10.1 billion transactions) and by 22.1% in value (to 36.2 trillion rubles). On average, 27.7 million transactions totalling 99.0 billion rubles were made daily.

In 2014, the trend towards a rapid growth in cashless transactions using cards continued (1.5 times higher both in number and value) compared with cash withdrawal operations (by 4.6% and 12.2% respectively). This contributed to a further reduction in the share of cash withdrawal operations from 40.8% to 32.7% in number and from 72.5% to 66.6% in value.

The growth in card transactions was supported by the active adoption of the associated infrastructure by trade and services organisations. In 2014, the number of POS

terminals and imprinters increased by almost a third (to 1.3 million devices) and the number of ATMs, the majority of which are also intended to be used for cashless transactions, grew by 18.0% (to 222,800 devices).

Electronic money occupied its own niche. The share of electronic money transfer transactions in the total number and value of cashless payments by households rose to 10.7% and 3.9% respectively in 2014. In the reporting year, the number of electronic payment facilities (EPFs) used to transfer electronic money stood at 350.0 million units, which were used to make 1.1 billion electronic money transfers totalling 1.1 trillion rubles. The share of non-personalised EPFs was 93.8%, which were used to make 69.6% of transactions in terms of number and 38.9% in terms of value. The share of transactions using personalised EPFs was 30.3% and 59.9% respectively, while the share of corporate EPFs was negligible.

In 2014, credit institutions paid considerable attention to the task of establishing a payment infrastructure in the Crimea Federal District. As of 1 January 2015, 530 credit institution branches were operating on its territory. The number and value of payments executed in April–December 2014 by customers of credit institutions in the Crimea Federal District amounted to 4.1 million transactions and over 230 billion rubles respectively. Of these, 1.3 million transactions totalling 10 billion rubles were transfers by households without opening a bank account, and 315,600 transactions totalling 864.4 million rubles were cashless transactions using payment cards.

In April–December 2014, 1.9 million funds transfers totalling 349.9 billion rubles were processed through the infrastructure of the Bank of Russia's payment system within the Crimea Federal District.

As of 1 January 2015, FSUE Russian Post comprised 41,600 divisions offering payment services to the population and economic entities<sup>2</sup>. In 2014, the number and value of postal transfers and payments by individuals through FSUE Russian Post divisions and payment terminals, both in Russia and abroad, remained virtually unchanged at 666.6 million transactions and 564.8 billion rubles respectively, of which the majority were payments taken by FSUE Russian Post from households in its capacity as a payment agent (90.4% and 66.0% respectively).

The value of payments made involving payment agents and bank payment agents receiving funds

<sup>1</sup> Including own payments by credit institutions and payments by customers of credit institutions (credit institutions, households and legal entities other than credit institutions), including cashless transactions using payment cards and electronic money transfer transactions.

<sup>2</sup> According to FSUE Russian Post data.

increased by 8.1% (to 1.3 trillion rubles) in 2014. Of these, 85.8% were through payment agents and 14.2% were through bank payment agents (88.3% and 11.7% respectively in 2013). The share of funds taken by agents to pay for services was 22.3% of total transfers by households without opening a bank account<sup>1</sup>.

In 2014, the Bank of Russia took steps to calculate, account for, and monitor the completeness and time-

liness of payments to the federal budget by the Bank of Russia. The value of proceeds administered by the Bank of Russia in 2014 was 640.7 million rubles, or 96% of the amount stipulated by the Federal Law 'On the Federal Budget for 2014 and the Plan Period of 2015 and 2016'. The amounts outstanding on monetary sanctions (fines) totalled 2,965.5 million rubles as of 1 January 2015 (a decrease of 936 million rubles compared with 1 January 2014).

---

<sup>1</sup> Including transfers by households without opening a bank account made through the infrastructure of credit institutions, FSUE Russian Post, payment agents and bank payment agents.

## **II. BANK OF RUSSIA ACTIVITIES**

## II.1. MONETARY POLICY

### II.1.1. Monetary policy objectives and results

The main objective of the Bank of Russia's monetary policy is to achieve price stability. Price stability is understood to mean achieving and maintaining stable, low rates of inflation, which is essential to guarantee balanced and sustainable economic growth. The inflation target for 2014 set forth in the Guidelines of the Single State Monetary Policy in 2014 and for 2015 and 2016 was 5%. However, in 2014, the Russian economy faced a number of negative external shocks, causing the conditions under which the Bank of Russia implemented its monetary policy to deviate substantially from the assumptions set forth in the baseline scenario for macroeconomic development.

The Bank of Russia made decisions regarding the level of its key rate – an indicator of its monetary policy stance – based on an analysis of developing economic trends, a macroeconomic forecast and an assessment of the risks of inflation deviating from the target in the medium term, taking into account the monetary policy impact on economic indicators distributing over time. Amid the increasing inflation risks and the slowing economic growth caused predominantly by structural factors, the Bank of Russia raised its key rate in 2014.

#### Key monetary policy decisions

In 2014, the Bank of Russia pursued its monetary policy amid unfavourable external economic conditions that had a significant pro-inflationary effect with a simultaneous negative impact on economic growth prospects. The growing geopolitical tensions starting in March 2014, the intensifying capital outflow, and the restricted access of Russian companies and banks to the international financial markets were all factors in the increased volatility in all segments of the financial market, economic agents' worsened expectations, and the change in the balance of supply and demand in the domestic foreign exchange market. In the second half of 2014, the large drop in oil prices proved to be a key challenge to the Russian economy, leading to a reduced income from external economic activity, drastic depreciation of the ruble, and increased risks to price and financial stability. A further source of the temporary increase in inflationary pressure was the introduction of

import restrictions on a number of foodstuffs in Russia beginning from August 2014.

The slowdown in economic growth in 2014 did not have a marked constraining effect on inflation, since it was largely caused by structural factors.

Accelerated growth in prices for a wide range of goods and services, caused primarily by the depreciation of the ruble and the continuing high economic uncertainty, put upward pressure on the inflation expectations of economic entities, creating risks for hitting inflation targets in the medium term.

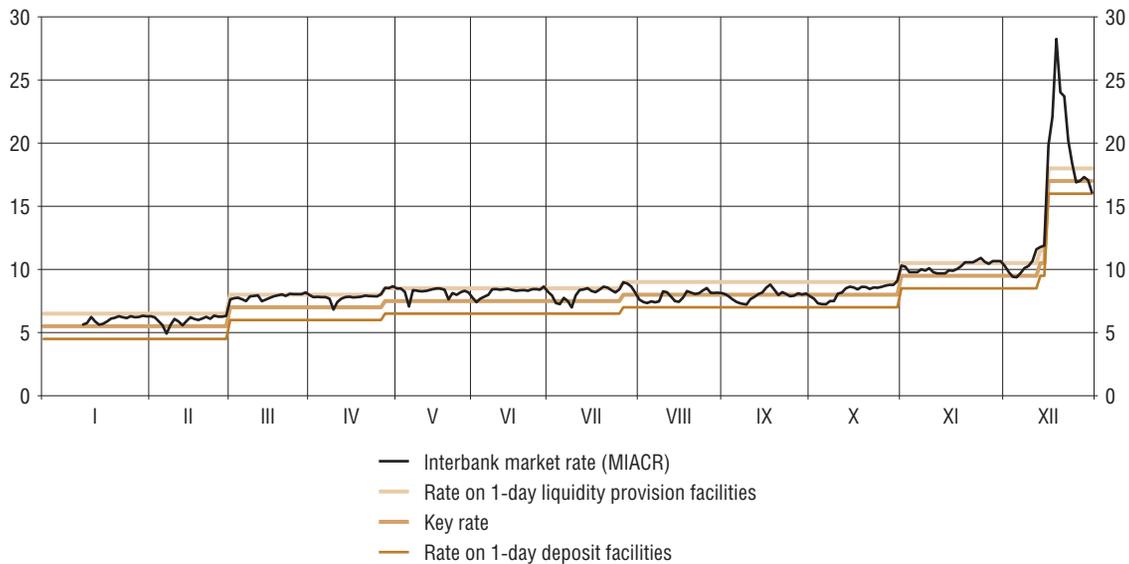
Under these conditions, since March 2014 the Bank of Russia decided on six occasions to increase its key rate by a total of 11.50 percentage points. Moreover, since 16 December 2014, the key rate was raised by 6.50 percentage points to 17.00% p.a.

In view of the fact that the acceleration in consumer price growth in 2014 was largely caused by unforeseen external factors, and the impact of monetary policy on price dynamics has a time lag of 12 to 18 months following a change in the key rate, a fall in inflation to the target of 5% was impossible in 2014. By the end of the year, it stood at 11.4%. However, the monetary policy tightening helped stabilise inflation and depreciation expectations among economic entities and bolster their propensity to save, which made it possible to limit the impact of unfavourable external factors on the price growth acceleration and was aimed at creating the necessary conditions to gradually reduce inflation to the target in the medium term.

The difficult conditions faced by the Russian economy in 2014 made it necessary to implement, in conjunction with other monetary policy measures, a number of non-standard measures aimed at supporting the priority areas of economic development. Therefore, in 2014 the Bank of Russia continued to develop specialised instruments to support certain segments of the economy whose development was suppressed by structural factors.

In April 2014, a new specialised mechanism to re-finance credit institutions was introduced, under which credit institutions could obtain funds from the Bank of Russia for up to three years inclusive, secured against receivables on loans provided to finance investment

**Bank of Russia interest rate corridor and overnight MIACR in 2014  
(percent p.a.)**



projects selected in accordance with regulations approved by the Russian Federation Government. In May 2014, the scope of this programme was also extended to bonds from the Bank of Russia Lombard List, which were placed to finance investment projects.

In 2014, the Bank of Russia also continued a number of previously introduced specialised refinancing programmes: providing OJSC Russian Bank for Small and Medium Enterprises Support' (OJSC SME Bank) with loans secured against receivables under interbank loan agreements signed with partner banks under the Financial Support for Small and Medium Enterprise Programme, and lending secured against receivables under loan agreements secured against insurance agreements with OJSC Export Insurance Agency of Russia (OJSC EXIAR)<sup>1</sup>.

In December 2014, the Bank of Russia decided to set up a new mechanism to refinance credit institutions, secured against mortgages issued under the Military Mortgage programme.

With the key rate rising to 17.00% p.a. on 16 December 2014, interest rates on specialised refinancing instruments were kept at their previous levels.

## Money supply

In 2014, monetary conditions tightened. The monetary aggregates dynamics created the necessary prerequisites for a fall in inflation in the medium term.

Over 2014, the money supply in the national definition (the M2 aggregate), rose by 2.2% (14.6% over 2013). Growth in broad money (the M2X aggregate) remained virtually unchanged (15.5% in 2014 compared with 15.7% in 2013), however more than half of the growth in broad money in 2014 was down to the revaluation of foreign currency deposits.

Household deposits were the main source of broad money, which shrank in 2014. Over the year, ruble-denominated household deposits fell by 3.0% and foreign currency deposits in dollar terms fell by 3.8%. As a result of shrinking ruble-denominated household deposits, their share in the M2 monetary aggregate fell from 44.1% as of 1 January 2014 to 41.8% as of 1 January 2015.

Annual growth in cash in circulation (the M0 aggregate) fell from 8.6% at the start of 2014 to 2.7% at the end of the year. The share of cash in the money supply in the national definition remained virtually unchanged over 2014 (22.3% at the end of the year compared with 22.2% at the start of the year).

Balances of resident organisations' accounts (excluding credit institutions) continued to grow. In 2014, ruble-denominated bank deposits by these organisations increased by 8.9% and their foreign currency deposits in dollar terms rose by 19.6% (in 2013, they increased by 14.2% and 16.3% respectively). The share of corporate deposits in the M2 aggregate increased from 33.6% as of 1 January 2014 to 35.8% as of 1 January 2015.

<sup>1</sup> In accordance with Clause 7 of Article 3 of Federal Law No. 99-FZ, dated 5 May 2014, 'On Amending Chapter 4 of Part 1 of the Civil Code of the Russian Federation and Recognising as Null and Void Certain Provisions of Laws of the Russian Federation', the following names will be used beginning from February 2015: JSC Russian Bank for Small and Medium Enterprises Support' (JSC SME Bank) and JSC Export Insurance Agency of Russia (JSC EXIAR).



## II.1.2. Monetary indicators and monetary policy instruments

In 2014, auction-based refinancing operations by the Bank of Russia continued to be a key element of its monetary policy. These operations help keep the funds in credit institutions' correspondent accounts with the Bank of Russia at the necessary level for required reserves averaging and to make payments and settlements, taking into account changes in liquidity formation factors. The ultimate goal of managing banking sector liquidity is to keep money market rates close to the Bank of Russia's key rate, which is set in order to achieve inflation targets.

Amid the increased structural shortage of banking sector liquidity, caused by the dynamics of factors shaping banking sector liquidity, demand for Bank of Russia refinancing operations continued to grow among credit institutions.

Liquidity was withdrawn from the banking sector in 2014 primarily through interventions by the Bank of Russia in the domestic foreign exchange market and by increasing the amount of cash in circulation. However, the decreasing balances of general government accounts with the Bank of Russia and other operations contributed to an inflow of liquidity into the banking sector.

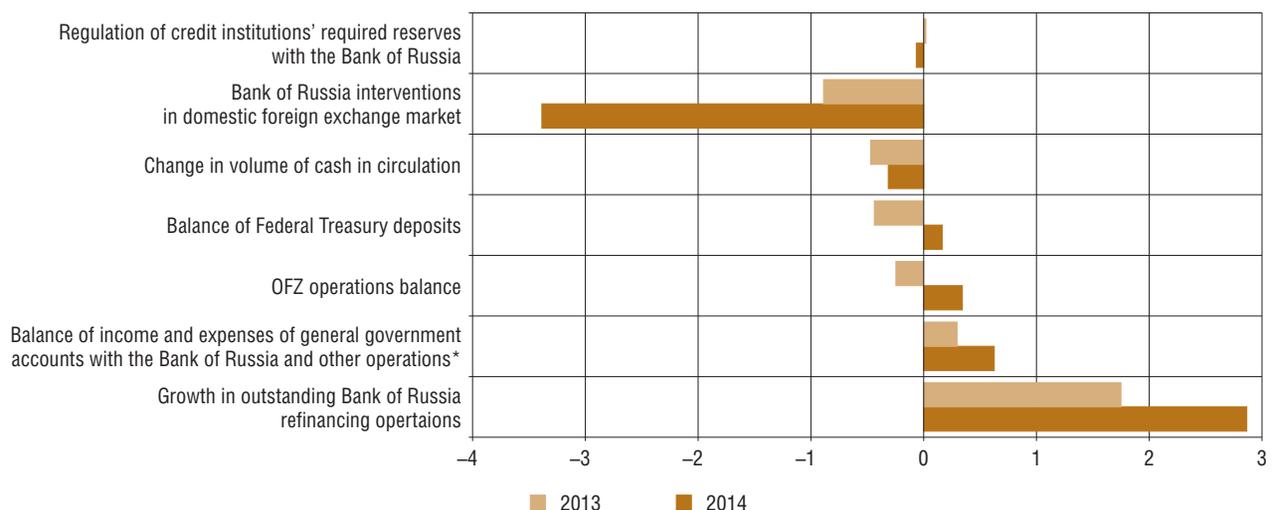
In 2014, the Bank of Russia pursued its exchange rate policy amid increased volatility of the ruble exchange rate against other major global currencies. The Bank of Russia's interventions in the domestic foreign exchange market, a significant portion of which took place in March, October and December, led to an out-

flow of liquidity from the banking sector in the amount of 3.4 trillion rubles in 2014 (0.9 trillion rubles in 2013).

The dynamics of cash in circulation in 2014 were generally in line with seasonal trends. The exception was certain periods in March and December. As a result of the increased volatility of the ruble exchange rate in the domestic foreign exchange market, March saw excess household demand for foreign currency, which led to an inflow of ruble-denominated liquidity into the banking sector. December, however, saw cash withdrawals from the banking sector due to a temporary intensification of consumer activity amid growth in inflation expectations. Cash was also seen accumulating in the cash offices of credit institutions. At the end of December 2014, the return of funds by bank customers (including retail trade organisations) to accounts with credit institutions and from the cash offices of the organisations themselves to the Bank of Russia led to a partial recovery of the usual dynamics. Overall, in 2014 the outflow of funds from the banking sector due to the issuance of cash amounted to 0.3 trillion rubles, which was 0.2 trillion rubles less than in 2013.

At the end of the period under review, due to changes in balances of extended government accounts with the Bank of Russia (including deposit operations by the Federal Treasury and OFZ operations by the Russian Ministry of Finance) and other operations, the inflow of liquidity into the banking sector totalled 1.1 trillion rubles, compared with its outflow of 0.4 trillion rubles in

**Liquidity factors and growth in outstanding amount on Bank of Russia operations  
(trillions of rubles)**



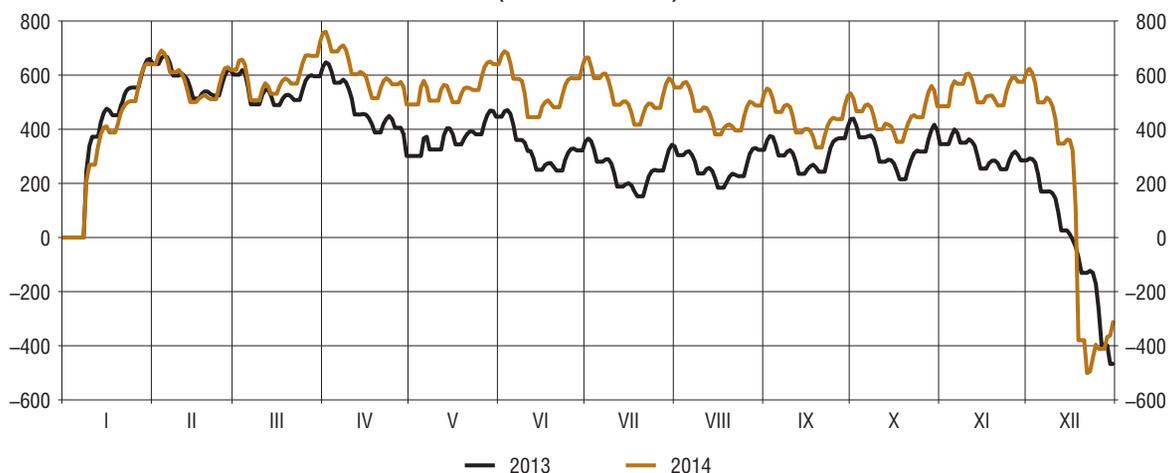
\* Net of Federal Treasury deposits and Ministry of Finance OFZ operations, taking account of interest payments on Bank of Russia refinancing and liquidity-absorbing operations.

2013. Right up until December 2014, the excess of extended government revenues over its expenditures (excluding deposit operations by the Federal Treasury and OFZ operations by the Russian Ministry of Finance) contributed to an outflow of funds from the banking sector. However, at the end of 2014, as a result of the growing expenditures of the federal budget, there was a significant inflow of funds. Meanwhile, the ongoing active policy of the Federal Treasury to place temporarily unallocated funds from the federal budget in deposits with credit institutions made it possible to significantly offset the uneven nature of the budgetary flows. This was also facilitated by the increase in liquidity supply due to similar deposit operations by the Pension Fund of the Russian Federation and local authorities. As a

result, the dynamics of general government balances in accounts with the Bank of Russia had a near-neutral effect on banking sector liquidity for most of the year. Amid the unfavourable situation in the domestic bond market, the amount of OFZs placed by the Russian Ministry of Finance turned out to be significantly less than the amount redeemed, which led to a 0.3-trillion-ruble inflow of funds into the banking sector.

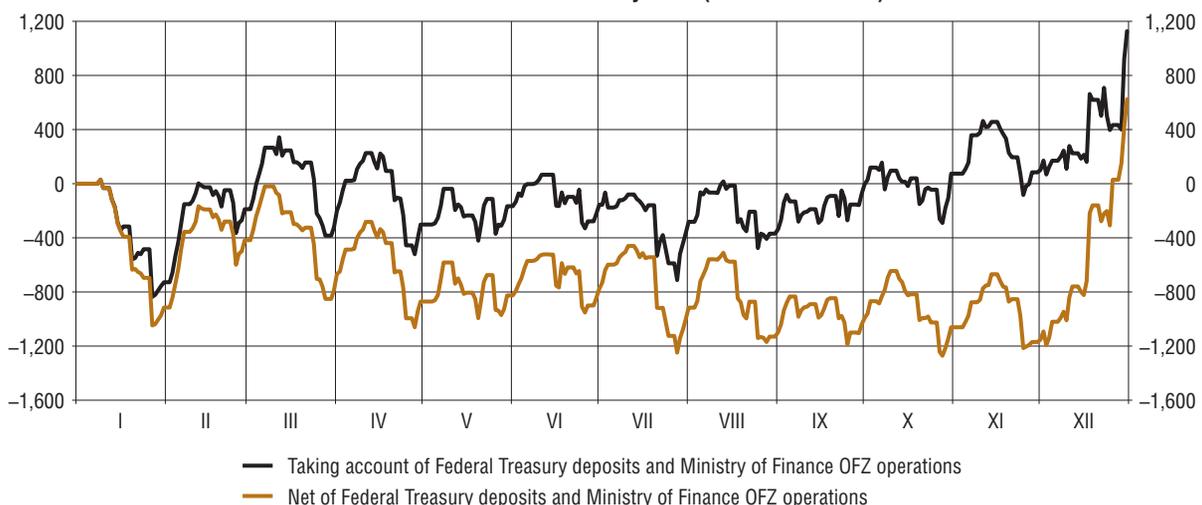
In 2014, the main factor behind the increase in the balances of credit institutions' correspondent accounts with the Bank of Russia, which characterises their demand for liquidity, was, as before, an increase in the averaged component of required reserves. Over the year, the average balances of correspondent accounts with the Bank of Russia increased by 0.2 trillion rubles

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



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

**Change in balances of general government accounts with the Bank of Russia and other operations\* in 2014,  
on accrual basis since start of year\*\* (billions of rubles)**



\* Taking account of interest payments on Bank of Russia refinancing and liquidity-absorbing operations.

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

to 1.1 trillion rubles, with the averaged component of required reserves increasing by 0.2 trillion rubles to 1.0 trillion rubles over the same period. The growth in the value of required reserves was caused by an increase in the amount of reserve obligations, largely as a result of their exchange rate revaluation at the end of 2014, while the required reserves ratios remained unchanged in 2014 at 4.25% for all reserve obligations.

In view of the above, credit institutions' receivables on Bank of Russia refinancing operations increased by 2.8 trillion rubles in 2014. However, the structure of receivables on refinancing operations underwent several changes.

Repo transactions with the Bank of Russia, predominantly one-week auction-based transactions, continued to play an important role in managing banking sector liquidity in 2014. The maximum amount of liquidity provided through such operations was set by the Bank of Russia according to a forecast of banking sector liquidity based on a comparison of estimates of liquidity demand and supply.

Credit institutions' average receivables on repo operations in 2014 increased by 0.7 trillion rubles to 2.7 trillion rubles compared with 2013, of which 2.6 trillion rubles were auction-based repos. However, in periods of significant growth in demand for liquidity on certain days in December 2014, the amount of refinancing through repos reached 3.8 trillion rubles.

In February 2014, the Bank of Russia implemented its transition (announced in September 2013) to the new operational monetary policy procedure. In particular, the daily one-day repo auctions were terminated. The use of the required reserves averaging mechanism and the redistribution of funds in the interbank market allow the banking sector to adapt to moderate liquidity fluctuations without resorting to daily operations by the Bank of Russia. However, to offset demand's significant excess over supply, the Bank of Russia started to carry out one- to six-day fine-tuning repo operations (and fine-tuning deposit operations, in the reverse case). In 2014, at certain periods the Bank of Russia carried out fine-tuning repo operations, which were most needed in January, March and late December.

An important source of credit institution refinancing in 2014 were loans secured by non-marketable assets or guarantees. As the structural liquidity deficit grew, the burden on marketable collateral increased, which

could have a negative impact on the Bank of Russia's ability to manage money market rates using repo operations. To offset credit institutions' medium-term demand for liquidity in 2014, the Bank of Russia increased the amount of funds supplied at auctions to provide loans secured by non-marketable assets. Starting from 2014, the Bank of Russia held these auctions monthly to supply funds for three-month terms. In order to reduce the impact of the Bank of Russia's operations on the maturity of credit institutions' liabilities, in June 2014 the maximum maturities of standing loans secured by non-marketable assets, guarantees or gold were increased to 549 days<sup>1</sup>. Moreover, floating interest rates pegged to the Bank of Russia key rate were applied to such operations with terms over 90 days. In December 2014, floating interest rates were applied to all of these operations with terms over one day. In July 2014, an auction was held to provide 12-month loans secured by non-marketable assets at a floating interest rate. This auction allowed credit institutions to refinance their receivables on similar loans provided in 2013. In November 2014, after increasing the term of such operations from 12 to 18 months, the Bank of Russia held another auction. To offset short-term demand for liquidity in December 2014, the Bank of Russia held an auction to provide three-week loans secured by non-marketable assets. In 2014, the Bank of Russia's claims on auction-based loans secured by non-marketable assets rose by 1.8 trillion rubles to 2.4 trillion rubles as of 1 January 2015.

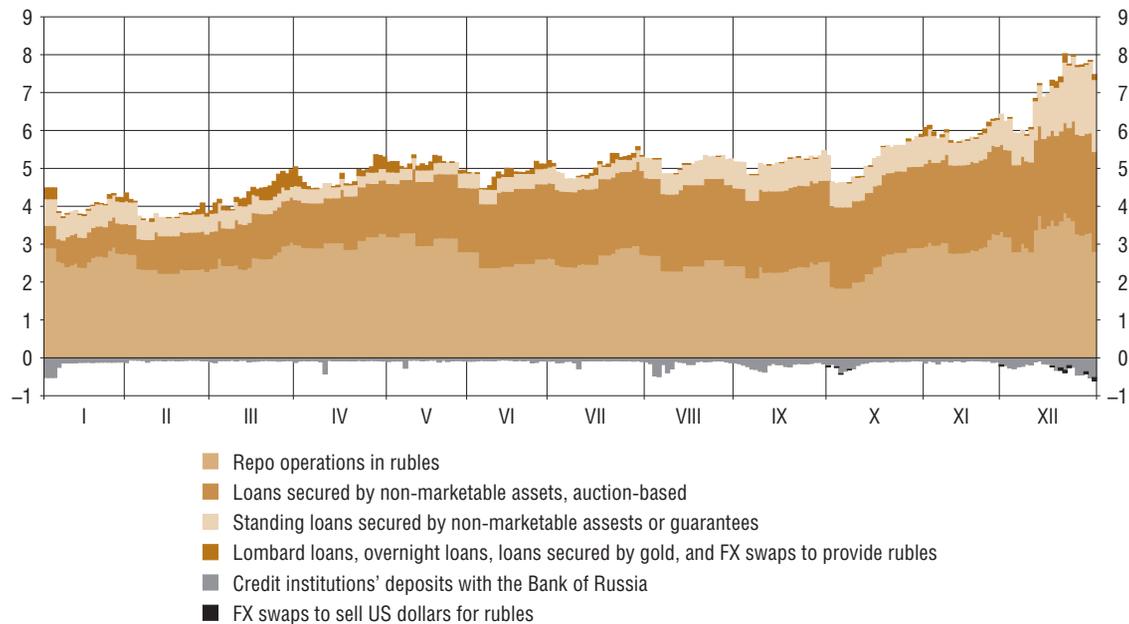
Credit institutions' demand for standing facilities to provide loans secured by non-marketable assets or guarantees did not exceed 1.0 trillion rubles right up until 10 December 2014. However, the sharp rise in demand for liquidity and the lack of marketable collateral at certain credit institutions in December contributed to a 2.1 trillion ruble increase in credit institutions' receivables on these operations at the end of the year.

Credit institutions' demand for Bank of Russia FX swaps to purchase US dollars for rubles and subsequently sell them was mostly irregular. It emerged in periods of increased demand for ruble liquidity from certain money market participants.

The amount of other standing refinancing facilities (overnight loans, Lombard loans, and loans secured by gold) remained insignificant in the period under review.

<sup>1</sup> In accordance with Bank of Russia Regulation No. 312-P, dated 12 November 2007, 'On the Procedure for Extending Bank of Russia Loans Secured by Assets or Guarantees to Credit Institutions' and Bank of Russia Regulation No. 362-P, dated 30 November 2010, 'On the Procedure for Extending Bank of Russia Loans Secured by Gold to Credit Institutions'.

**Bank of Russia claims on / obligations to credit institutions on liquidity providing and absorbing operations in 2014  
(trillions of rubles)**



Amid the banking sector's growing structural deficit, the Bank of Russia continued to take steps to expand the amount of collateral used in Bank of Russia refinancing operations. In 2014, securities with a total nominal value of over 5 trillion rubles (excluding bonds issued on behalf of the Russian Federation) were included on the Bank of Russia Lombard list. Taking into account the increase in adjustment ratios applied when calculating the market value of securities, the potential value of the securities that could be used by credit institutions as collateral on Bank of Russia refinancing operations increased over 2014 by 1.5 trillion rubles to 6.3 trillion rubles (as of 1 January 2015). The amount of potential non-marketable collateral also increased significantly, in part due to the expansion of the Bank of Russia list<sup>1</sup>.

Over this period, the amount of assets used as collateral on operations to provide loans secured by non-marketable assets or guarantees increased by 4.2 trillion rubles to 6.0 trillion rubles as of 1 January 2015.

Amid the increased demand for liquidity, credit institutions' demand for Bank of Russia deposit operations in 2014 continued to be low. The average outstanding amount on these operations was 0.1 trillion rubles over this period. In certain periods where liquidity supply exceeded demand, the Bank of Russia carried out fine-tuning operations, involving one- to six-day deposit auctions. Demand for these operations peaked in July, August and November 2014. Seasonal factors led to an increase in credit institutions' deposits with the Bank of Russia to 0.8 trillion rubles at the end of the year.

<sup>1</sup> The list of organisations stipulated in sub-clause 3.6.1 of Clause 3.6 of Bank of Russia Regulation No. 312-P, dated 12 November 2007, 'On the Procedure for Extending Bank of Russia Loans Secured by Assets or Guarantees to Credit Institutions'. Loan requirements for these organisations are applied in 'soft collateral' under the simplified scheme.

### II.1.3. Exchange rate policy

From the start of 2014 to 10 November, the Bank of Russia continued to implement its exchange rate policy under the managed floating exchange rate regime. Over the course of the year, the Bank of Russia progressively raised the exchange rate flexibility with a view to switching to the floating exchange rate. The Bank of Russia smoothed the fluctuations of the ruble exchange rate without hindering the trends in the ruble exchange rate dynamics caused by fundamental macroeconomic factors. No target values or limitations were set on the exchange rate or on its rate of change.

The ruble value of the dual-currency basket (0.55 US dollars and 0.45 euros) continued to be used as an operational indicator for the exchange rate policy. The permissible range of the dual-currency basket values was determined by the floating operational band, whose borders were automatically adjusted by 5 kopecks when a certain level of cumulative volume of Bank of Russia interventions was reached. In order to increase the exchange rate flexibility, beginning from 13 January 2014 the volume of target foreign exchange interventions, the amount of which was deducted from the cumulative volume of Bank of Russia interventions when compared with the value set for automatically adjusting the said borders, was reduced from \$60 million per day to \$0. Beginning from 18 August 2014, the Bank of Russia expanded the range of the operational band of its exchange rate policy from 7 to 9 rubles.

As growing volatility in the domestic foreign exchange market posed a threat to financial stability, on 3 March 2014 the cumulative volume of interventions triggering a 5-kopeck shift in the borders of the exchange rate policy's operational band was raised from \$350 million to \$1.5 billion. At the same time, the Bank of Russia switched to making daily adjustments to the parameters of its exchange rate policy based on assessments of the current situation. Thereafter, as part of the gradual transition to the floating exchange rate, the Bank of Russia progressively reduced the cumulative volume of interventions triggering an adjustment in the operational band borders. Beginning from 17 June, this figure was reduced to \$1 billion. Beginning from 18 August, the cumulative volume of Bank of Russia interventions was set at \$350 million.

The Bank of Russia carried out foreign exchange interventions on the domestic FX market aimed at smoothing the fluctuations of the ruble exchange rate when the

value of the dual-currency basket was outside the 'neutral' range situated in the middle of the operational band. As the value of the basket moved further away from this 'neutral' range, the volume of interventions increased. Since the start of 2014, the range of the dual-currency basket value, within which the Bank of Russia did not carry out foreign exchange interventions, was 3.1 rubles (taking account of the 'technical' range). Since 17 June, the 'neutral' range was increased to 5.1 rubles.

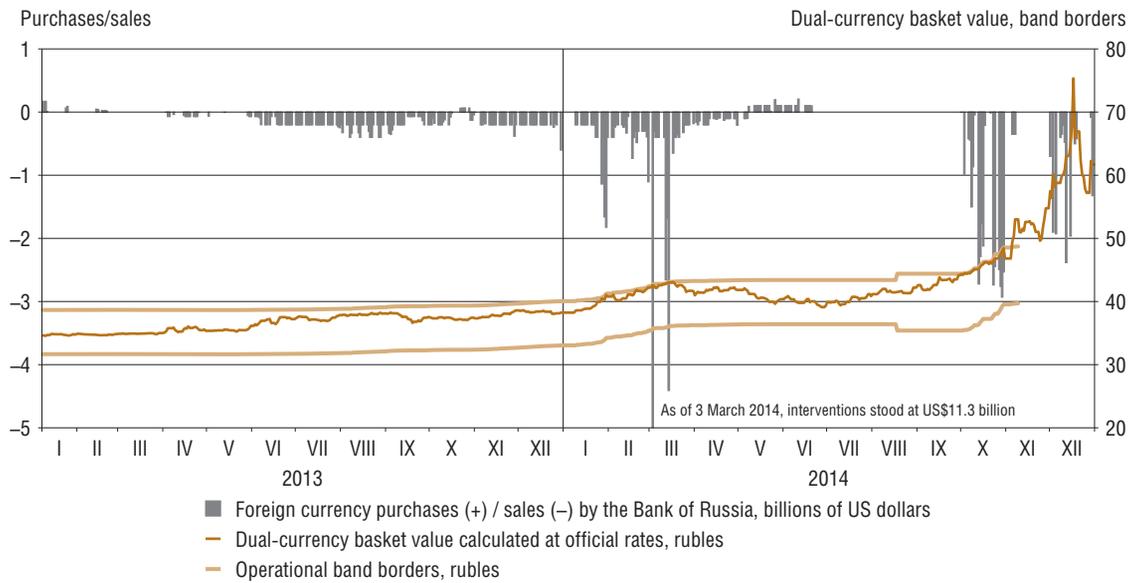
As part of the gradual transition to the floating exchange rate, the Bank of Russia also progressively reduced the volume of foreign exchange interventions aimed at smoothing volatility of the ruble exchange rate, within the internal ranges of the floating operational band. In May and June 2014, the volume of these interventions was reduced by a total of \$200 million, and since 18 August they were reduced to \$0.

Until 5 November 2014, when the value of the dual-currency basket hit the upper or lower border of the operational band, the Bank of Russia sold unlimited quantities of foreign currency until the value of the dual-currency basket returned to the operational band or was within the new borders of the operational band after their automatic shift. On 5 November, the Bank of Russia restricted the volume of interventions carried out when the value of the dual-currency basket hit the upper (lower) border of the floating operational band to \$350 million per day. However, the automatic adjustment of the band's borders remained in effect.

Beginning from 10 November 2014, the Bank of Russia abolished the exchange rate policy mechanism that envisaged conducting interventions in accordance with the established procedure, thereby completing the transition to the floating exchange rate. The new exchange rate regime should help raise the monetary policy effectiveness and allow the economy to adapt more quickly to changes in external conditions. However, the transition to the floating exchange rate does not imply a total renunciation of foreign exchange interventions by the Bank of Russia; they may be used in the event of a threat to financial stability. In addition, the Bank of Russia will continue to carry out operations in the domestic FX market, which are associated with the Russian Ministry of Finance and the Federal Treasury spending or replenishing sovereign funds.

Amid the fall in oil prices and the tightening of sanctions against a number of Russian companies in Sep-

### Bank of Russia interventions in domestic foreign exchange market and dual-currency basket value



tember–December 2014, further ruble depreciation and an increased exchange rate volatility were observed. The depreciation expectations of economic agents increased and the ruble exchange rate deviated significantly from its fundamentally justified value. On certain days, under the floating exchange rate regime, the Bank of Russia conducted foreign exchange interventions to promote financial stability. Net sales of foreign currency by the Bank of Russia from 11 November to 31 December 2014 amounted to \$11.9 billion.

From September 2014, the Bank of Russia started to carry out operations to provide foreign currency liquidity on a reverse transaction basis in order to expand credit institutions' opportunities to regulate their own foreign currency liquidity amid the restricted access to international capital markets.

Beginning from 17 September 2014, the Bank of Russia introduced FX swap operations to sell US dollars for rubles with a one-day term. This instrument was limited to \$1 billion for operations with 'today/tomorrow' settlements and \$2 billion for operations with 'tomorrow/day-after-tomorrow' settlements. For the ruble leg of transactions, interest rates were set at the Bank of Russia key rate minus 1.00 percentage point and 1.50% p.a. for the dollar leg. On certain days in September–December 2014, the Bank of Russia carried out FX swaps to sell US dollars for rubles, totalling \$7.6 billion.

Beginning from 27 October 2014, the Bank of Russia's system of instruments was supplemented with FX repo auctions (US dollars and euros) for one-week

and 28-day terms, and, since 5 November 2014, for a 12-month term. All securities on the Bank of Russia Lombard List, excluding equities, could be used as collateral on these operations. Initially, interest rates on FX repos were set at the LIBOR rates in the corresponding currencies for comparable terms, plus 2.25 and 2.00 percentage points for 28-day and one-week terms respectively. However, to increase the effectiveness of operations to provide foreign currency, beginning from 5 November the Bank of Russia set a single spread on market rates at 1.50 percentage points for all terms. Starting from 4 December 2014, the Bank of Russia reduced this spread to 0.50 percentage points. In 2014, the total amount of funds provided through FX repos stood at \$22.2 billion (\$1.1 billion for a one-week term, \$16.2 billion for a 28-day term, and \$5.0 billion for a 12-month term). The majority of these transactions took place in December 2014.

To expand credit institutions' opportunities to refinance the external foreign currency loans of Russian exporter companies, on 23 December 2014 the Bank of Russia decided to introduce a new instrument: foreign currency loans secured by claims under auction-based foreign currency loans, with terms of 28 and 365 days. The minimum interest rate on these operations was set at the LIBOR in the corresponding currencies and for comparable terms, plus 0.75 percentage points. These operations will be effective in 2015–2017. The ceiling on credit institutions' debt to the Bank of Russia under FX repos and foreign currency loans secured by claims under foreign currency

loans was set at the equivalent of \$50 billion. This limit may be raised where necessary.

In November and December 2014, the Bank of Russia also used a conservative approach when setting ceilings on the provision of ruble funds at repo auctions in order to stabilise the situation in the domestic foreign exchange market and limit opportunities for speculative strategies. In addition, on 11 November 2014 the decision was made to introduce a limit on the provision of ruble liquidity through FX swaps. From 12 November to 18 December 2014, the limit was set at the equivalent of \$2 billion per day. To increase credit institutions' opportunities to refinance with the Bank of Russia amid the seasonal increase in demand for liquidity at the end of the year and the restricted amount of collateral, on 19 December 2014 the decision was made to increase the limit up to the equivalent of \$10 billion per day.

In 2014, the Bank of Russia implemented its exchange rate policy amid the replenishment of the Reserve Fund by the Russian Ministry of Finance and the Federal Treasury for 2013. From February to June 2014, on certain days the Russian Ministry of Finance and the Federal Treasury transferred foreign currency funds into the Reserve Fund by purchasing foreign currency from the Bank of Russia for an amount equivalent to 3.5 billion rubles per day, which led to the amount of operations by the Bank of Russia in the domestic foreign exchange market on these days being adjusted by the corresponding amount. In December 2014, the Bank of Russia carried out operations in the domestic foreign exchange market to sell foreign currency. These operations were associated with operations by the Russian Ministry of Finance and the Federal Treasury to convert foreign currency funds in their accounts with the Bank of Russia.

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

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

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

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

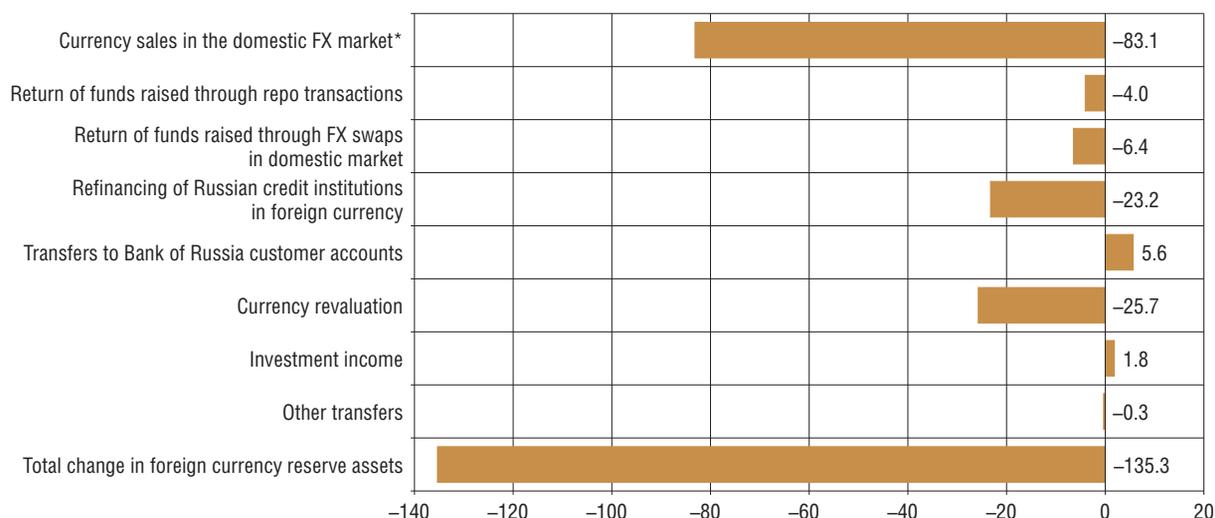
In 2014, the safety of foreign currency reserve assets was ensured through the use of an integra-

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

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

Over 2014, Bank of Russia foreign currency reserve assets, calculated on the basis of management accounting data, decreased by \$135.3 billion, largely as a result of the Bank of Russia selling foreign currency in the domestic foreign exchange market.

**Factors behind changes in Bank of Russia foreign currency reserve assets in 2014**  
(billions of US dollars)



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

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

<sup>2</sup> Including the net position (claims net of liabilities) of the Russian Federation with the IMF.

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

<sup>4</sup> Mostly funds provided by the Bank of Russia to Russian credit institutions in a foreign currency and Bank of Russia investments in Eurobonds issued by the Russian Federation.

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

## Risk management for Bank of Russia foreign currency reserve assets

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

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

As of 1 January 2015, 39.6% of the Bank of Russia's foreign currency reserve assets were denominated in US dollars, 46.1% in euros, 10.3% in pounds sterling, 3.1% in Canadian dollars, and 0.9% in Australian dollars. Reserve assets in Japanese yen and Swiss francs were negligible as of the end of 2014. To calculate the currency structure, the Russian Federation's position with the IMF, denominated in SDR, is considered as assets in eligible foreign currencies in the proportions defined by the IMF to calculate the SDR value (0.66 US dollars, 0.423 euros, 0.111 pounds sterling, and 12.1 Japanese yen).

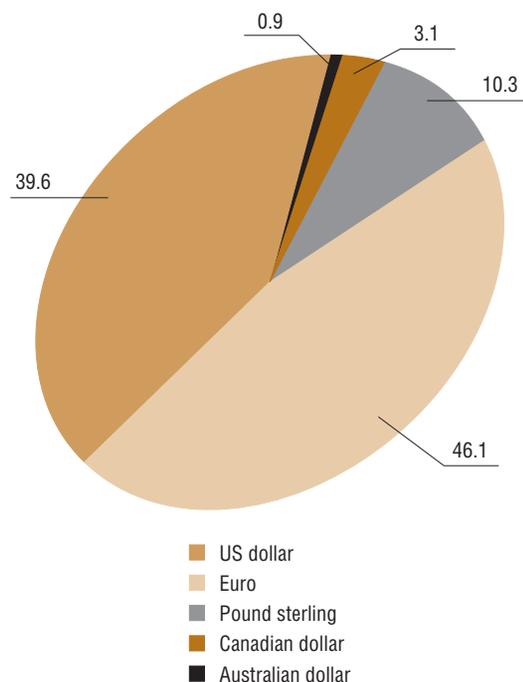
In order to manage **credit risk** during the reporting period, the Bank of Russia limited exposure on counterparties and set requirements for the credit quality of issuers and securities eligible for the Bank of Russia's foreign currency reserve assets. The minimum required long-term credit rating<sup>1</sup> of the Bank of Russia's counterparties for operations involving the Bank of Russia's foreign currency reserve assets was 'A' (Fitch Ratings

and Standard & Poor's), or 'A2' (Moody's Investors Service). The minimum rating of securities (or the long-term credit rating of the issuer, if a securities issue has no rating) was 'AA-' (Fitch Ratings and Standard & Poor's) and 'Aa3' (Moody's Investors Service).

As of 1 January 2015, 'AAA'-rated assets accounted for 23.6% of all of Bank of Russia's foreign currency reserve assets, followed by 'AA'-rated assets, which accounted for 70.6%, and 'A'-rated assets, which accounted for 4.5%<sup>2</sup>. The share of assets without any rating was 1.4%. The fall in the share of 'AA'-rated assets (by 1.5 percentage points) and the rise in the share of 'A'-rated assets (by 1.4 percentage points) was caused by the change in the amount of deposits placed at the Bank of Russia's counterparties with a corresponding rating.

**Interest rate risk** is the probability of a decrease in the value of foreign currency assets due to an unfavourable change in interest rates (and, correspondingly, the prices of financial assets). The benchmark portfolios of

**Bank of Russia foreign currency reserve assets by eligible currency as of 1 January 2015\* (as a percentage of their market value)**

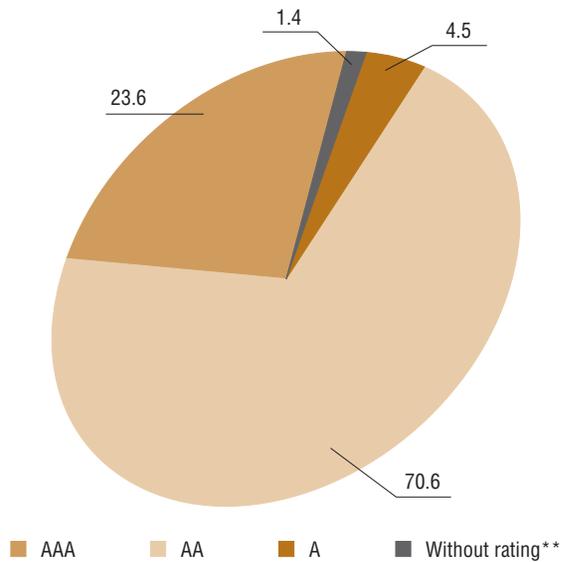


\* The distribution of Bank of Russia foreign currency reserve assets by eligible currency includes conversion transactions not settled as of 1 January 2015.

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

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

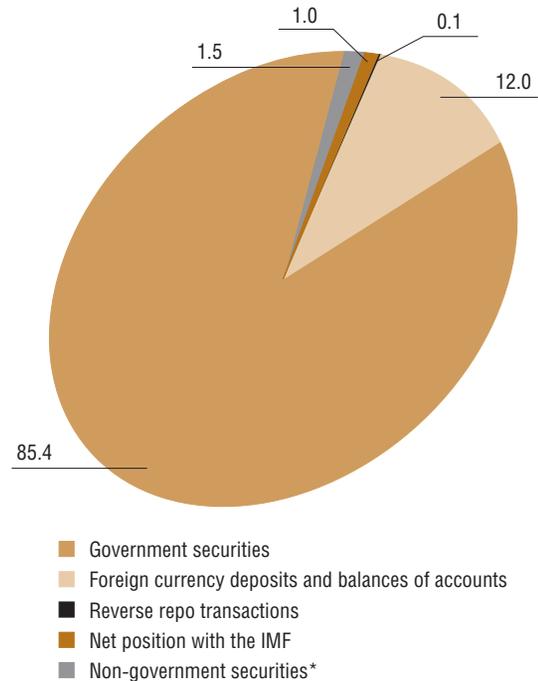
**Bank of Russia foreign currency reserve assets by credit rating as of 1 January 2015\* (percent)**



\* The total amount exceeds 100% due to the rounding to decimal values.

\*\* Assets without rating are mostly the Russian Federation's position with the IMF.

**Bank of Russia foreign currency reserve assets by instrument as of 1 January 2015 (percent)**



\* Non-government debt securities guaranteed by the government have been categorised as government securities.

each of the eligible currencies reflect the target distribution of the Bank of Russia's assets and are used to compare the risk and rate of return on the Bank of Russia's assets.

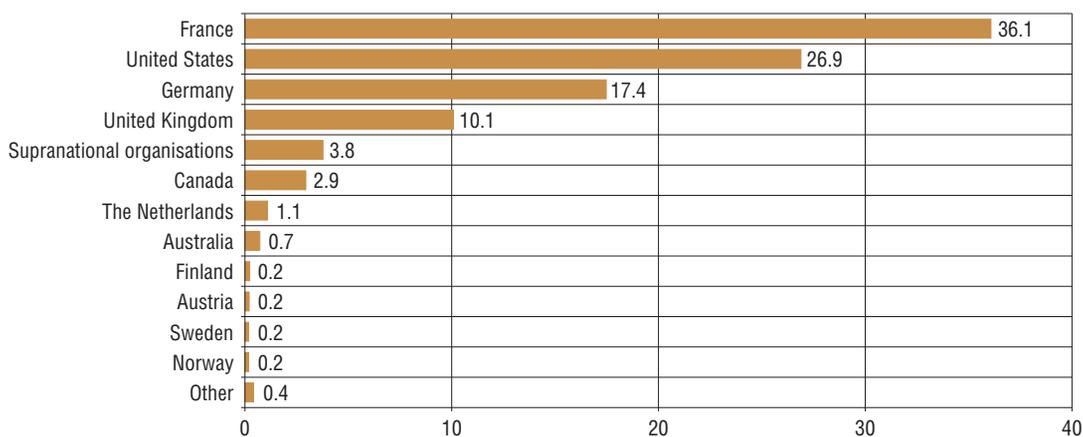
The level of interest rate risk for the assets and corresponding benchmark portfolios was measured by duration<sup>1</sup>. The Bank of Russia interest rate risk exposure was limited by setting the minimum and maximum durations allowed in each of the eligible currency portfolios.

The rate of return on the Bank of Russia's foreign currency assets was calculated as the total (realised and unrealised) return on investment as a percentage p.a. for each of the eligible currencies. The cumu-

lative rates of return on the Bank of Russia's foreign currency reserve assets over 2014 are given in Chapter IV 'Addenda' (section IV.5 'Statistical tables').

As of 1 January 2015, the Bank of Russia's foreign currency reserve assets were invested in the following instruments: government securities of foreign issuers (85.4%), non-government securities of foreign issuers (1.5%), deposits and cash balances of correspondent accounts with foreign banks (12.0%), reverse repo transactions (0.1%), and net position with the IMF (1.0%).

**Bank of Russia foreign currency reserve assets by country as of 1 January 2015 (percent)**



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

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

The geographical distribution of foreign currency reserve assets<sup>1</sup> as of 1 January 2015 was as follows.

France accounted for 36.1% of assets, the USA accounted for 26.9%, Germany accounted for 17.4%, the United Kingdom accounted for 10.1%, and other countries and international financial institutions accounted for 9.5%.

Over 2014, the Bank of Russia's gold reserves grew by 165.6 tonnes and amounted to 1,256.7 tonnes as of 1 January 2015. Reflecting the purchase of gold in the domestic market, the amount of monetary gold increased in 2014 by 166.3 tonnes to 1,178.9 tonnes.

---

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

## II.3. ENSURING FINANCIAL STABILITY

### II.3.1. Global risks and their impact on the Russian financial sector

According to estimates by the International Monetary Fund, growth in global GDP was 3.4% in 2014, which corresponds to the growth of the previous year. Growth rates in global GDP turned out to be lower than expected by international organisations and global financial market participants in 2014. In 2015–2016, the IMF forecasts growth in global GDP to be at 3.5% and 3.8% respectively, which is lower than the average annual rate witnessed in the five years running up to the 2008 crisis (5.1%).

The increase in business activity in the US was sustainable, but in the euro area it required additional stimulus measures in monetary policy. Economic growth slowed in emerging market countries, including China. Under current conditions, the ECB and the People's Bank of China eased their monetary policy. The US Federal Reserve curtailed its asset purchase programme.

Despite the Fed's phasing out of its measures to stimulate economic activity, the situation in the global financial market showed persistently low interest rates and relative stability. The US dollar rallied against the euro and other reserve currencies and the currencies of the majority of emerging market economies. Foreign exchange risks did not lead to any shocks in the global financial system, although they did start to have an impact on financial and non-financial organisations with large foreign currency debts.

In the second half of 2014, oil prices fell significantly (the price of Brent crude dropped by 49%). This fall was caused by stronger competition, the appearance of new producers in the oil market, and a decrease in global demand. As a result, fiscal risks increased in oil-exporting countries, posing certain risks to the stability of global oil companies with high debt burdens.

For Russia, the fall in oil prices was a key global challenge. In addition, the imposition of external sanctions against certain financial and non-financial organisations had a negative impact on the Russian financial sector.

The decline in oil prices was a fundamental factor in the ruble depreciation (the ruble weakened against the US dollar by 40% in the second half of the year). Following the introduction of the sanctions, access to external sources of funding was restricted, which led to a decrease in foreign currency liquidity in the domestic market and increased demand for internal sources of funding.

Under these conditions, in 2014 Q4 there was a significant increase in the volatility of Russian financial market indicators: money market interest rates, stock indices, ruble exchange rate options, and government and corporate bond yields. However, by the end of December 2014, after the Bank of Russia had implemented stabilising measures, the situation in the Russian financial market in terms of these figures became less strained.

## II.3.2. Financial stability of the non-financial sector

In 2014, the quality of loans provided by banks to non-financial organisations remained virtually unchanged. The share of overdue loans remained at the same level as at the start of the year (4.2%). However, annual growth in overdue loans to non-financial organisations rose by 32.9 percentage points to 33.9%, surpassing the annual growth in the total overdue loans (31.3%). The share of overdue ruble loans to non-financial organisations increased by 0.6 percentage points to 5.5%, while the equivalent figure for foreign currency loans fell by 0.2 percentage points to 1.7% (the share of the foreign currency component in loans to non-financial organisations is about 30%).

Overdue debt can be differentiated based on the type of economic activity carried out by companies. The largest share of overdue debt can be found in such types of economic activity as construction and agriculture.

### Situation in certain types of economic activity

**Oil and gas sector.** The fall in oil prices and the sector-based sanctions imposed by the EU and US against major Russian oil and gas companies were key events in the oil and gas sector. The downturn in the ruble exchange rate relative to other global currencies allowed exporter companies to mitigate the effects of the fall in prices. In addition, the share of tax payments and duties in the export proceeds fell. Overall, the debt burden of major oil and gas companies was minimal compared with other industries (the average net liabilities/EBITDA<sup>1</sup> for major companies<sup>2</sup> in 2014 was 1.4, a slight increase compared with 2013). Over the past few years companies managed to refinance their liabilities and significantly increase their settlement terms. The average operating margin of major companies was high, at 32.1%<sup>3</sup>.

At the same time, low oil prices and the restricted opportunities to refinance existing loans and attract new funding in foreign capital markets due to the sector-based sanctions imposed by the US and EU forced companies to reduce their investment budgets and in-

crease borrowing in the domestic financial market at higher rates.

**Metallurgy industry.** The fall in prices for ferrous metal products in global markets, which was caused by rapid growth in steel exports from China and on-going import substitution of steel products in a number of countries, had a negative impact on the proceeds of Russian metallurgical companies. The decreased proceeds were offset to a large extent by growth in the ruble equivalent of export sales due to the ruble depreciation (according to estimates, the share of exports in the total proceeds of the largest metallurgical companies is 50–80%). Under current conditions, a number of Russian companies sold their foreign assets in 2014 and reduced borrowing in a foreign currency, which had a positive effect on these companies' performance results. The average debt burden of the largest metallurgical and mining companies<sup>4</sup> fell from 2 percentage points in 2013 to 1.7 percentage points in 2014, while operating margin increased by 1.2 percentage points to 23.8%. The financial position of non-ferrous metallurgy companies was more stable amid the favourable commodity price climate, and thanks to the relatively high profitability of previous years, which allowed companies to keep the debt burden at an acceptable level.

**Construction.** In 2014, residential construction saw continuing positive growth: new homes increased in 2014 by 14.9% compared with 2013. In the medium term, new home growth rates are expected to slow down, in part due to the reduction in mortgage lending (more than 30% of apartments were purchased in 2014 using loan funds or other special-purpose loans).

The fall in demand in the commercial real estate market coincided with the introduction of a significant amount of new available floor space. As a result, the share of unoccupied floor space in offices, in particular in Moscow, was at an all-time high (about 17% on average) and is expected to grow in future. Construction companies are traditionally largely dependent on loan

<sup>1</sup> Here and throughout this section, net liabilities/EBITDA is calculated on the basis of published consolidated financial statements of non-financial organisations compiled in accordance with International Financial Reporting Standards and Generally Accepted Accounting Principles (USA). Net liabilities are defined as financial debt net of monetary funds and their equivalents; EBITDA refers to earnings before interest, taxes, depreciation and amortisation.

<sup>2</sup> The sample includes five major oil and gas companies.

<sup>3</sup> Here and throughout this section, operating margin is calculated as the ratio of EBITDA to company proceeds.

<sup>4</sup> Calculated based on a sample of the nine largest companies.

funds<sup>1</sup> and more sensitive to increases in the cost of borrowing, which, amid the expected fall in sales profits, could lead to an increase in the number of companies in a poor financial position.

**Vehicle production.** The majority of vehicle manufacturers recorded a significant downturn in sales in 2014 in the light and heavy vehicle segments, which had an impact on their financial performance. In particular, the average debt burden calculated on the basis of a sample of the largest vehicle manufacturers<sup>2</sup> increased from 4 in 2013 to 5.7 in 2014. The ruble depreciation put pressure on vehicle manufacturers' profitability, since their proceeds are denominated for the most part in rubles, while a significant portion of their expenditures are denominated in a foreign currency. The State Recycling Programme, which was extended until 2015, as well as the possible renewal of the Car Loan Subsidy and Operational Car Leasing Support Programme could to a certain extent restrict a further decline in vehicle manufacturer sales and profitability.

**Power industry.** Electricity, gas, and water production and distribution in 2014 fell by 0.1% compared with 2013 (they fell by 2.5% a year earlier). The debt burden and operating margin, based on a sample of the largest companies<sup>3</sup>, were virtually unchanged compared with 2013, at 2.3% and 9.1% respectively.

The main risk facing energy companies is the need to implement large-scale investment programmes to

construct generator facilities under power supply agreements using significant loan resources. The majority of projects involve long payback periods and low internal rates of return. As such, energy companies are highly dependent on changes in the cost of lending.

### External debt refinancing prospects

According to estimates, Russian non-financial organisations' external debts amount to \$373.6 billion. About 6% of the total external debt was due to be repaid in 2015 Q1 and over 20% was due in 2015 as a whole<sup>4</sup>. The significant amount of external debt and the high proportion of liabilities to non-residents in the overall debt structure are largely characteristic of the largest exporters, which naturally hedge foreign exchange risks by securing two-way flows in the form of foreign currency proceeds. External debt is partly refinanced through borrowing from Russian credit institutions and partly through liquid assets accumulated by companies in a foreign currency and cash flow from business operations.

As a whole, credit institutions' exposure to non-financial sector risks in 2014 remained at an acceptable level. Nonetheless, amid the slowdown in economic growth, a number of Russian non-financial organisations could find themselves in a vulnerable position as a result of their high debt burden and the low profitability of their activity which, in turn, could affect the quality of banks' loan portfolios.

<sup>1</sup> The dynamics of indicators characterising the debt burden and profitability of construction companies are not provided as transparency in the construction industry is unreliable in terms of the public disclosure of financial information.

<sup>2</sup> The sample includes 14 of the largest companies.

<sup>3</sup> The sample includes 23 of the largest companies.

<sup>4</sup> According to the payment schedule as of 1 January 2015.

### II.3.3. Financial stability and banking sector risks

**Capital adequacy.** Capital adequacy in the banking sector in 2014 fell by 1.0 percentage points to 12.5% as of 1 January 2015. The main factor behind the fall in this figure was growth in the amount of assets weighted by credit risk. At the beginning of 2015, credit risk accounted for 87.4% of total risks considered when calculating equity capital adequacy. The potential increase in capital was held back by a 40.7% fall in bank profits in 2014 compared with 2013 as a result of growing bank expenditures to create loan loss provisions. The average common equity and core capital adequacy figures for the banking sector changed over the year only negligibly, and as of 1 January 2015 stood at 9.0% and 8.9% respectively.

The results of regular stress tests carried out by the Bank of Russia in 2014 showed that the overall capital adequacy figure for the banking sector did not sink below 10% in the worst-case scenario. This suggests that the Russian banking sector has maintained its resilience to external shocks.

**Bank risks on loans to households.** Annual growth in loans to households fell by 14.9 percentage points to 13.8% on 1 January 2015. The main reason for the slower growth in these loans was the decline in bank activity in the unsecured consumer lending and car loan segments.

The 22.4 percentage point decrease in the annual growth of unsecured consumer loans<sup>1</sup> to 8.9% was down to both measures adopted by the Bank of Russia<sup>2</sup> and growth in the credit risks on these loans. Banks reduced the share of unsecured loans with the effective interest rate (EIR) of over 35% p.a. in favour of loans with the EIR in the range of 25–35% p.a. The decreased EIR on newly issued consumer loans had a negative impact on growth in bank interest income. Overall, with the increase in loss provisions on these loans due to a rise in credit risks in the unsecured lending segment, this caused a number of banks specialising in unsecured consumer lending to record losses at the end of the year.

In 2014, the share of bad unsecured loans (loans overdue for over 90 days) rose by 3.9 percentage points

to 11.9%. However, annual growth in bad loans fell by 16.6 percentage points to 61.6% as of 1 January 2015.

Outstanding car loans fell by 2.6% in 2014 (they increased by 22.3% in 2013). The amount of outstanding car loans fell amid a decrease in new vehicle sales, which was due to both economic factors and the termination of the preferential car loan programme in December 2013. As a result of the slowdown in household credit activity and the continuing credit risks on loans issued, the share of loans overdue for over 90 days in banks' credit portfolio increased by 1.7 percentage points to 7.2%.

In 2014, demand for real estate continued to be high, which supported the development of the housing loan market (including mortgages). Annual growth in these loans<sup>3</sup> increased by 2.4 percentage points to 32.2% as of 1 January 2015. The share of loans overdue for over 90 days continued to be negligible (1.2%), which was largely due to high growth in lending. Annual growth in bad loans (overdue for over 90 days) was 33.2% in 2014, which is higher than the annual growth in loan debt. Therefore, amid the downturn in real wages, the share of bad loans in banks' credit portfolio is expected to rise.

**Bank risks on loans to non-financial organisations.** Annual growth in lending to non-financial organisations in 2014 increased by 18.6 percentage points to 31.3%. This is primarily linked to the ruble depreciation (the share of foreign currency loans in the portfolio of loans to non-financial organisations stands at about 30%). Annual growth in these loans, adjusted for growth in the value of the dual-currency basket, increased by only 4.5 percentage points to 14.7%.

In 2014, there was no significant deterioration in the quality of loans to non-financial organisations. The share of overdue loans remained at the same level as the start of the year (4.2%). Annual growth in overdue loans to non-financial organisations rose from 1.0% to 33.9%, surpassing the annual growth in the total debt on these loans. In the long term, amid the slowdown in economic growth and the deteriorating financial posi-

<sup>1</sup> Here and throughout this section 'unsecured loans' are understood to mean bank claims to households referred to 'Other consumer loans' in accordance with bank reporting form 0409115 (Section 3, amounts outstanding on other consumer loans grouped into a portfolio of homogeneous loans).

<sup>2</sup> The 1.5-fold increase in the minimum amount of reserves to cover possible losses on unsecured consumer loans issued after 1 January 2014 (on loans without overdue payments and loans with amounts overdue by no more than 30 days) and the increase in the risk ratios when calculating capital adequacy in relation to unsecured consumer loans.

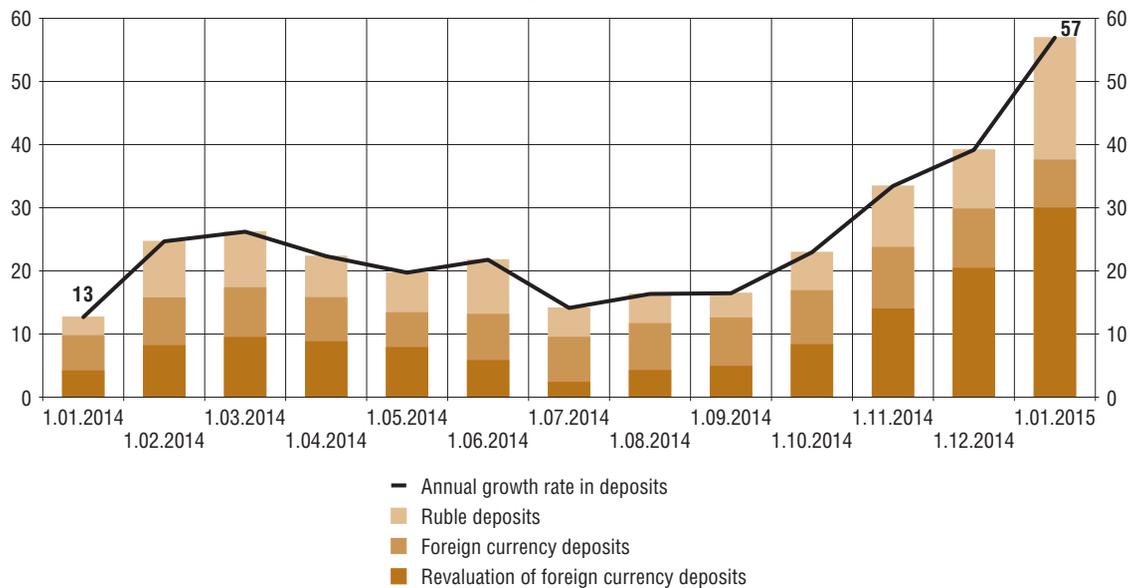
<sup>3</sup> According to data from bank reporting form 0409115.

tion of the non-financial sector (persistent low returns on sales, growing overdue receivables, etc.), banks will record a downturn in the quality of loans to non-financial organisations.

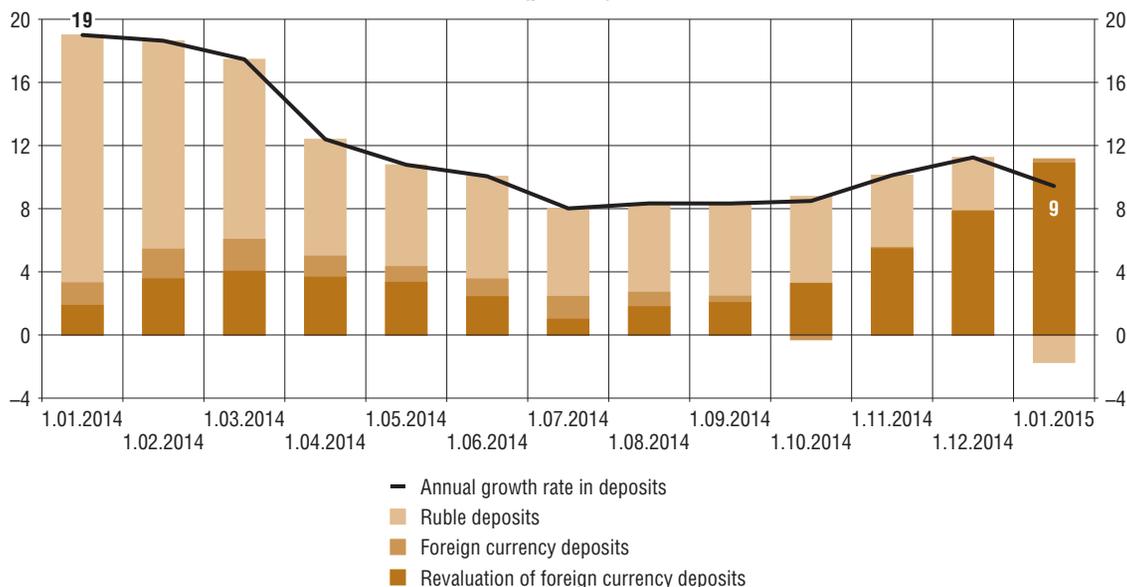
**Market risks.** Bank investments in securities increased in 2014 from 7.8 trillion rubles to 9.7 trillion rubles, largely through debt securities, the value of which rose from 6.2 trillion rubles to 7.7 trillion rubles. In 2014, investments in securities increased less than banking sector assets as a whole. As a result, the share of securities in banking sector assets fell over the year from 13.6% to 12.5%.

**Liquidity risks.** Amid the continuing structural liquidity deficit in 2014, credit institutions' outstanding debt to the Bank of Russia increased, reaching 12.0% of banking sector liabilities at the start of 2015. The Bank of Russia provided funds to credit institutions through repos and loans secured by non-marketable assets and guarantees. The structure of credit institutions' debt on operations with the Bank of Russia changed over 2014. At the start of the year, repos accounted for the majority of credit institutions' ruble debt (2.9 trillion rubles), while the share of debt on loans secured by non-marketable assets and guarantees was significantly less (1.3 trillion

Components of annual growth rates in non-financial organisations' deposits  
(percent)



Components of annual growth rates in household deposits  
(percent)



rubles). By the end of the year, the bulk of ruble funds provided through repos had fallen slightly to 2.8 trillion rubles, while the debt on loans secured by non-marketable assets and guarantees had risen to 4.5 trillion rubles. Bank of Russia measures to expand refinancing secured by non-marketable assets helped keep the amount of unallocated market collateral at 45% on average in 2014.

During the course of 2014, international sanctions made it more complicated for Russian credit institutions to obtain foreign currency in the global financial markets. Due to the growing demand for foreign currency liquidity, in 2014 Q4 the Bank of Russia started to carry out US dollar repo operations. By the end of 2014, credit institutions' debt on this refinancing instrument had totalled \$20 billion.

Overall, in 2014 the liquidity situation was characterised by a relatively stable ratio of the average value

of the most liquid assets<sup>1</sup> to the value of banking sector assets: this figure ranged from 7.5% to 7.9%. The ratio of highly liquid assets to demand liabilities (the instant liquidity ratio N2) rose from 57.5% to 67.0% and the ratio of liquid assets to short-term liabilities (the current liquidity ratio N3) rose from 78.7% to 80.4%.

**Funding risks.** In 2014, a stable growth in funds raised by banks from the non-financial sector continued to be observed. The growth was down to both ruble funds and foreign currency funds and accelerated in Q4 due to the positive revaluation of foreign currency funds. Growth rates in household deposits fell in the course of the year with negative dynamics in ruble deposits registered in Q1 and Q4. Growth in total household deposits and corporate deposits increased from 16.4% in 2013 to 27.9% in 2014 (excluding the impact of the ruble exchange rate dynamics, growth dropped from 14.2% to 9.9%).

<sup>1</sup> Cash, precious metals, balances of nostro correspondent accounts, and balances of correspondent and deposit accounts with the Bank of Russia.

## II.4. BANKING REGULATION AND SUPERVISION

### II.4.1. Regulation of credit institutions' activities

In 2014, continuing its efforts to introduce internationally recognised approaches to banking regulation, the Bank of Russia adopted a number of regulations, under which, inter alia:

- a procedure was established for calculating the liquidity coverage ratio (LCR), Basel III. Starting with reporting as of 1 August 2014, the Bank of Russia monitors the LCR calculation at the largest banks for the purposes of quantitative assessment and calibration of certain elements whose values are not stipulated by Basel III. Furthermore, the Bank of Russia decided to move the introduction of the LCR as a required ratio to 1 July 2015;
- in accordance with the plan to implement Basel III, beginning from 1 January 2015 core capital adequacy ratio (N1.2) was raised for Russian banks from 5.5% to 6%. The new value will be in line with the tier one capital adequacy requirement set out in Basel III;
- the duties of internal audit and internal control departments were delineated and a procedure was established for the Bank of Russia to assess the quality of internal control systems and the nature of supervision of compliance with the requirements for the internal control system;
- a procedure was established to assess compensation of employees systems at credit institutions alongside with a procedure to order credit institutions to rectify any violations in their compensation of employees systems. The adoption of these procedures completes the implementation of the Financial Stability Board Principles and Standards for Sound Compensation Practices in the banking regulation and supervision system, which has been an integral part of the Pillar 2 of Basel II since 2009.

In addition, in 2014 the Bank of Russia undertook steps to refine its approaches to banking regulation.

It issued Bank of Russia Ordinances No. 3268-U, dated 30 May 2014, 'On Amending Bank of Russia Instruction No. 139-I, Dated 3 December 2012, 'On Banks' Required Ratios', No. 3490-U, dated 16 December 2014, 'On Amending Bank of Russia Instruction No. 139-I, Dated 3 December 2012, 'On Banks' Required Ratios', and No. 3267-U, dated 30 May 2014,

'On Amending Bank of Russia Regulation No. 254-P, Dated 26 March 2004, 'On the Procedure for Making Loss Provisions by Credit Institutions for Loans, Loan and Similar Debts', which are intended to improve the regulatory requirements for assessing the risks of mortgage lending, including:

- expanding opportunities for banks to apply the reduced risk ratio (70%) for mortgages with a reduced level of risk in order to calculate the equity capital adequacy ratios; in particular, the part of the operational requirements for confirming the status of such loans was abolished;
- revising downwards the minimum reserves for the newly issued categories of 'military mortgages' and reduced risk mortgages as part of homogeneous loan portfolios;
- adjusting the procedure for calculating long-term liquidity ratio in order to account for intermediate funding provided to banks by housing mortgage agencies under mortgage portfolio securitisation programmes;
- further differentiating mortgages according to the level of risk in order to calculate the required ratios, in particular defining criteria to apply the 50% and 150% risk ratios to different mortgages.

Bank of Russia Ordinance No. 3277-U, dated 11 June 2014, 'On Methodologies for Assessing Bank Financial Soundness for Qualifying It as Adequate for Participation in the Deposit Insurance System' unified the supervisory requirements for assessing the financial soundness of banks and requirements for participation in the deposit insurance system, using corresponding references to indicators and methodologies for their calculation defined by Bank of Russia Ordinance No. 2005-U, dated 30 April 2008, 'On Assessing the Economic Situation of Banks'.

To reduce credit institutions' dependence on ratings from international ratings agencies, Bank of Russia Ordinance No. 3453-U, dated 25 November 2014, 'On the Specifics of Using Credit Solvency Ratings for the Purposes of Applying Bank of Russia Regulations' granted the Bank of Russia Board of Directors the right to define the date to be used (other than the current date) for the

credit solvency rating assigned to the Russian Federation, credit institutions and other entities by international ratings agencies.

Bank of Russia Ordinance No. 3497-U, dated 18 December 2014, 'On Amending Bank of Russia Instruction No. 139-I, Dated 3 December 2012, 'On Banks' Required Ratios' introduced, beginning from 1 January 2015, a reduced 50% risk weighted ratio for ruble-denominated loans by Russian exporters given an OJSC EXIAR insurance agreement, which should help promote lending for export-oriented projects.

To maintain stability of the Russian banking sector, Bank of Russia Ordinance No. 3496-U, dated 18 De-

cember 2014, 'On Amending Bank of Russia Regulation No. 254-P, Dated 26 March 2004, 'On the Procedure for Making Loss Provisions by Credit Institutions for Loans, Loan and Similar Debts' increased the time frames within which credit institutions may not increase the amount of their actual provisions for loans to borrowers whose financial position has deteriorated as a result of some extraordinary situation and may not make loss provisions for loans to carry out investment projects in the event of missed payments on the investment loans or insignificant payment amounts.

Information on other regulatory measures is provided in section IV.2.

## II.4.2. Registration and licensing of banking activities

As of 1 January 2015, the number of operating credit institutions with banking licences declined by 89, or by 9.6%, from the figure as of 1 January 2014 and stood at 834.

During the reporting year, five newly-established credit institutions were registered, along with two credit institutions based on previously operating Ukrainian banks: OJSC Sevastopol Morskoy Bank and OJSC Chernomorskiy Bank of Development and Reconstruction.

Over this period, the Bank of Russia decided to refuse state registration to the founders of six newly-established credit institutions (refusing one of them twice), because of the founders' unsatisfactory financial standing and the non-compliance of documents, which were 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 Bank of Russia regulations adopted in accordance with these laws (in 2013, the Bank of Russia decided to refuse state registration to the founders of seven newly-established credit institutions, including five non-bank credit institutions, refusing two of them twice).

In 2014, seven credit institutions ceased their operations as a result of a merger, while two banks changed their form of incorporation as a result of reorganisation (in 2013, 11 and 4 respectively).

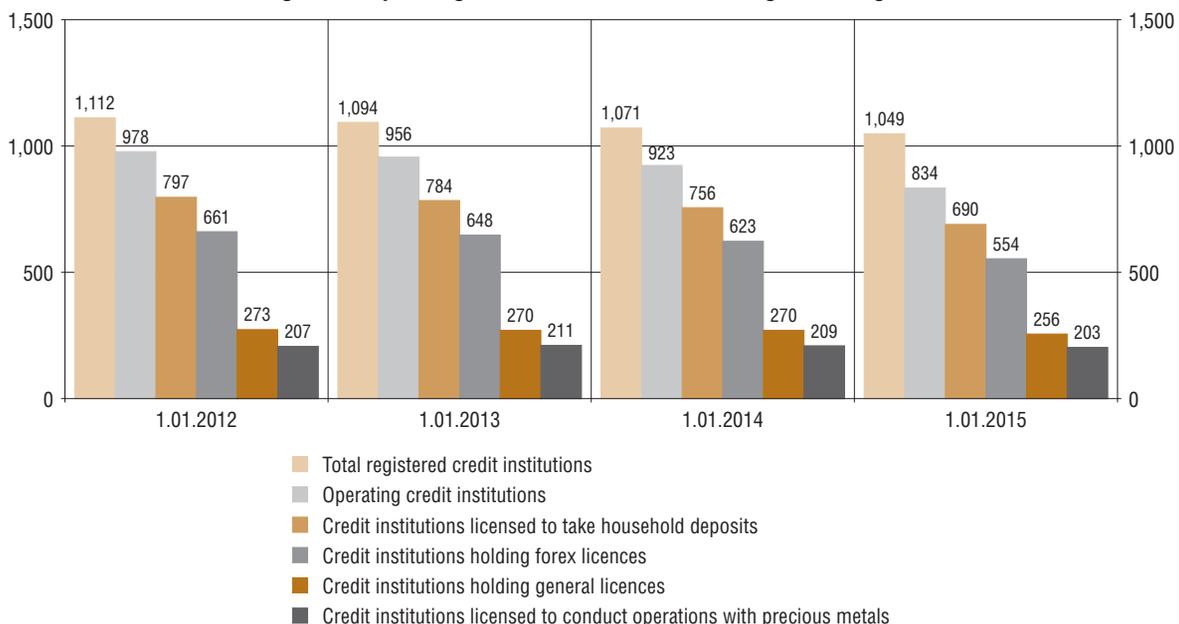
In 2014, 10 credit institutions, or 1.2% of the total number of operating credit institutions, expanded their business by obtaining banking licences entitling them to conduct a wider range of banking operations (in 2013, 26 or 2.8%).

Due to non-compliance with the financial stability requirements, one credit institution was refused expansion of its activities through a licence to take precious metals on deposit and place them.

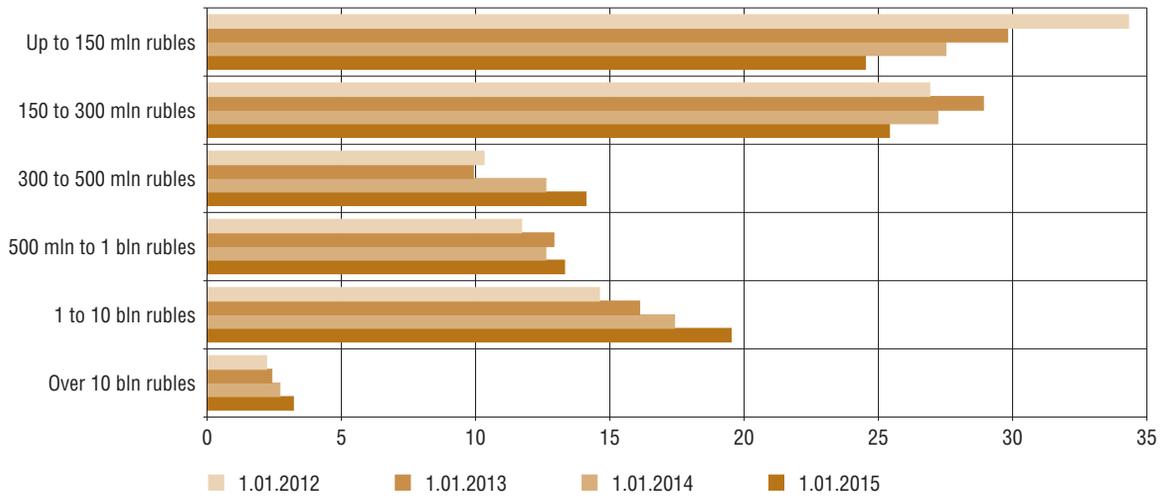
To bring the names of credit institutions in line with Federal Law No. 99-FZ, dated 5 May 2014, 'On Amending Chapter 4 of Part 1 of the Civil Code of the Russian Federation and Invalidating Certain Provisions of Russian Laws', 75 credit institutions had their banking licences replaced.

In 2014, banks with equity capital less than 300 million rubles generally brought the amount of their equity capital into compliance with legislative requirements. Out of the 183 banks required to increase their equity capital to 300 million rubles as of 1 January 2014, 143 banks increased their equity capital to the required amount, with the recapitalisation totalling 16.9 billion rubles. However, 27 banks ceased their activities due to the revocation of their banking licences. One bank changed its status to that of a non-bank credit institution.

Number of registered operating credit institutions and banking licences granted to them



**Operating credit institutions by authorised capital  
(share of total operating credit institutions, percent)**



As of 1 January 2015, the number of banks with equity capital less than 300 million rubles was 13<sup>1</sup>, of which, in 2015, two banks reorganised through mergers, two banks raised their equity capital above 300 million rubles, four banks had their banking licences revoked, and five banks changed their bank status to that of a non-bank credit institution.

In 2014, the total authorised capital of operating credit institutions increased by 376.4 billion rubles, or by 25.7% (in 2013 it increased by 122.5 billion rubles or by 9.1%), to 1,840.3 billion rubles as of 1 January 2015.

Non-residents' total investments in the total paid-up authorised capital of operating credit institutions increased from 404.8 billion rubles to 405.6 billion rubles over 2014. Non-residents' stake in the total paid-up authorised capital of credit institutions in the Russian banking system was 21.7% as of 1 January 2015 (26.4% as of 1 January 2014). The number of operating credit institutions with non-residents' stake fell to 225. However, the number of credit institutions where non-residents' stake in the authorised capital is 100% remained virtually unchanged (as of 1 January 2015 it was 75 and as of 1 January 2014 it was 76).

The total number of internal divisions of credit institutions (branches) fell by 1,582 to 41,794. The number of branches of operating credit institutions decreased in 2014 by 297, or by 14.8%, to 1,708 as of 1 January 2015. With the fall in the number of additional offices from 24,486 to 23,301 (by 4.8%), mobile cash offices from 7,845 to 6,735 (by 14.1%), and credit and cash offices from 2,463 to 2,289 (by 7.1%), the number of operations offices and mobile banking vehicles continued to grow from 8,436 to 9,273 (by 9.9%) and from 146 to 196 (by 34.2%) respectively. As of 1 January 2015, 529 divisions servicing legal entities and households were open in the Crimea Federal District.

The number of internal divisions per 100,000 people (including the Crimea Federal District<sup>2</sup>) was 28.6 (30.3 in 2013). Among other things, measures introduced by credit institutions to optimise expenditures and develop modern technologies (internet banking, mobile banking) had an influence on the dynamics of this indicator.

As of 1 January 2015, the Bank of Russia had accredited 73 representative offices of foreign credit institutions and renewed previously issued permits to operate within the Russian Federation for 20 of these representative offices.

<sup>1</sup> Including one bank that was allowed to reduce its equity capital in 2014 below 300 million rubles, and excluding banks managed by the state corporation Deposit Insurance Agency.

<sup>2</sup> For the Crimea Federal District, this figure was 22.3 as of 1 January 2015.

### II.4.3. Off-site supervision

In 2014, the Bank of Russia continued to pursue its policy of reinvigorating and strengthening the banking sector and adopted measures to further intensify banking supervision. In organising these efforts, the Bank of Russia was guided by the need to guarantee maximum transparency in bank operations for the regulator and to understand the business model of banks and the economics of operations carried out by banks.

In order to identify problems in the activities of credit institutions at an early stage, and prioritising content over legal form in asset valuation, the Bank of Russia continued to implement risk-based approaches to banking supervision.

During the reporting year, the work of off-site supervision divisions was aimed at improving responsiveness to negative developments in individual banks, offering more conservative assessments of banking risks and selecting supervisory measures that are effective and fitting for the violations that have occurred.

Considerable attention was paid to banks engaged in suspicious transactions: restrictions were imposed on such banks, and when measures were not adopted to eliminate significant and repeated violations of the law, banking licences were revoked (for more on enforcement measures, see section II.4.7).

As part of this work, the Bank of Russia paid extra attention to the quality of internal controls at credit institutions and compliance of banks' internal control rules with prescribed regulations.

During the reporting period, supervision of important federal and regional banks continued to intensify. An additional analysis of all aspects of these credit institutions' activities was carried out, both on a regional branch level and at the Bank of Russia head office.

In 2014, some of the largest Russian banks and banking groups were gradually placed under direct supervision of the Bank of Russia's Systemically Important Banks Supervision Department.

In 2014, the notion of Bank of Russia authorised representatives underwent further development. The group of banks where authorised representatives had been appointed was significantly expanded, in view of the additional opportunities granted by law to the Bank of Russia. The number of banks where authorised representatives had been appointed increased from 17 as of 1 January 2014 to 141 as of 1 January 2015. The presence of Bank of Russia authorised representatives

in some of the largest credit institutions makes it possible to ensure more complete and timely information for banking supervision.

Among the main banking risks, credit risk has traditionally been the subject of particular attention for supervision. Amid the dynamic growth in banks' loan portfolios in 2014, greater attention was paid to the borrower's actual business figures as the source of funds for servicing loans and the adequacy of banks' collateral assessments, which are taken into account when making loan loss provisions. In order to improve the quality of supervision, in 2014 efforts continued to collect and analyse information regarding businesses in the non-financial sector of the economy which borrow from credit institutions, primarily borrowers which are particularly important to the economy.

In order to reduce the concentration of risks, a broad range of supervisory responses were used. Banks developed and implemented measures to reduce the concentration of risks, including in relation to the business of the owners.

The situation in the unsecured consumer lending market, which has been characterised by piling risks in recent years, was the subject of further attention from the Bank of Russia. The activities of credit institutions with a significant share of consumer loans in their asset structure underwent in-depth scrutiny, including using stress testing methods and analysing intrabank risk management models. The regulatory measures implemented and supervisory work performed caused a number of banks to adjust their development strategy, pay greater attention to their risk management systems, and move towards gradually replacing 'old' portfolios with new, higher quality portfolios.

As part of banking supervision in 2014, work continued to analyse the reliability of banks' assessments of specific types of assets, in particular investments in closed-end unit investment funds (ZPIFs) and real estate, both as a standalone asset on a bank's balance sheet and as part of the assets of ZPIFs, or as collateral (including on mortgage participation certificates).

In 2014, the considerable increase in financial market volatility proved to be a challenge to banking supervision. Drastic changes in the FX market caused significant structural shifts in balance-sheet indicators, while growth in market interest rates increased the cost of funding for credit institutions. Supervisors monitored

**Summary data on number of credit institutions consented to disclose information as of 1 January 2015  
(percent of the total number of operating credit institutions)**

Reporting form	Disclosure (percent of the total number of operating credit institutions)
0409101 'The Trial Balance of a Credit Institution'	98
0409102 'Statement of Financial Performance of a Credit Institution'	98
0409134 'Calculation of Equity Capital'	98
0409135 'Information on Credit Institutions' Required Ratios and Other Performance Indicators'	98
0409123 'Calculation of Equity Capital (Basel III)'	96
All reporting forms (0409101, 0409102, 0409134, 0409135, 0409123)	95

how changes in the exchange rate and interest rates affect the income levels and equity capital of banks with a substantial share of assets and liabilities denominated in a foreign currency.

Amid the growing cost of funding the aggressive policy of a number of banks in the household deposits market, without an effective risk management system and given low asset quality, could lead to a reduced interest margin and losses. Accordingly, Bank of Russia regional branches have been working to assess the interest rate policies of banks, including with respect to taking household funds on deposit. When creditors' and depositors' interests were threatened, supervisory response measures were imposed on banks, including restricting and banning deposits and restricting interest rates on household deposits.

The optimisation of the Bank of Russia's regional network caused changes in the organisation of banking supervision. As part of the reorganisation of its regional branches, management of the supervisory process at the Bank of Russia moved to a new level, a vertical system was provided to organise supervision and manage supervision measures at the levels of main branches and departments, and a single information space was created for banking supervision divisions. The system formed to analyse the effectiveness of supervisory work is designed to administratively and analytically monitor the timeliness and adequacy of supervisory response measures at all stages and levels of decision-making at the Bank of Russia.

Due to the creation of the mega-regulator, further opportunities arose to exercise banking supervision on a consolidated basis and obtain information on the activities of banks, banking groups and financial conglomerates. Changes to legislation, including the expansion of the Bank of Russia's powers as a mega-regulator, increased opportunities to implement banking supervision over banks' operations with other financial market participants.

Through the work of its supervisory groups, the Bank of Russia ensured cooperation between its structural divisions responsible for supervising banks and non-bank financial institutions in order to identify risks assumed by banking group (bank holding company) participants both on a consolidated basis and individually. In 2014, banking and financial supervision divisions provided bilateral information support and, where necessary, coordinated supervisory measures in relation to banks and affiliated financial organisations.

An important part of the measures to improve banking sector transparency was work to disclose information on the Bank of Russia's official website, including the publication of credit institutions' balance sheets and financial statements, as well as their equity capital and required ratios.

The Bank of Russia regularly (every ten days) monitored the highest interest rates on ruble-denominated deposits at the 10 credit institutions which attract the largest amount of household deposits and published the summary results on its official website.

## II.4.4. Inspection of credit institutions

In 2014, work to centralise the Bank of Russia's inspection activity was completed (the vertically integrated centralised inspection structure has been in operation since 1 January 2014).

In total in 2014, authorised representatives of the Bank of Russia carried out<sup>1</sup> 817 inspections of credit institutions (and their branches)<sup>2</sup>, including 551 inspections in accordance with the Consolidated Plan and 266 unscheduled inspections.

Based on the results of the inspection activities, violations related mainly to credit risk underestimation (48.9% of all violations), anti-money laundering and combatting the financing of terrorism (hereinafter, AML/CFT) (19.6%) and cash operations (3.5%) were registered.

There were instances of lending to legal entities (including affiliated entities) not engaged in any real activity who submitted unreliable financial statements to credit institutions, instances of poor assessment of the financial position and quality of debt servicing, and instances of pledging collateral that does not meet established requirements or at an overstated value.

The inspections of consumer lending uncovered cases where the real duration of overdue loans was camouflaged and cases where the financial position of household borrowers was not assessed. There were also cases where documents confirming the borrower's income were missing or where there was evidence that the information provided by the borrower at the time the loan was issued was inaccurate, including cases where the borrowers' passports were invalid.

Inspections also established that banks were generating income on improper assets<sup>3</sup>.

Cases were discovered where credit institutions had failed to execute customers' orders in a timely fashion. In a number of cases credit institutions' correspondent accounts and cash offices showed sufficient funds to make payments, which pointed to account charges which were hidden from the Bank of Russia and violation of the sequence for withdrawing money from a bank account that had been prescribed by law.

During inspections of credit institutions' compliance with AML/CFT requirements, various violations were

revealed, including the failure to provide (delayed provision) the authorised body with information on transactions subject to mandatory reporting, violations of the procedure to prepare reports for the authorised body, and instances of failure to update customers' profile data. Numerous instances where internal bank control rules on AML/CFT did not comply with legislative requirements and Bank of Russia regulations were noted, and a number of credit institutions were found to be involved in various forms of suspicious transactions. Certain credit institutions demonstrated a formal approach to identifying transactions showing signs of being 'suspicious' and low responsiveness in acting to stop customers from conducting these transactions.

The practice of monitoring inspections of credit institutions (their branches) continued. Information on the current results of the inspections was sent to Bank of Russia regional branches and Systemically Important Banks Supervision Department, as well as supervision divisions of the Bank of Russia's head office to take the prompt supervisory decisions.

To fully analyse the activities of credit institutions, inspections were carried out simultaneously in credit institution branches and their head offices (43% of scheduled branch inspections).

In order to assess the level of consolidated risk, inspections were synchronised for credit institutions which are members of bank holding companies (banking groups) (in 2014 six banking groups, including informal groups, were inspected), which made it possible to identify any systemic failures in banking risk management and problem areas in the credit institutions' activities. Transactions conducted to redistribute risks and income within a banking group, provide liquidity and regulate required ratios were revealed.

Measures carried out within the internal control system (17 on-site inspections (investigations) were carried out) were an important factor that influenced the quality of the inspectorates' work, especially in remote regions.

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

<sup>1</sup> The inspections began in 2014.

<sup>2</sup> They include: 690 inspections (84.5%) of credit institutions, 123 inspections (15.1%) of branches, and 4 inspections (0.5%) of internal structural divisions.

<sup>3</sup> For example, by providing bank card holders with additional loans to pay off interest, through borrowers paying insurance premiums using the loans received.

## II.4.5. Financial resolution and liquidation of credit institutions

In 2014, the Bank of Russia and the state corporation Deposit Insurance Agency (DIA) carried out work to prevent insolvency (bankruptcy) among credit institutions under Federal Law No. 175-FZ, dated 27 October 2008, 'On Additional Measures to Strengthen the Stability of the Banking System in the Period until 31 December 2014' (no longer in force) and Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)' (as amended by Federal Law No. 432-FZ, dated 22 December 2014, 'On Amending Certain Laws of the Russian Federation and Invalidating Certain Laws (Provisions of Laws) of the Russian Federation') (hereinafter, Federal Law No. 127-FZ and Federal Law No. 432-FZ).

When making a decision on the feasibility of the financial resolution of a particular bank, the Bank of Russia took account of the bank's systemic importance to the banking sector of the country or the specific region and the economic feasibility of government involvement. The Bank of Russia considered both an estimate of the potential losses from paying out any insurance indemnities and the investors' readiness to support the bank's financial resolution.

During the reporting period, the Bank of Russia sent the DIA bankruptcy prevention proposals regarding 14 banks, accounting for 1.4% of total banking sector assets and 2.6% of banking sector deposits.

In 2014, the Bank of Russia and the DIA undertook steps to prevent bankruptcy at 19 banks, of which two banks successfully implemented measures to prevent bankruptcy by merging with other banks, one bank transferred its depositor obligations and some of its assets to another bank (after which its banking licence was revoked), and one bank had its banking licence revoked by order of the Bank of Russia.

As of 1 January 2015, 15 banks continued their scheduled work in accordance with approved plans for the DIA's involvement in preventing their bankruptcy.

As of 1 January 2015, the DIA's debt to the Bank of Russia on loans was 644.5 billion rubles (300 billion rubles as of 1 January 2014 and 335.4 billion rubles as of 1 January 2013).

In 2014, the Bank of Russia took steps to prevent the insolvency (bankruptcy) of 96 credit institutions that had grounds for implementing the bankruptcy prevention measures provided for in Article 189<sup>10</sup> of Federal

Law No. 127-FZ<sup>1</sup>, of which 38 credit institutions had their banking licences revoked by an order of the Bank of Russia and 36 credit institutions independently (without any corresponding requirements from the Bank of Russia) eliminated these grounds. As for the remaining credit institutions, the Bank of Russia implemented the measures stipulated by insolvency (bankruptcy) prevention laws, including undertaking measures jointly with the DIA to prevent bankruptcy in 15 banks.

As of 1 January 2015, 21 credit institutions had grounds for implementing measures to prevent insolvency (bankruptcy).

In 2014, in order to implement the provisions of Federal Law No. 37-FZ, dated 2 April 2014, 'On the Specifics of the Functioning of the Republic of Crimea's and the Federal City of Sevastopol's Financial System in the Transition Period' the Bank of Russia decided to terminate the activities of isolated structural divisions of 45 banks operating on the territory of the Republic of Crimea or the territory of the federal city of Sevastopol and registered outside these territories. The reason for terminating the activities of these banks' isolated structural divisions was non-performance of their obligations to depositors. The Bank of Russia's decision to terminate the activities of these banks' isolated structural divisions served as grounds for the autonomous non-profit organisation 'Depositor Protection Fund' to acquire rights (claims) to the deposits and make compensation payments to individuals, including unincorporated individual entrepreneurs.

In 2014, 117 provisional administrations were in operation, of which 13 banks where the DIA performed the functions of provisional administration in line with the plans for its participation in bankruptcy prevention, 103 provisional administrations were appointed due to the revocation of banking licences, and one provisional administration was appointed in accordance with Clause 4 of Part 2 of Article 74 of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' (hereinafter, Federal Law No. 86-FZ).

As of 1 January 2015, 24 provisional administrations were active, including 18 provisional administrations appointed to credit institutions due to the revocation of their banking licences. In accordance with plans ap-

<sup>1</sup> Prior to Federal Law No. 432-FZ taking effect, the grounds for implementing bankruptcy prevention measures were set out in Article 4 of Federal Law No. 40-FZ, dated 25 September 1999, 'On the Insolvency (Bankruptcy) of Credit Institutions' (no longer in force).

proved by the Bank of Russia for the DIA's participation in bankruptcy prevention measures, the Bank of Russia entrusted the DIA with the duty of provisional administration at six banks.

As of 1 January 2015, 214 credit institutions were subject to liquidation, all of which had their licences revoked (cancelled), and the Bank of Russia did not receive any certificates of their state registration from the authorised registration body in relation to their liquidation. Of these, 199 credit institutions were undergoing liquidation proceedings and 15 credit institutions had not had the respective court rulings handed down after the revocation of their licences as of 1 January 2015.

The majority of credit institutions undergoing liquidation (162) were declared insolvent (bankrupt) and bankruptcy proceedings had been initiated against them (in 2014, 56 credit institutions were declared bankrupt, of which one credit institution had earlier an arbitration court ruling on forced liquidation). Arbitration court rulings on forced liquidation were handed down with regard to 36 credit institutions (in 2014, court rulings on forced liquidation were handed down in relation to 29 credit institutions). In addition, one credit institution is undergoing voluntary liquidation based on a decision by their founders.

As of 1 January 2015, at 181 credit institutions being liquidated liquidation proceedings were conducted by the DIA, which was appointed in accordance with the Russian Federation legislation on insolvency (bankruptcy) and Article 23.2 of Federal Law No. 395-1, dated 2 December 1990, 'On Banks and Banking Activities' (hereinafter, Federal Law No. 395-1). Of these, at 154 credit institutions the DIA acted as a receiver and at 27 as a liquidator.

As of 1 January 2015, 1,638 records of state registration had been made in the Single State Register of Legal Entities in relation to the liquidation of credit institutions. According to reporting data submitted to the Bank of Russia, the average percentage of satisfied creditor claims at these credit institutions was 11.9%. For those liquidated credit institutions where the DIA acted as a receiver (liquidator), the average percentage of satisfied creditor claims was 28%.

In order to monitor the activity of credit institutions' receivers (liquidators), the Bank of Russia conducted 26 inspections of their activity in 2014, of which 22 inspections were scheduled. In all 26 cases, the focus of the inspection was the work of the DIA as the receiver (liquidator) of the credit institutions.

In 2014, 25 receivers were accredited with the Bank of Russia as receivers in bankruptcy proceedings in credit institutions and 25 receivers had their accreditation extended. Furthermore, nine receivers were denied accreditation or refused an extension of their accreditation due to a failure to meet the accreditation criteria. As of 1 January 2015, 50 receivers were accredited with the Bank of Russia.

Records of state registration had been made in the Single State Register of Legal Entities in relation to the liquidation of 33 credit institutions whose depositors received payments from the Bank of Russia. The Bank of Russia's claims to these credit institutions, which were not met during the bankruptcy proceedings due to the debtors lacking sufficient assets, were written off from the Bank of Russia's balance sheet in the total amount of 797,411,400 rubles (in 2014, a total of 75,304,200 rubles were written off from the Bank of Russia's balance sheet).

## II.4.6. Household deposit insurance

As of 1 January 2015, 860 banks were deposit insurance system participants (873 banks as of 1 January 2014), of which 698 were operating banks and 162 were undergoing liquidation.

Three banks were included in the deposit insurance system in 2014, while 16 banks were excluded from the system.

In 2014, insured events occurred at 61 banks whose banking licences had been revoked.

As of 1 January 2015, the size of the compulsory household deposit insurance fund was 83.6 billion rubles (excluding the 68.9-billion-ruble reserve established for insured events).

The Bank of Russia supervised banks participating in the deposit insurance system to identify the occurrence of the conditions stipulated by Article 48 of Federal Law No. 177-FZ, dated 23 December 2003, 'On Insurance of Household Deposits with Russian Banks' (hereinafter, Federal Law No. 177-FZ) in order to terminate the right of the banks listed in the bank register

to take household funds on deposit and to open and maintain household bank accounts.

In 2014, pursuant to Article 48 of Federal Law No. 177-FZ six banks participating in the deposit insurance system were prohibited to take household funds on deposit and open household bank accounts, of which three banks due to the enforcement action stipulated by Clause 4 of Part 2 of Article 74 of Federal Law No. 86-FZ for three consecutive months; two banks due to failure to meet the requirements for participation in the deposit insurance system with respect to a group of indicators of the quality of the bank's management, and its operations and risks; and the other bank due to failure to meet the requirements for participation in the deposit insurance system with respect to a group of asset assessment indicators for two consecutive months and the threat posed by the bank's activities to the interests of creditors and depositors. The banking licences of four of these banks were subsequently revoked.

## II.4.7. Supervisory response

In 2014, the Bank of Russia's supervisory response was primarily geared towards preventive measures, the main aim of which was to prevent negative trends in the activities of credit institutions at an early stage.

As part of this early response procedure, the management and (or) boards of directors (supervisory boards) of 873 credit institutions were sent written notifications about shortcomings in their activities and recommendations on how to correct them.

Supervisory meetings were held with representatives of 444 credit institutions to demonstrate to the management and owners of the credit institutions the problems identified and the need to remedy them independently.

In 133 cases, recommendations were sent on developing an action plan to remedy the identified shortcomings, improve reporting controls, and adequately assess credit risk, among other things.

Where required, punitive measures were enforced against banks, including:

- fines (against 133 credit institutions);
- restrictions on certain types of transactions carried out by credit institutions (against 209 credit institutions, of which 100 banks saw restrictions on taking household funds on deposit and 109 banks saw restrictions on opening corporate and household bank accounts);
- bans on certain types of banking transactions carried out by credit institutions (against 64 credit institutions);
- demands (against 546 credit institutions), including to reclassify their loan debts (against 334 credit institutions), to supplement their loss provisions (against 370 credit institutions), and to replace individuals whose positions listed in Article 60 of Federal Law No. 86-FZ (against 43 credit institutions);
- bans on opening branches (against 62 credit institutions).

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

In 2014, pursuant to Article 74 of Federal Law No. 86-FZ and Article 20 of Federal Law No. 395-1, the Bank of Russia revoked the banking licences of 86 credit institutions (in 2013, 32 credit institutions).

The grounds for revoking the banking licences were as follows:

- failure to comply with federal banking laws and Bank of Russia regulations, if, within one year, the measures set forth in Federal Law No. 86-FZ had been enforced against a credit institution more than once: 75 cases (30 cases in 2013);
- repeated violations, within one year, of the requirements set out in Articles 6 and 7 (excluding Clause 3 of Article 7) of Federal Law No. 115-FZ, dated 7 August 2001, 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' (hereinafter, Federal Law No. 115-FZ): 36 cases (eight cases in 2013);
- evidence of significant misreporting of data: 13 cases (seven cases in 2013);
- fall in the size of equity capital of a credit institution below the minimum authorised capital amount set by the Bank of Russia on the date of state registration of the credit institution: 14 cases (six cases in 2013);
- capital adequacy below 2%: 12 cases (five cases in 2013);
- inability to satisfy creditors' liability claims within 14 days of the due date: 26 cases (two cases in 2013).

The total assets of credit institutions whose banking licences had been revoked by the Bank of Russia in 2014 amounted to 350.4 billion rubles, or 0.6% of total banking sector assets; their total deposits amounted to 220.8 billion rubles, or 1.3% of banking sector deposits.

In addition, during the reporting period, the Bank of Russia cancelled the licences of two non-bank credit institutions (in 2013, it cancelled the licence of one) after their participants (shareholders) decided to liquidate voluntarily.

The growth in the number of decisions to revoke licences from credit institutions in 2014 can largely be explained by their active involvement in laundering illegal income and unlawfully exporting funds abroad, which required a severe response from the supervisory authority.

A significant share of licence revocations resulted from growing financial problems at credit institutions, causing the subsequent loss of capital and (or) persistent insolvency (33 credit institutions or 38% of revoked licences). However, some banks concealed their real financial positions, submitting extremely unreliable reporting data to the Bank of Russia (13 credit institutions or 15% of revoked licences).

## II.4.8. Bank of Russia activities aimed at preventing money laundering and terrorism financing

In 2014, the Bank of Russia took further steps to implement its mandate set forth by Federal Law No. 115-FZ. It paid special attention to increasing the effectiveness of the AML/CFT system.

The adoption of Federal Law No. 484-FZ, dated 29 December 2014, 'On Amending Certain Laws of the Russian Federation', which was drafted in part by taking into account Bank of Russia proposals, was an important event in 2014. This federal law made provisions to narrow the grounds for the Bank of Russia to enforce administrative liability measures against credit institutions under Article 15.27 of the Russian Federation Code of Administrative Offences, with an emphasis on the measures set out in Article 74 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'. In addition, the grounds on which the Bank of Russia may revoke a credit institution's banking licence have been clarified, including for AML/CFT violations.

These legislative changes will reduce the burden on the banking and judicial systems, help raise the effectiveness of work to suppress suspicious transactions conducted by credit institutions, and increase credit institution managers' attention to the effectiveness of internal AML/CFT controls with an emphasis on risk-based approaches.

At the same time, based on information obtained through its supervisory activities, in 2014 the Bank of Russia prepared recommendations for credit institutions, which were designed to help identify certain customer transactions that require increased attention. The move allowed to reduce the number of suspicious transactions in the banking sector.

In September 2014, at a plenary session of the Council of Europe's Committee of Experts on the Evaluation of Anti-Laundering Measures and the Financing

of Terrorism (MONEYVAL), the Russian delegation, which included representatives of the Bank of Russia, successfully defended the Russian Federation's 3<sup>rd</sup> round progress report on improvements to the national AML/CFT system, which confirms that the Bank of Russia's decision to use a risk-based approach in AML/CFT was appropriate.

In 2014, the Bank of Russia continued to exercise its powers to institute proceedings and review cases of administrative infringements linked to credit institutions and their officers not complying with legislative requirements on AML/CFT. In 2014, 1,170 cases of administrative infringements were brought against 435 credit institutions by Bank of Russia regional branches, including 409 cases against officers. However, 68 cases of administrative violations were discontinued at the inquiry stage. As a result, during the course of the year, proceedings for 1,120 administrative infringement cases were completed, with 319 rulings to impose a fine (of which 62 rulings were against credit institution officers), 539 rulings to issue a warning (of which 290 rulings were against credit institution officers), and 262 rulings to terminate the administrative cases (of which 75 rulings were against credit institution officers).

As part of the Bank of Russia's supervisory powers relative to non-bank financial institutions regarding their compliance with AML/CFT legislation, the Bank of Russia issued regulatory documents that set forth for these organisations: requirements for internal control rules; procedures for identifying customers, customer representatives, beneficiaries and beneficial owners; the procedure for providing authorised bodies with the information set out in Federal Law No. 115-FZ, dated 7 August 2001; qualification requirements for officers responsible for implementing internal control rules; and personnel training requirements.

## II.5. REGULATION, CONTROL AND SUPERVISION OF THE ACTIVITIES OF NON-BANK FINANCIAL INSTITUTIONS

### II.5.1. Non-bank financial institutions' access to the financial market

As part of allowing non-bank financial institutions (hereinafter, NFIs) to access the financial market, in 2014 the Bank of Russia decided to issue 94 licences of professional securities market participant.

In 2014, collective investment market participants were issued 20 licences to manage investment funds, PIFs and NPFs, and three licences to engage in the activities of a specialised depository of investment funds, PIFs and NPFs, including one licence issued to an organisation registered on the territory of the federal city of Sevastopol.

In connection with Federal Law No. 410-FZ, dated 28 December 2013, 'On Amending the Federal Law 'On Non-governmental Pension Funds' and Certain Laws of the Russian Federation' taking effect on 1 January 2014, the Bank of Russia decided to approve the reorganisation, state registration and issuance (re-issuance) of licences for 47 pension funds being set up as joint-stock companies through the reorganisation of NPFs that had operated as non-profit organisations.

In 2014, the number of operating PIFs increased by 83 compared with 2013 to 1,654 funds, 196 new

PIF trust management rules were registered, and 1,685 amendments were made to current trust management rules.

In the year under review, 66 licences were issued to insurance entities, of which one was issued to a mutual insurance company, 15 to insurance brokers, and 50 to insurance companies.

In 2014, the details of 1,632 organisations were added to the state register of microfinance organisations and one non-profit organisation was added to the state register of self-regulatory organisations of microfinance organisations. Information on 4,109 financial market specialist qualification certificates was recorded in the register of qualified professionals.

In accordance with Federal Law No. 196-FZ, dated 19 July 2007, 'On Pawnshops' and Federal Law No. 293-FZ, dated 2 November 2013, 'On Actuarial Activities in the Russian Federation' (hereinafter, Federal Law No. 293-FZ), during the course of the reporting year the Bank of Russia started to keep a state register of pawnshops, a single register of responsible actuaries and a state register of self-regulatory organisations of actuaries.

## II.5.2. Regulation, control and off-site supervision of the activities of non-bank financial institutions

In 2014, the Bank of Russia actively worked to improve the regulatory framework governing the activities of NFIs and more than 50 regulatory documents in this field were drafted and approved.

**Professional securities market participants.** As part of improving regulation of professional securities market participants (hereinafter, professional participants), in 2014 the Bank of Russia issued regulatory documents providing for the following changes:

- in order to differentiate approaches to the equity capital adequacy ratios of professional participants, depending on the risks assumed, and the types of transactions and operations being concluded, when carrying out professional activity in the securities market the following have been established:
  - requirements regarding equity capital of professional participants and management companies of investment funds, PIFs and NPFs;
  - unified requirements regarding the rules for broker activity when carrying out operations with the assets of a broker's customer;
  - restrictions on customer broker activities in terms of the procedure and time frames for carrying out customer instructions;
- with regard to reforming the securities depository system, a procedure has been set out for maintaining depo accounts when depositories carry out transactions relating to equities in a foreign nominee depo account, if a company redeems placed equities on request of a shareholder or if an individual sending a voluntary or mandatory offer (notification of the right to demand redemption or securities redemption request) purchases (redeems) equities. This solved the problem of the lack of a special procedure for shareholders – foreign nominee customers (for example, Euroclear or Clearstream) to send equity redemption requests and the lack of a special procedure to block transactions with redeemed equities in the depo account of the foreign nominee;
- with regard to regulating organised trading, the following have been established:
  - requirements for trade organisers with respect to the content, procedure and time frame for disclosing and providing information, the procedure

for keeping a register of agreements, the procedure for registering traders and their customers, and the procedure and time frames for calculating price indicators and indices, and other requirements;

- unified requirements regarding the rules for broker activity when carrying out certain transactions at the expense of customers (inapplicability of the restrictions set on short sales for organised markets with centralised clearing);
- with regard to the development of financial instruments:
  - rules were set to define the estimated value of forward transaction financial instruments, which pursuant to the requirements of Clause 3 of Article 301 of the Tax Code of the Russian Federation are not recognised as circulating in an organised market;
  - the total share of the initial and (or) subsequent creditor's risk from liabilities whose monetary claims are subject to a secured bond pledge from a specialised financial company and specialised project financing company has been determined, as well as the form and methods for taking on this share of the risk.

As part of the Bank of Russia's supervisory duties over the activities of professional participants, in 2014 1,964 orders and inquiries were sent requesting information and 400 orders were sent to eliminate violations of Russian Federation legislation and adopt measures to prevent further violations in subsequent activity. Nineteen fines were issued to professional participants and 97 records of administrative violations were created<sup>1</sup>. As many as 526 replies were prepared in response to citizens' or organisations' questions regarding the activities of professional participants and financial market infrastructures.

**Microfinance organisations.** With a view to improving the microfinance market, in 2014 the Bank of Russia issued regulatory documents governing:

- the procedure for microfinance organisations and consumer credit cooperatives (CCC) to establish loan loss provisions;
- the procedure for the Bank of Russia to monitor implementation of a plan to restore CCC solvency;

<sup>1</sup> Excluding information on the number of administrative cases brought as part of work to uncover violations of Articles 9 and 12 of Federal Law No. 325-FZ, dated 21 November 2011, 'On Organised Trading'.

- the procedure for the Bank of Russia to issue statements recognising a CCC as bankrupt on request of a self-regulatory organisation of CCCs;
- the procedure for carrying out the activities of CCC provisional administration.

As part of Bank of Russia supervisory measures for microfinance market participants, in 2014 more than 11,000 orders were issued as a result of control and supervisory measures carried out during off-site supervision. As a result of repeated violations by MFOs of Federal Law No. 151-FZ, dated 2 July 2010, 'On Microfinance Activities and Microfinance Organisations' over the course of the year, 503 MFOs were struck off from the state register of microfinance organisations<sup>1</sup> in 2014.

**Insurance entities.** Over the course of 2014, a number of federal laws were adopted which made significant changes to insurance legislation of the Russian Federation and expanded the regulatory powers of the Bank of Russia in the insurance market.

In 2014, the Bank of Russia set about introducing the notion of curatorship, the aim of which is to form an individual map of risks for each insurance company and adopt prompt measures to improve the financial position of insurance companies (implementing the 'one-stop shop' principle). The introduction of curatorship is expected to result in an accelerated supervisory response when an insurer encounters difficulties, which ultimately impacts the level of trust in the industry, and a forecast of the potential difficulties which arise when implementing Bank of Russia regulations. As part of this curator-based supervision of systemically important insurers, in 2014 certain elements of risk-based supervision were introduced and a SWOT analysis<sup>2</sup> of the activities of insurance companies was carried out, on the basis of which insurers were classified into four risk groups with an appropriate format of control and supervision measures.

Due to the increase in financial protection of insurers associated with both the increase in the liability limit in cases of property damage from 120,000 to 400,000 rubles and the reduction from 80% to 50% in the maximum permitted level of wear and tear attributable to accessories (parts, assemblies and sets) due for replacement when performing restorative work, maximum and minimum values were set on base rates for insurance

tariffs, along with insurance tariff coefficients, insurance tariff structure requirements, and the procedure for insurers' use of tariffs when determining the insurance premium under a compulsory motor third party liability insurance agreement for vehicle owners.

In implementing the provisions of Russian Law No. 4015-1, dated 27 November 1992, 'On the Organisation of Insurance Business in the Russian Federation', in 2014 the Bank of Russia issued regulatory documents approving the procedure for investing insurance reserve funds and insurer equity capital to improve the system of claims to the quality of assets in which insurers can invest equity capital and insurance reserve funds, and to reduce the liquidity risk linked to the low real quality of insurers' assets and the credit risk linked to other investments, re-insurance and accounts receivable.

In addition, in order to improve regulation of insurance entities, in 2014 the Bank of Russia issued regulatory documents governing the procedure for insurers to provide the Bank of Russia with their insurance rules, insurance tariff calculations, actuarial calculation methods used, tariff rate structure, and provisions on the formation of insurance reserves and requirements for the insurance company's financial recovery plan to be submitted to the Bank of Russia if the insurance company violates the required equity capital to liabilities ratio.

In 2014, monitoring the existence of real assets at insurance companies was the focus of attention for insurance supervision, which involved the following measures:

- monitoring was performed on insurers ranked between 21 and 100 in a ranking of insurance companies by total premiums charged, in order to check for the existence of real assets;
- a system was set up to monitor insurers assigned to a higher risk group, which discloses information on their assets more actively, not only at the end of the reporting period but also when assets move during the reporting period;
- cross audits were carried out to verify the existence of real assets;
- insurance supervision measures were implemented together with the measures set out in insolvency (bankruptcy) laws if it was discovered that real assets were absent or insufficient.

<sup>1</sup> These organisations were struck off from the state register of microfinance organisations due to systematic failure to submit financial statements and due to removal from the microfinance market of unfair participants engaged in activities aimed at neutralising legal restrictions on obtaining and investing funds.

<sup>2</sup> A SWOT analysis is an analytical method in strategic planning which consists of dividing factors and events into four groups: strengths, weaknesses, opportunities and threats.

In 2014, work was started to implement an approach to support the solvency recovery and bankruptcy procedures at insurance companies at an earlier stage, in part through appointing provisional administrations to examine the possibility of restoring solvency and subsequently applying licensing sanctions.

As part of monitoring the existence of real assets on the balance sheets of insurers ranked between 101 and 200 in a ranking of insurance companies by total premiums charged, competence centres were sent instructions on the need to carry out measures to monitor the existence of real assets at insurers ranked between 101 and 200 in the ranking of insurance companies (based on insurance premiums collected in 2013). This monitoring resulted in competence centres dividing insurers into three risk groups; appropriate off-site supervision was then organised for each group.

The Bank of Russia set up monitoring to oversee the activities of insurance companies concentrating risks in socially significant segments (compulsory motor third party liability insurance, tour operator liability insurance, developer civil liability insurance, and state-backed agricultural insurance). This included:

- a system was set up to collect additional data in these segments given the shortcomings of the existing reporting system;
- the level of risk concentration was defined;
- balance-sheet figures reflecting the insurers' activities are being analysed in order to assess their ability to cover the indicated risks;
- insurance supervision measures were implemented together with the measures set out in insolvency (bankruptcy) laws if it was discovered that real assets were absent or insufficient.

As a result of control and supervision measures conducted on the activities of a number of insurance companies leading in the compulsory motor third party liability insurance market in 2014, the Bank of Russia issued 17 orders to eliminate violations of insurance legislation.

Due to the situation in the tourist industry in the second half of 2014, the Bank of Russia monitored the activities of insurance companies insuring the risks of tour operators that had ceased their operations.

**Collective investment entities and trusts.** To improve the regulation of NPFs' and investment funds' activities, in 2014 the Bank of Russia issued regulatory documents providing for the following changes:

- a procedure for the Bank of Russia to examine requests to issue findings on NPFs' compliance with

regulations on participation in the system guaranteeing the rights of insured persons;

- restrictions on investing pension savings funds in certain asset classes, requirements for pension savings investment transactions, restrictions on the structure of assets in which pension savings can be invested;
- a procedure for calculating the equity capital of NPFs and a list of assets included when calculating an NPF's equity capital;
- a procedure and time frames for the Bank of Russia to reimburse the Pension Fund of the Russian Federation for any shortfall in pension savings funds, as well as a list of information sent by the Pension Fund of the Russian Federation and required to calculate the amount of pension savings shortfall due to be reimbursed by the Bank of Russia to the Pension Fund of the Russian Federation;
- the list of expenses associated with asset management trusts for assets comprising joint-stock investment fund assets or PIF assets was expanded compared with the list of expenses associated with asset management trusts for assets comprising joint-stock investment fund assets or PIF assets, as approved by FFMS Order No. 08-7/pz-n, dated 28 February 2008;
- the ability to partially redeem investment units of a closed-end PIF without the owner of the investment units having to request to redeem them, as well as a procedure for partial redemption of investment units of closed-end PIFs.

In 2014, having uncovered violations of the laws of the Russian Federation, the Bank of Russia sent 31 instructions to eliminate violations to NPFs, 244 instructions to eliminate violations to management companies of investment funds, PIFs and NPFs, and eight instructions to eliminate violations to specialised depositories.

Over 2014, five NPFs and 26 management companies of investment funds, PIFs and NPFs were held administratively liable.

Three NPFs, five management companies of investment funds, PIFs and NPFs, and two specialised depositories had their licences cancelled for repeated violations of Russian legislation.

Nine management companies of investment funds, PIFs and NPFs, and three specialised depositories had their licences cancelled for failure to carry out any licensed activity for more than 18 months.

One NPF, five management companies of investment funds, PIFs and NPFs, and two specialised de-

positories had their licences cancelled at the licensees' request to relinquish their licences.

In 2014, the Bank of Russia also approved reports on the termination of activities of 49 PIFs.

**Financial market infrastructures** (hereinafter, FMIs). In 2014, the Bank of Russia continued its efforts to improve the regulatory framework to regulate the activities of FMIs such as central counterparties, central depositories, settlement depositories and repositories.

In order to change the approach to defining requirements for credit institutions in whose correspondent accounts and deposits central depositories are entitled to place funds, the Bank of Russia issued Ordinance No. 3334-U, dated 22 July 2014, 'On Amending Clauses 1 and 2 of Bank of Russia Ordinance No. 2830-U, Dated 9 June 2012, 'On Requirements Pertaining to Credit Institutions and Foreign Banks the Central Depository May Place Funds With'. In particular, credit institutions' long-term credit rating assigned by Standard & Poor's, Fitch Ratings and (or) Moody's Investors Service is being replaced with a level which accounts for the change in the sovereign credit rating of the Russian Federation.

To bring the regulation of central counterparty (hereinafter, CC) activities closer to international CC standards, the Bank of Russia issued Ordinance No. 3367-U, dated 21 August 2014, 'On Amending Bank of Russia Ordinance No. 2919-U, Dated 3 December 2012, 'On Assessing the Management Quality of a Credit Institution Acting as a Central Counterparty'. The amendments introduced mostly relate to clarifying the requirements for the securities used by CCs as collateral, making it possible to open correspondent accounts at the resident banks of the CIS countries and at national (central) banks in these countries, changing the approach to establishing the rating level of resident banks when CCs open correspondent accounts, and placing funds, as well as clarifying the methodology used to calculate the credit risk ratio.

To ensure the stability of the financial market in the Russian Federation, the Bank of Russia issued Ordinance No. 3341-U, dated 25 June 2014, 'On Recognising Financial Market Infrastructures as Systemically Important'. This ordinance set out the procedure and criteria for recognising FMIs as systemically important on a national level. For example, an FMI can be recognised as systemically important if the FMI is the sole organisation carrying out certain functions set out in Russian Federation legislation (the 'uniqueness' criterion), the FMI supports Bank of Russia operations (the 'importance to the single state monetary policy' criterion), and the FMI supports more than half of all financial market participants and their operations (the 'importance in the financial market' criterion).

In September 2014, the Bank of Russia recognised NKO ZAO National Settlement Depository (hereinafter, NSD) as a systemically important central depository, systemically important settlement depository and systemically important repository based on the 'uniqueness', 'importance to the single state monetary policy' and 'importance in the financial market' criteria, and ZAO AKB National Clearing Centre (hereinafter, NCC) as a systemically important central counterparty based on the 'importance to the single state monetary policy' and 'importance in the financial market' criteria. The Bank of Russia closely monitors the activities of systemically important FMIs to timely identify and assess risks and to make effective decisions to ensure their smooth operation.

As part of the Bank of Russia's oversight of NCC and NSD, in view of the heightened volatility in the financial markets and unstable external conditions, special attention was paid to analysing the impact of credit and market risks, as well as the adequacy of the collateral rates set by NCC in the Moscow Exchange markets for operations with partial collateral, which showed that these organisations were maintaining their financial stability without any threat to their operational continuity.

### II.5.3. Inspection of non-bank financial institutions

To standardise the quality and unity of approaches to inspections of all organisations under the Bank of Russia's supervision (both credit institutions and other financial organisations), the Bank of Russia Chief Inspection was made responsible for carrying out inspections of NFIs from 1 February 2014.

From 1 January to 31 December 2014, Bank of Russia authorised representatives carried out on-site inspections of 596 NFIs and their structural divisions<sup>1</sup>. Inspections of 68 NFIs could not be held because the supervised entities no longer reside at the addresses held by the Bank of Russia and (or) the inability to conduct inspection activities, in some cases due to active opposition to the inspection. In addition, 18 NFI<sup>2</sup> inspections that had started in 2014 continued into 2015.

To reduce the burden on NFIs, in 2014 the Bank of Russia primarily conducted thematic inspections on matters which were difficult or impossible to examine or assess through off-site inspections. In contrast to the Bank of Russia's and FFMS of Russia's previous practice of inspecting credit institutions that are professional securities market participants, according to specific inspection plans, in 2014 the compliance of credit institutions, which simultaneously engage in professional activities in the securities market, with securities legislation was inspected together with their compliance with banking legislation, which reduced the administrative burden on financial market participants.

In 2014, NFI inspections were for the most part unscheduled (97 scheduled and 499 unscheduled inspections), which was down to the risk-based approach to organising inspections and prompt responses to problems in NFI activities. In particular, the decision to carry out unscheduled inspections was linked to the situation in the compulsory motor third party liability insurance market and NPF applications to join the system guaranteeing the rights of insured persons with compulsory pension insurance. Moreover, in order to obtain comprehensive information required for the Bank of Russia to issue findings on NPFs' compliance with the require-

ments to participate in the system guaranteeing the rights of insured persons, cross audits were carried out at management companies and specialised depositories that had concluded pension savings and pension reserves trust management agreements and specialised depository service agreements with the NPFs under inspection.

The main violations established during the NFI inspections in 2014 were violations of licensing requirements and criteria, violations of internal control procedures, including those to counter the legalisation (laundering) of criminally obtained incomes and the financing of terrorism, and violations of Russian Federation legislation governing financial market activities. The inspections analysed the level of risk assumed by NFIs, together with the causes and consequences of that risk, and uncovered instances where the real value of assets had been distorted or data had been unfairly reported.

The Bank of Russia paid special attention to inspections of NFIs where there was information pointing to their involvement in various types of suspicious transactions.

In 2014, Bank of Russia structural divisions actively collaborated to exercise supervision in the financial markets and the banking sector. As part of this collaboration and in conjunction with carrying out inspections of credit institutions, cross audits were carried out at related NFIs. Additionally, along with NFI inspections, cross audits were carried out at related credit institutions. This collaboration specifically led to a more responsive and systematic approach to identifying risks for both credit institutions and NFIs, which points to the synergetic effect of the collaboration.

Moreover, to raise the quality of the inspection activity at the Bank of Russia, an internal control system was put in place and special attention was paid to developing the information and analytical support offered to inspectors by implementing advanced information technologies based on modern equipment.

<sup>1</sup> Of which 35 inspections of professional securities market participants and their structural divisions, 76 collective investment entities, 11 consumer credit cooperatives, 1 housing savings cooperative, 28 microfinance organisations, and 445 insurance companies and their structural divisions.

<sup>2</sup> Including 2 professional securities market participants, 15 collective investment entities, and 1 insurance entity.

## II.5.4. Countering malpractice in the open market

In order to ensure fair price formation for financial instruments, foreign currency and (or) commodities; equal investor rights; and increased investor trust by creating a legal mechanism to prevent, uncover and suppress abuse of organised trading through the unlawful use of insider information and (or) market manipulation, in 2014 the Bank of Russia continued its work to implement 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' and regulatory documents adopted in accordance with this law. Given the floating exchange rate of the national currency, the task of averting malpractice in organised trading is of particular importance.

There are two main areas of the work to combat malpractice in the open market:

- identifying cases where false asset values have been created and upheld by financial market enti-

ties (credit institutions and NFIs) and where quality assets have been replaced with assets with a false value;

- investigating misuse of insider information and market manipulation, including foreign currency exchange rate manipulation.

Among the unfair financial transactions leading to false asset values of financial (credit and non-bank) institutions and outflows of assets from financial organisations, there is the practice of financial organisations accepting assets which are formally in circulation in organised trading to cover reserves and equity capital, while the market value of these assets is established by non-marketable methods and is deliberately propped up by interested and related entities.

In 2014, the Bank of Russia identified 15 cases of securities market manipulation and one case of misuse of insider information.

## II.6. FINANCIAL MARKET DEVELOPMENT

### II.6.1. Bank of Russia measures to develop the financial market

In 2014, the Bank of Russia implemented measures to develop the Russian financial market formed in autumn 2013<sup>1</sup>, on the initiative of the Bank of Russia, by the Working Group for the Creation of an International Financial Centre in the Russian Federation, under the Russian Presidential Council for the Development of the Financial Market in the Russian Federation. Its main areas include: self-regulation, standardisation, digitalisation, pension reform, insurance market development, corporate governance, minority rights protection, financial literacy, and establishment of the notion of an authorised financial agent. As of December 2014, 28 measures had been classified as implemented.

In addition, in 2014, the Bank of Russia continued to play a role in implementing the measures under the 'Creating an International Financial Centre and Improving the Investment Climate in the Russian Federation' plan approved by Russian Federation Government Order No. 1012-r, dated 19 June 2013. Work was carried out to perform the tasks set out in the Strategy for the Insurance Activity Development, Strategy for the Long-term Development of the Pension System of the Russian Federation, and Strategy for the Development of the Financial Market of the Russian Federation for the Period up to 2020.

To develop the Russian financial market, in 2014 the Bank of Russia started work on drafting its Guidelines for Development of the Financial Market of the Russian Federation for 2016–2018, which will define the strategic areas of the Russian financial market development in the medium term taking the current economic situation into account. The document is due to be submitted to the Government of the Russian Federation and the State Duma of the Federal Assembly of the Russian Federation in 2015.

**Improving the non-governmental pension fund system.** The year of 2014 saw serious restructuring of the entire NPF system. At the end of 2013, changes were made to Russian legislation to create a guaranteed pension savings system. The transition of market participants to this system involves two stages: incor-

poration of NPFs in order to ensure a more transparent corporate management system at NPFs (all NPFs were initially set up as non-profit organisations) and enrolment in the guaranteed pension savings system.

In 2014, the Bank of Russia approved the incorporation of 47 NPFs (1.074 trillion rubles, accounting for 96% of the pension savings market).

Those NPFs which had decided to incorporate started the process of joining the guaranteed pension savings system in the second half of 2014. The system guaranteeing the rights of insured persons allows for the reimbursement of citizens' missing pension savings funds in the event of a guaranteed event, including the bankruptcy of an NPF, thus ensuring the integrity of pension savings and pension payment obligations.

In 2014, the Bank of Russia issued positive findings on the compliance of nine NPFs with the requirements for enrolment in the system guaranteeing the rights of insured persons. These funds currently manage 649 billion rubles, accounting for 58% of the pension savings market.

**Development of the insurance market.** Due to growing problems in law enforcement practice, which require complex changes to compulsory motor third party liability insurance legislation, the most important event in 2014 for the insurance market was the adoption of Federal Law No. 223-FZ, dated 21 July 2014, 'On Amending the Federal Law 'On Compulsory Third Party Liability Insurance for Vehicle Owners' and Certain Laws of the Russian Federation', pursuant to which the Bank of Russia issued regulatory documents providing for the following:

- a procedure for compulsory motor third party liability insurance dealings, in particular a procedure for drivers to fill in simplified documents on a road traffic incident without the involvement of authorised police officers (development of the 'European Accident Statement' system) and the introduction of a procedure to settle party dealings out of court;
- a procedure for insurers to directly compensate for losses, taking into account the legally established

<sup>1</sup> This list included 233 proposals from the professional community to improve financial market regulation.

system for ‘unopposed’ direct compensation of losses;

- minimum (standard) requirements for voluntary land-based vehicle insurance (excluding rail transport) and voluntary third party liability insurance for vehicle owners in order to synchronise conditions for voluntary vehicle and owner liability insurance with compulsory motor third party liability insurance conditions in order to develop the ‘European Accident Statement’ system;
- standards that are aimed at developing a system to determine the scale of the damage caused to vehicles in order to reduce the number of disputes (including in court) in this regard, and that provide for the creation of mandatory cost guides by a professional insurers association.

In 2014, a pressing task for the Bank of Russia, as part of its supervisory duties, was the monitoring of insurance companies providing insurance to tour operators that had ceased operations.

In view of the situation in the Russian tourism market, in order to protect the interests of Russian tourists and increase the reliability of financial support for the performance of obligations under a tourist product agreement, the Bank of Russia developed proposals to improve the system to protect the financial interests of individuals entering into tourist product agreements with tour operators for travel abroad, including:

- introducing combined voluntary insurance to cover the expenditures of citizens travelling abroad, which must comply with the minimum (standard) requirements approved by the Bank of Russia;
- full disclosure of information on the insurance product by both insurers and insurance agents implementing the insurance policy and tour operators (travel agents).

**Improving regulation of repository activities.** In 2014, the Bank of Russia consistently worked to improve regulation of repository activities. With a view to increase the effectiveness of this process and involve the professional community in it on a larger scale, a number of meetings were held with experts and representatives of professional financial market associations, including through a working group on repository activities that was set up under the National Securities Market Association self-regulatory organisation.

The first stage of the strategy developed based on these meetings was Bank of Russia Ordinance

No. 3253-U, dated 30 April 2014, ‘On the Procedure for Maintaining the Register of Agreements Concluded on Terms of a Master Agreement (Single Agreement), Timeframes for Providing Information Necessary for Maintaining the Said Register and Information from the Said Register, and Submitting the Register of Agreements Concluded on Terms of a Master Agreement (Single Agreement) to the Central Bank of the Russian Federation (Bank of Russia)’ (hereinafter, Ordinance No. 3253-U), which entered into force on 15 June 2014.

Ordinance No. 3253-U made provisions to postpone the deadlines by which the repository had to be provided with information on agreements other than repo agreements and FX swap agreements from 25 June 2014 to 1 April 2015. This was in part due to the fact that, at the time, the range of agreements for which information had to be submitted to the repository was determined by federal law and included an excessively wide array of agreements involving foreign currency and securities concluded on the terms of a master agreement (single agreement). Work was also carried out in parallel to amend federal law in order to grant the Bank of Russia the powers necessary to determine the set of agreements for which information has to be submitted to the repository and the individuals responsible for providing such information.

In order to exercise the powers granted to the Bank of Russia, the following amendments were made to Ordinance No. 3253-U<sup>1</sup>:

- it was made obligatory to provide the repository with information for the following legal entities created in accordance with the laws of the Russian Federation: credit institutions, brokers, dealers, trust managers, depositories, registrars, NPFs, management companies, joint-stock investment funds, trade organisers, clearing houses, and insurance companies. All other legal entities (including foreign financial market participants) and individuals are exempt from the duty to submit information to the repository. Moreover, a broker’s duty to submit information to the repository also extends to customer transactions;
- beginning from 1 April 2015, it was made obligatory to provide the repository with information on agreements involving financial derivatives which were not concluded through organised trading on the basis of a master agreement (single agreement). Parties to agreements concluded on the basis of a master agreement (single agreement) where the duty to

<sup>1</sup> These amendments entered into force beginning from 1 October 2014.

- provide information is not stipulated by Ordinance No. 3253-U may provide the repository with information on such agreements voluntarily to be able to use the 'close-out netting' mechanism;
- it was made a requirement that parties to a master agreement (single agreement) and the reporting agent have a Legal Entity Identifier (LEI) code beginning from 1 July 2015, and for newly concluded repository service agreements – beginning from 1 January 2015;
  - those obliged to provide the repository with information were given the option of submitting the information unilaterally if the second party is not obliged to provide the repository with the information;
  - the deadline for submitting the quarterly reports was increased from 3 to 10 business days;
  - the opportunity arose to submit information via one or more messages regarding the termination of obligations under agreements concluded on the basis of a master agreement (single agreement);
  - the deadline for submitting objections to the repository regarding information entered in the register of agreements was increased from 1 to 3 business days;
  - the risk of sent information not being included in the register of agreements was reduced: it was clarified that the condition of being unable to include incomplete information only applies to information that must be provided, and provisions were made for the repository to provide an excerpt not only from the register of agreements but also from the message log book to confirm that the duty to submit information to the repository has been fulfilled if the counterparty fails to fulfil its corresponding duty (in the event of refusing to include information in the register of agreements when the message reconciliation (matching) procedure has been violated).
- Over 2014, the Bank of Russia also performed work to further reform the regulation of repository activities:
- amendments were drafted for Ordinance No. 3253-U, aimed at optimising the information submitted to the repository and reducing the number of fields where the matching procedure takes place;

- the draft federal law 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation' (with regard to defining the activities of repositories) was completed.

The amendments made to the regulation of repository activities were aimed at creating the conditions necessary for effective and reliable service in order to reduce needless costs for financial market participants, including credit institutions, promote financial stability, and raise Russian companies' competitiveness and the appeal of the Russian financial market to foreign counterparties in cross-border transactions.

**Simplifying the bond issuing procedure.** To create a financial market instrument more attractive than traditional methods for obtaining loan funds, beginning from June 2014 the Bank of Russia worked on a project to issue bonds under a simplified scheme.

This project was designed to reduce the time lag between the decision to issue and the actual placement of bonds through the Bank of Russia's introduction of a new method for issuing bonds, and to increase the economic viability of issuing even short-term bonds with maturity of 1–2 weeks. Moreover, the project simplifies and accelerates the process of issuing bonds, reduces the time it takes for the issuing company to obtain additional liquidity, and decreases the costs of issuing bonds.

Under the project, in 2014 amendments were made to Federal Law No. 39-FZ, dated 22 April 1996, 'On the Securities Market'. Issuers gained the ability to issue bonds using a two-stage bond issuing procedure. In the first stage, the issuer registers the Issue Programme, which contains the general conditions (such as the maximum nominal value of the placed bonds and the duration of the Programme). Subsequently, when there is a need to obtain loan funds, the issuer registers a specific bond issue using the simplified procedure, indicating the time frame over which the bonds would be issued and the coupon rate.

Another important factor was the development of a fast way to include specific bond issues in the Lombard List after the Bank of Russia decides to include the issue programme for these bonds in the Lombard List according to the standard procedure<sup>1</sup>.

<sup>1</sup> Information on the criteria for securities issued under bond programmes to be included in/excluded from the Bank of Russia Lombard List is available on the Bank of Russia's official website ([http://www.cbr.ru/press/pr.aspx?file=24122014\\_200935if2014-12-24t20\\_05\\_31.htm](http://www.cbr.ru/press/pr.aspx?file=24122014_200935if2014-12-24t20_05_31.htm)).

## II.6.2. Actuarial activities

Federal Law No. 293-FZ defines the notions of ‘actuarial activities’ and ‘actuary’, sets out the Bank of Russia’s powers to regulate and control actuarial activities, including the use of self-regulatory instruments, and introduced the notion of responsible actuaries.

To coordinate the activities of self-regulatory organisations of actuaries (hereinafter, SROs of actuaries) and promote their collaboration with state authorities and the Bank of Russia, an Actuarial Activities Board was set up. In order to ensure uniformity in the methodologies and procedures used when carrying out actuarial calculations, in 2014 the Actuarial Activities Board and the Bank of Russia developed and approved the federal actuarial standard ‘General Requirements for Actuarial Activities’ and drafted another three federal actuarial standards that set out requirements and procedures for actuaries when appraising the liabilities of NPFs, life insurance companies, and insurance companies offering insurance other than life insurance.

To guarantee proper functioning of responsible actuaries, whose powers include signing of actuary findings, the following measures were put in place:

- additional requirements were established regarding qualifications of responsible actuaries and a procedure for accrediting responsible actuaries was approved;
- a procedure was established for the Bank of Russia to maintain a register of responsible actuaries<sup>1</sup>.

To determine the qualifications for actuaries to enrol in an SRO of actuaries, in 2014 the Bank of Russia drafted and approved a qualifying examination programme for individuals wanting to join a SRO of actuaries (hereinafter, the qualifying examination), drafted and approved the procedure for conducting the quali-

fying examination, and organised two qualifying examinations.

To enforce the procedure whereby actuaries confirm their compliance with the additional qualification requirements and their willingness to undergo obligatory actuary assessment based on their knowledge and practical experience in actuarial calculations, the Bank of Russia issued Ordinance No. 3435-U, dated 6 November 2014, ‘On Additional Requirements Regarding the Qualifications of Responsible Actuaries and the Procedure for Accrediting Responsible Actuaries’.

To further clarify the provisions of Federal Law No. 293-FZ, and to define a more complete list of information disclosed by responsible actuaries, Bank of Russia Ordinance No. 3535-U, dated 19 January 2015, ‘On Additional Requirements Regarding the Content of Actuarial Findings Prepared on the Basis of an Obligatory Actuarial Assessment of the Activities of Insurance Companies and the Procedure for their Submission and Publication’ set out additional requirements for the content of actuarial findings and the procedure for submitting and publishing these findings.

By the end of 2014, all the measures required for the Bank of Russia to obtain in 2015 actuarial findings, signed by responsible actuaries, on the performance of insurance companies, NPFs and mutual insurance companies for 2014 had been implemented.

Actuaries, who both analyse and conduct a quantitative and financial assessment of risks and (or) the financial liabilities caused by risks, and develop and evaluate the effectiveness of financial risk management methods, could in time be in demand in internal risk management and internal controls and in other areas of the financial market.

<sup>1</sup> In accordance with Bank of Russia Ordinance No. 3176-U, dated 20 January 2014, ‘On the Procedure for Compiling a List of Entities Whose Information Shall Be Entered in a Single Register of Responsible Actuaries without Accreditation’, the Bank of Russia drew up a list of 40 entities.

### II.6.3. Rating agencies' activities

Nine rating agencies (including two branches of foreign rating agencies<sup>1</sup>) are accredited within the Russian Federation. Information on these agencies is contained in the register of accredited rating agencies<sup>2</sup>.

In view of the importance of ratings to the financial markets, the regulation of organisations carrying out rating activities needs to be improved, the rights of financial market entities consuming their services need to be strengthened by guaranteeing the transparency and independence of ratings, and conflicts of interest need to be prevented in the work of rating agencies.

Therefore, to create a unified legal framework for rating activities, the Bank of Russia took part in drafting the federal law 'On the Activities of Rating Agencies in the Russian Federation' (hereinafter, the draft law). The draft law calls for a special procedure to be passed at the Bank of Russia to gain permission to carry out rating activities, the creation of a single set of requirements for this type of activity, and powers to be granted to the Bank of Russia to establish a regulatory framework and enforce supervisory measures on rating market participants.

Due to the fact that rating agencies were left virtually outside the system of regulation, control and supervision prior to the adoption of the draft law, in autumn 2014 the Bank of Russia carried out a voluntary qualifying assessment of the activities of rating agencies operating within the Russian Federation. The rating agencies' documents and information transparency were analysed and meetings were held with the rating agencies' owners, managers and key analysts. Special attention was paid to inspecting the quality of ratings based on an analysis of the methodologies adopted, their objectivity and relevance, the actual breakdown of the activities of rating analysts and business divisions, and information confidentiality. Based on these assessments, rating agencies were sent a letter with recommendations to

eliminate any shortcomings identified during the qualifying assessment. The assessments made it possible to identify key approaches and principles which will later form the foundation for the Bank of Russia's regulatory documents setting out the requirements for rating agency activities.

Amid the unstable geopolitical and economic situation and the downgrading of Russia's sovereign rating by leading global rating agencies, in 2014 the Bank of Russia took steps to minimise the consequences of Russia's sovereign credit rating being downgraded, which were linked to the sharp contraction of the group of issuers with an acceptable credit rating. In particular, in order to apply Bank of Russia regulatory documents, the Bank of Russia was granted the right to set the date to be used (other than the current date) for the credit solvency rating assigned to the Russian Federation, credit institutions, and other entities by international ratings agencies.

In addition, a number of Bank of Russia regulatory documents were purged of all references to specific ratings and the names of rating agencies, and also made provisions to allow rating levels to be determined by decision of the Bank of Russia Board of Directors<sup>3</sup>.

The Bank of Russia conducted a policy of reducing financial market participants' dependence on rating agency scores. In particular, the Bank of Russia issued Ordinance No. 3500-U, dated 19 December 2014, 'On Amending Bank of Russia Ordinance No. 2861-U, Dated 10 August 2012, 'On the Securities Included on the Bank of Russia Lombard List', which granted the Bank of Russia Board of Directors the right to decide to include on the Bank of Russia Lombard List certain types of bonds issued by issuers without rating agency ratings and government guarantees or guarantees by OJSC Agency for Housing Mortgage Lending based on internal assessments.

<sup>1</sup> A branch of private limited liability company 'Standard and Poor's Credit Market Services Europe Limited' and a branch of 'Fitch Ratings CIS Ltd'. The Russian rating agencies are: OOO Moody's Eastern Europe; OOO National Rating Agency; ZAO 'Analysis, Consultancy and Marketing' Rating Agency, NAO RusRating, ZAO 'Expert RA' Rating Agency, ZAO 'Moody's Interfax' Rating Agency, and OOO 'Expert RA' Rating Agencies Group. The international rating agency Moody's Investors Service is represented by OOO Moody's Eastern Europe and a branch of Moody's Investors Service which does not have any formal accreditation in the Russian Federation.

<sup>2</sup> Pursuant to Resolution of the Government of the Russian Federation, No. 329, dated 30 June 2004, 'On the Ministry of Finance of the Russian Federation', by order of the Russian Ministry of Finance No. 37n, dated 4 May 2010, a voluntary accreditation procedure was established for rating agencies together with a procedure to keep a register of accredited rating agencies.

<sup>3</sup> This option was included in the Bank of Russia regulatory documents governing the procedure for investing insurers' insurance reserves and equity capital and NPFs' pension savings.

## II.6.4. Financial market self-regulation

In 2014, the Bank of Russia continued its work to reform the system of self-regulation in the financial market.

To develop a system of self-regulation with regard to NFI activities, in 2014 the Bank of Russia continued to work on the draft law 'On Self-Regulatory Organisations in the Financial Markets' aimed at establishing a uniform system of self-regulation for the activities of all NFIs.

The draft law sets out the new concept of self-regulation in the financial markets based on the mandatory participation of NFIs in a self-regulatory organisation

(hereinafter, SRO) where there is a SRO in the corresponding market segment and based on SROs' duty to develop basic standards, the list of which has been established by the Bank of Russia. The use of this approach makes it possible to set common rules in the most important areas of regulation, including standards for risk management, corporate governance, internal controls, protecting the rights and interests of individuals and legal entities who receive financial services provided by SRO members, and standards for conducting operations in the financial markets.

## II.6.5. Commodity market

The creation of the necessary conditions to launch new commodity market segments, further development of existing commodity markets and increasing their liquidity, transparency and representativeness are all priority areas of the Bank of Russia's work to develop the commodity market.

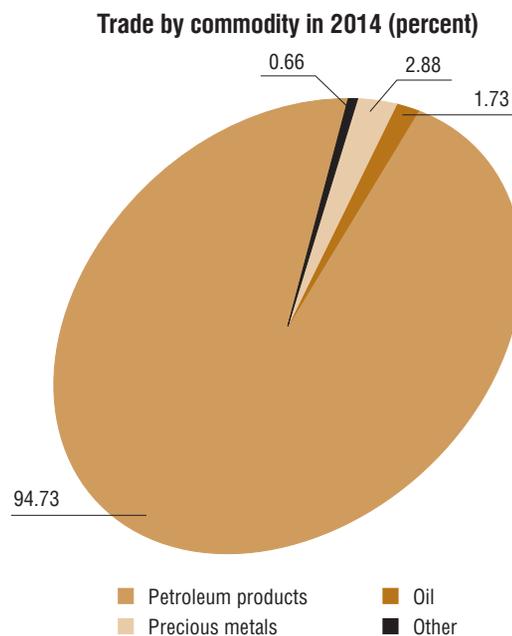
The total volume of trading on the exchange-traded commodity market increased over 2014 by a little less than 20% to 570 billion rubles, which was 0.8% of Russia's GDP for the year. In 2014, commodity market trading took place on five exchanges in the Russian Federation.

The following commodity groups were represented in the organised commodity market: petroleum products, oil, natural gas, agricultural produce, timber, construction materials, chemicals, ferrous and non-ferrous metals, and precious metals.

Despite the diversity of the commodities traded, the bulk of trading was in the petroleum products segment, accounting for 95% of the commodity market. However, in 2014 the stock market was one of the main sales channels for major commodity market participants: up to 15% of domestic light petroleum product (petrol, diesel and aviation fuel) supplies were sold through stock exchange mechanisms. In addition, indices calculated based on exchange trading are used to conclude long-term agreements. These facts suggest that the Russian exchange-based commodity market has a high growth potential.

In 2014, one of the outcomes of the Bank of Russia's work to develop the exchange-based com-

modity market was the launch in October of the exchange-based gas market – a market segment where exchange technologies may be in highest demand. All of the conditions were in place in the gas market to develop competitive trading: gas is a homogeneous commodity with a large number of consumers, a sufficient number of producers and a developed logistical infrastructure. In November–December 2014, the total volume of gas trading reached 1.5 billion rubles, and traders' main problems were identified. In 2015, the Bank of Russia will continue to develop the gas market by introducing the possibility of 'day-ahead' trading.



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

As part of work to regulate, control and supervise corporate relations in joint-stock companies, the Bank of Russia took steps to put the provisions of the Corporate Governance Code (hereinafter, the Code) into practice at Russian joint-stock companies. The Code was approved at a meeting of the Bank of Russia Board of Directors on 21 March 2014, published on the Bank of Russia's website and recommended for adoption by joint-stock companies. The Code brings together best practices in corporate governance and sets out recommendations with the main aim of establishing conduct of Russian joint-stock companies relative to shareholders and investors that is in line with international standards. The Bank of Russia participated in the Federal Agency for State Property Management's work to single out a target group of companies with government stakes and draw up action plans ('roadmaps') to implement the Code at these companies. Bank of Russia employees also took part in training seminars on the experience of implementing the Code's provisions at joint-stock companies, in the conference of corporate secretaries, and in other public events on this topic organised by the Ministry of Economic Development of the Russian Federation, Moscow Exchange and the professional community. A working group was formed to develop methodologies for assessment and self-assessment of compliance with the principles of corporate governance set out in the Code.

To improve legislation in corporate governance and information disclosure, the Bank of Russia played an active role in the development of the following federal laws and draft federal laws:

- Federal Law No. 218-FZ, dated 4 July 2014, 'On Amending Certain Laws of the Russian Federation';
- draft federal law 'On Amending Certain Laws of the Russian Federation (to Bring them into Compliance with the New Version of Chapter 4 of the Civil Code of the Russian Federation)';
- draft federal law 'On Amending Certain Laws of the Russian Federation to Bring Provisions on the Reorganisation of Business Companies into Compliance with the New Version of Chapter 4 of the Civil Code of the Russian Federation';
- draft federal law governing the procedure for carrying out corporate actions in joint-stock companies.

Informational letters were prepared and sent out to securities market participants regarding the application of provisions from the new version of the Civil Code of the Russian Federation in the transition period.

The Bank of Russia carried out work to prepare some explanatory notes on the practical application of provisions of Russian Federation legislation on corporate relations and information disclosure with regard to inquiries from individuals and legal entities, government authorities and other organisations. As part of government monitoring of the acquisition of shares of open joint-stock companies, documents submitted to the Bank of Russia in accordance with Chapter XI.1 of Federal Law No. 208-FZ, dated 26 December 1995, 'On Joint-stock Companies' were examined, and decisions were made to release (refuse to release) issuers from their duty to disclose information. Work was also carried out to monitor the transfer of the maintenance of registers of joint-stock companies to registrars.

In 2014, the Bank of Russia examined more than 1,500 communications from individuals, legal entities and other applicants regarding corporate relations and information disclosure, 647 sets of documents submitted as part of government monitoring of the acquisition of shares of open joint-stock companies, and 221 sets of documents submitted to make decisions on releasing issuers from the duty to disclose information. As part of the supervision of corporate relations and information disclosure, 1,365 instructions of various kinds were issued and 274 records of administrative violations were drawn up.

## II.8. PROTECTING THE RIGHTS OF FINANCIAL SERVICES CONSUMERS AND INCREASING FINANCIAL LITERACY OF THE POPULATION AND FINANCIAL SERVICES ACCESSIBILITY

### II.8.1. Protecting the rights of financial services consumers and increasing financial services accessibility

To effectively perform the Bank of Russia's duties to protect the rights and legal interests of shareholders and investors in the financial markets, insurers, insured entities and beneficiaries recognised as such in accordance with insurance legislation, as well as entities insured under compulsory pension insurance, depositors, and non-governmental pension fund participants, on 3 March 2014 the Service for Protecting the Rights of Financial Services Consumers and Minority Shareholders<sup>1</sup> was set up.

From 3 March to 31 December 2014, the Bank of Russia received over 33,000 communications in relation to non-bank financial institutions (hereinafter, NFIs) and issuers.

The majority of communications submitted to the Bank of Russia (72%, or about 24,000) were linked to violations of the rights of insurance consumers. Of these, about 16,000 communications related to compulsory motor third party liability insurance. The main reasons for these communications include the imposition of additional services (life insurance, health insurance, etc.), the lack of insurance policy forms, application of an incorrect bonus-malus coefficient<sup>2</sup>, and illegal refusal of insurance indemnities or failure to agree on the indemnity amount.

As many as 3,000 communications submitted to the Bank of Russia involved voluntary insurance for vehicle damage and theft. The main reasons for these communications include a long time taken by the insurer to make a decision on the payment of insurance indemnities and refusal to pay insurance indemnities.

About 4,500 communications concerned corporate relations and were linked to non-payment of dividends (not deciding to pay dividends), failing to send a manda-

tory offer to purchase securities, a compulsory buyout of shares in a joint-stock company, failure to provide documents on request of a shareholder, and issuers' failure to disclose information. About 800 communications were linked to the activities of professional securities market participants and collective investment entities.

More than 3,500 communications were related to the activities of microfinance organisations and consumer credit cooperatives. Of these 149 communications were received in relation to entities involved in debt collection.

Based on a review of these communications, the Bank of Russia sent NFIs and issuers 1,844 instructions to eliminate violations and (or) to prevent violations of the laws of the Russian Federation and brought 1,936 administrative violation cases against NFIs and issuers.

In September 2014, at the annual forum of the Alliance for Financial Inclusion (AFI), the Bank of Russia endorsed the Maya Declaration which sets out AFI members' priorities and main policy areas for increasing the accessibility of financial services.

In 2014, the Bank of Russia developed key areas to raise financial accessibility in the Russian Federation, including:

- developing advanced approaches to protecting the rights of financial services consumers, including a widespread introduction of responsible consumer lending principles and the creation of the concept of a financial ombudsman;
- introducing advanced practices to handle complaints from financial services consumers;
- developing indicators and systems to assess the level of financial services accessibility for households and entrepreneurs, taking into account rec-

<sup>1</sup> Decision of the Bank of Russia Board of Directors of 29 November 2013.

<sup>2</sup> The bonus-malus coefficient is an insurance tariff coefficient that depends on whether or not any insurance indemnities have been paid out for insured events that occurred during the effective period of previous compulsory insurance agreements.

- ommendations by the G20 and the Alliance for Financial Inclusion;
- developing a definition of financial accessibility in line with international recommendations;
  - introducing the I-SIP methodology<sup>1</sup>, which is designed to establish links between financial accessibility and the traditional aims of financial policy (for example, financial stability, financial integrity/prevention of financial crimes and protection of the rights of financial services consumers) in order to assess Bank of Russia regulatory documents affecting financial accessibility;
  - encouraging the development of digital financial services;
  - improving systems to regulate and supervise non-bank financial institutions;
  - raising the financial literacy of the population and entrepreneurs.

In October 2014, the first international seminar ‘Digital Financial Services: Increasing Financial Accessibility’ was held to exchange experience in the development of digital financial services. Representatives from the government and private sectors, foreign regulators and international experts all took part.

---

<sup>1</sup> I-SIP stands for Inclusion, Stability, Integrity and Protection.

## II.8.2. Increasing financial literacy of the population

In 2014, the Bank of Russia took active steps to raise the level of financial literacy among the population.

Over the course of the reporting year, more than 2,000 educational activities were conducted in Russia: excursions and lectures using the Bank of Russia's museum and exposition resources, a financial literacy week in the Republic of Crimea and the city of Sevastopol, and financial literacy days at educational institutions and recreational camps.

Work continued to establish the Bank of Russia's Museum and Education Centre (Bank of Russia MEC)<sup>1</sup>. Concepts for three pilot projects for museum and education centres (financial literacy centres) in Russian regions were also prepared.

A section on 'Financial education and museum exhibitions' has been created on the Bank of Russia's official website and the development of the Bank of Russia's virtual museum has also been completed.

The activities of regional branches have been coordinated. 'The Bank of Russia's Museum and Exposition Resources' and 'Organisation of Work to Raise the Level of Financial Literacy among the Population' manuals have been developed. A roundtable session

on the 'Museum and Exposition Resources and Library as an Educational Space' was also held.

As part of regular collaboration with the mass media, more than 50 public education programmes were broadcast on radio and television.

On request of the Bank of Russia, in 2014 a sociological study was conducted which identified the population's main attitudes and skills in finance, as well as a study which gave an idea of the population's level of awareness about changes to Russian Federation legislation on compulsory motor third party liability insurance (a concept for an informational campaign was developed based on the results of the study).

As part of preparing for and organising the 2<sup>nd</sup> All-Russia Congress 'Financial Education of Citizens', Russian and international experience in financial education programmes was analysed and summarised.

Work was performed to prepare for the first 'open door' day at the Bank of Russia, which is planned for 2015.

Themed printed (in Russian and English) products and souvenirs also continued to be produced.

<sup>1</sup> The centre is being set up to enhance the educational work of the Bank of Russia and popularise its history and areas of activity in accordance with Bank of Russia Order No. OD-4, dated 10 January 2014. The Bank of Russia MEC structure will comprise: the Bank of Russia's museum and exposition resources, the Bank of Russia's financial education centre, and the Bank of Russia's cultural education centre. The project is due to be implemented by June 2018. The centre will be situated at bldg. 1, 3 Nastasinskiy Pereulok, Moscow.

## II.9. FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

In 2014, as part of its mandate established by Federal Law No. 173-FZ, dated 10 December 2003, 'On Foreign Exchange Regulation and Foreign Exchange Control', the Bank of Russia continued to improve foreign exchange control technology to improve its effectiveness. To do this, amendments and addenda were made to one of the Bank of Russia's regulatory documents on foreign exchange regulation and foreign exchange control<sup>1</sup>.

When a non-resident performs obligations towards a resident under a foreign trade agreement (contract) in the form of transferring securities, including promissory notes, the Bank of Russia introduced a requirement that bank control records reflect information on the securities transferred by the non-resident to the resident, for which payment was made, with an indication of the currency and the payment amount. In addition, information should be indicated on the place where the security was created, the actual date on which the security (promissory note) was paid for or transferred by endorsement and (or) in relation to cession by making a special endorsement on the security. Moreover, the procedure for closing transaction specifications when a non-resident performs obligations towards a resident in this way was also clarified.

The additional information mentioned above, which is reflected in bank control records and submitted as part of the informational collaboration to foreign exchange control bodies and agents, makes it possible for them to monitor residents' compliance with the requirements for the repatriation of funds under foreign trade agreements (contracts) under which non-residents' monetary liabilities under foreign trade transactions

were replaced with debt liabilities expressed in securities, including promissory notes.

The Bank of Russia also introduced a new justification for an authorised bank to refuse to register a transaction specification for a resident if an employee at the authorised bank, in following internal control regulations, suspects that any of the resident's foreign exchange transactions will be carried out to legalise (launder) criminally obtained incomes or to finance terrorism.

This preventive measure seeks to minimise opportunities for customers of an authorised bank to engage in suspicious transactions.

In 2014, amid the significant fluctuations in the ruble exchange rate and the ongoing uncertainty surrounding expectations of a further shift in the exchange rate, the volume of FX cash purchased by households from authorised banks increased by 21% compared with 2013, to an equivalent of \$71.9 billion. However, the volume of FX cash sold to authorised banks dropped by 12% to an equivalent of \$31.7 billion.

The net demand for FX cash (the difference between the volume of FX cash sold to households and withdrawn from their foreign currency accounts and the volume of FX cash purchased from households and credited to their accounts) compared with 2013 increased by a factor of 2.8 to an equivalent of \$46.3 billion.

To satisfy demand, authorised banks increased imports of FX cash. Overall, in 2014 an equivalent of \$59.5 billion of FX cash was imported, which was 3.3 times higher than in 2013. The volume of FX cash exported by authorised banks increased by 16% compared with 2013, to an equivalent of \$8 billion.

<sup>1</sup> Bank of Russia Ordinance No. 3438-U, dated 6 November 2014, 'On Amending Bank of Russia Instruction No. 138-I, Dated 4 June 2012, 'On the Procedure for Submitting Documents and Information Related to Foreign Exchange Transactions to Authorised Banks by Residents and Non-Residents, the Procedure for Executing Transaction Specifications, and the Procedure for Registering and Monitoring Foreign Exchange Transactions by Authorised Banks'.

## II.10. CASH CIRCULATION MANAGEMENT

One of the most important tasks facing the Bank of Russia is to guarantee a continuous supply of banknotes and coins of various denominations for payment turnover, minimise risks when processing, storing and transporting cash and effectively manage cash circulation.

In 2014, the economy's demand for cash was met in full and on time.

Cash issues<sup>1</sup> were 16.6% lower in 2014 than in 2013, at 533.2 billion rubles, of which banknotes accounted for 523.9 billion rubles and coins accounted for 9.3 billion rubles.

In the period under review, the trend towards growth in the amount of cash in circulation continued (taking into account cash in the cash offices of Bank of Russia establishments). The growth rate for this indicator was 6.4% in 2014 (8.3% in 2013). As of 1 January 2015, 8,848.5 billion rubles in Bank of Russia banknotes and coins were in circulation, including coins made of precious metals, of which 8,770.5 billion rubles were banknotes (6.6 billion pieces), 77.7 billion rubles were coins (60.6 billion pieces), and 0.3 billion rubles were coins made of precious metals. Banknotes accounted for 99.1% of the total value of cash in circulation and coins – 0.9%, while in the total number of cash in circulation banknotes accounted for 9.8% and coins – 90.2%.

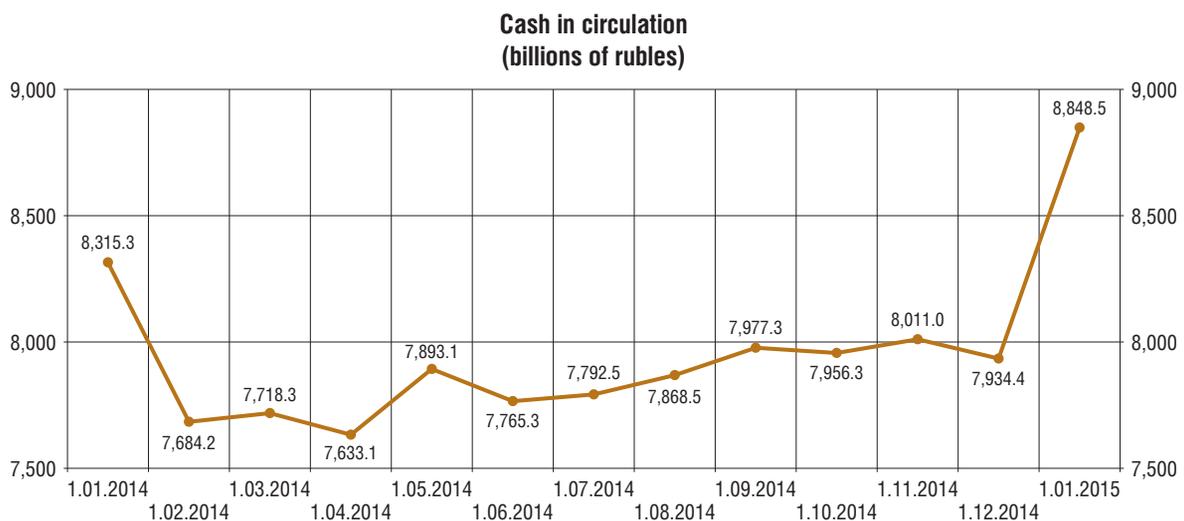
In 2014, the number of banknotes increased by 0.16 billion and the number of coins (excluding coins made of precious metals) increased by 3.4 billion.

In the note structure of cash in circulation, the share of 5,000-ruble banknotes expanded from 67.0% to 68.6% in the period under review. At the same time, the shares of 1,000-ruble banknotes and 500-ruble banknotes both contracted (from 26.2% to 24.9% and from 4.9% to 4.6% respectively). The shares of 100-ruble (1.4%), 50-ruble (0.4%) and 10-ruble and 5-ruble banknotes (0.1%) remained unchanged relative to their 2013 levels.

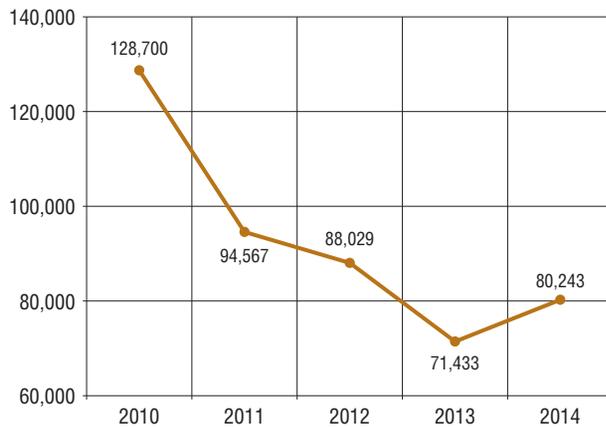
In 2014, 10-ruble banknotes were actively replaced with coins with the same face value, and the number of such coins increased by a factor of 1.2.

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

In 2014, cash turnover through the cash offices of Bank of Russia establishments and credit institutions increased by 10.5% compared with the previous year to 101.6 trillion rubles. Receipts through the main sources also increased: receipts from sales of goods and services increased by 4.8%, receipts into household deposit accounts by 8.4%, and receipts from sales of FX cash to households by a factor of 1.5. The highest growth was seen in the following areas: withdrawals from household bank accounts increased by 22.7%; pension, benefit, and insurance indemnity payments



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

**Detection of counterfeit Bank of Russia notes and coins  
(pieces)**

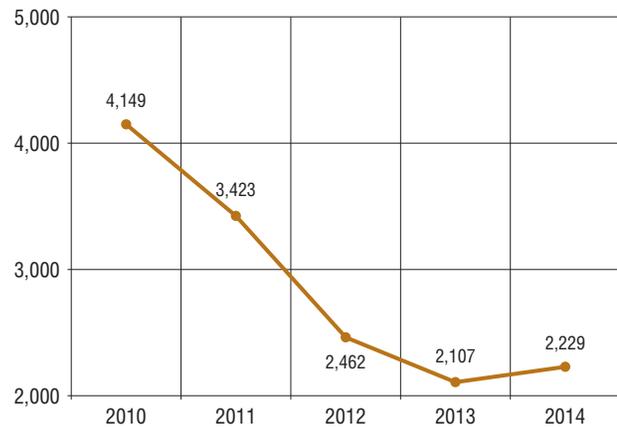
by 19.2%; and payments from household deposit accounts by 9.5%.

In 2014, the Bank of Russia improved its regulations related to the organisation of cash circulation, cash issuance and other cash operations, as well as the storage, collection and transportation of cash, considering the changes in the economic conditions and in federal legislation.

Due to the reunion of the Republic of Crimea and the federal city of Sevastopol with the Russian Federation in 2014, work was performed to organise cash circulation in these areas; the required quantity of banknotes and coins of various denominations were delivered and cash services were organised for Bank of Russia customers.

As of 1 January 2015, Bank of Russia establishments provided cash services to 7,897 credit institutions and their divisions and 42,993 non-credit institutions. In 2014, the number of credit institutions and their divisions that used the cash services of Bank of Russia establishments decreased by 883 as a result of the liquidation of credit institutions and the shrinking network of credit institutions' internal divisions. The number of non-credit institutions using cash services of Bank of Russia establishments decreased by 33,867 due to the closing of budget organisations' accounts with Bank of Russia establishments.

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

**Detection of counterfeit foreign banknotes  
(pieces)**

In 2014, Bank of Russia establishments carried out 1.06 million expert assessments of Bank of Russia notes and coins, including 0.54 million assessments of suspect notes and coins and 0.52 million control assessments of the accuracy with which banknotes and coins were exchanged. According to data reported by Bank of Russia regional branches, 80,243 counterfeit Bank of Russia notes and coins were detected in the Russian banking system, withdrawn from circulation and handed over to law-enforcement authorities in the period under review, which is 12.3% more than in 2013.

The share of counterfeit 1,000-ruble banknotes in the total number of forged banknotes reached 20.6% in 2014 (38.8% in 2013). The share of counterfeit 5,000-ruble banknotes increased by 26.1 percentage points to 75.9%.

As in previous years, the largest number of counterfeit banknotes and coins was detected in the Central, North-Western and Volga Federal Districts.

The share of counterfeit Bank of Russia banknotes and coins identified by credit institutions decreased by 3.1 percentage points compared with 2013 to 35.8% of the total volume of detected forgeries.

In 2014, Bank of Russia establishments and credit institutions identified 2,229 counterfeit banknotes of foreign countries (or a group of foreign countries) and delivered them to law-enforcement authorities; this is 5.8% more than the figure for 2013.

In 2014, the Bank of Russia issued 50 types of precious metal coins into circulation (12 gold and 38 silver) and 36 types of commemorative coins made from non-precious metals.

## II.11. STABILITY AND DEVELOPMENT OF THE NATIONAL PAYMENT SYSTEM

### II.11.1. Bank of Russia activities to ensure the stability and development of the national payment system

In 2014, the Bank of Russia continued its work to ensure the stability and development of the national payment system (NPS) in accordance with Russian Federation legislation and the National Payment System Development Strategy.

Pursuant to Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System' (hereinafter, Federal Law No. 161-FZ), in 2014 the Bank of Russia took steps to set up a national payment card system (NPCS), the main objectives of which are to establish infrastructure independent of international payment systems (IPS) and a unified processing system to process domestic transactions using IPS cards within the Russian Federation and to issue national payment cards. The National Payment Card System, a joint-stock company, (NPCS JSC) was set up and measures were performed to develop the technological framework for the NPCS, make settlements through the Bank of Russia and connect banks directly participating in the IPS to the NPCS operational payment clearing centre (NPCS OPCC).

To guarantee continuous funds transfer services within the Russian Federation using IPS cards, credit institutions and payment systems were mandated to communicate with NPCS OPCC and settlements were required to be processed through the Bank of Russia payment system.

In the first stage, the NPCS OPCC processes domestic transactions performed by Russian IPS participants. In the next stage plans are afoot to issue NPCS payment cards and other means for electronic payments.

To develop a system to transmit financial messages within the NPS, the Bank of Russia implemented measures based on the Bank of Russia payment system infrastructure. As a result of these measures, in December 2014 credit institutions were offered additional services to transmit financial messages using the SWIFT format for domestic transactions.

To ensure that the payment infrastructure's services are continuously available to payment system participants, the Bank of Russia established criteria to rec-

ognise payment systems as nationally significant, approved a procedure for payment system operators to create security deposits and a procedure for the Bank of Russia to apply supervisory measures against payment system operators in the event of unilateral suspension (cessation) of services for payment system participants, and established criteria to recognise credit institutions as significant in the payment services market.

In order to reduce the risks of using non-personalised means of electronic payment, restrictions were introduced on transactions between individuals and transactions in favour of non-residents involving electronic money (EM). At the same time, to develop EM transfer services to pay for goods (work, services), limits on EM balances were raised for transactions in favour of legal entities where simplified identification of an individual is required, while for transactions where full identification of an individual is required, the definition of a prepaid card was provided and the specifics regarding its use when making EM transfers were established.

Regional components of the Bank of Russia payment system were set up within the Republic of Crimea and the federal city of Sevastopol. Credit institutions served by the Crimea Division and Sevastopol Division were included in the list of Bank of Russia payment system participants (including in the list of BESS system participants) and the electronic messages exchange was arranged with Bank of Russia customers.

In 2014, inspections of supervised organisations were carried out to monitor their compliance with legislation on the NPS; these organisations were subsequently provided with information on any discovered violations and timeframes to remedy these violations.

As part of its activities to register payment system operators, during the reporting year the Bank of Russia entered information about eight payment system operators into the register and removed five payment system operators from the register.

The payment services market was monitored to detect EM transfer schemes, which did not comply with the requirements set out in Federal Law No. 161-FZ,

and to identify any payment system operators not listed in the register and illegally using the words 'payment system' in their company name.

Furthermore, to guarantee the continuity of payment services using IPS cards, work was carried out with IPS-member credit institutions to create channels for interbank collaboration, making it possible to execute domestic funds transfers using IPS cards but without using IPS operational and payment clearing centres.

As part of this oversight of the national payment system, the Bank of Russia adopted documents intended to promote the implementation of payment systems in line with the international standard 'Principles for Financial Market Infrastructures'.

In 2014, an assessment was carried out of the systemically important payment systems of the Bank of Russia and NKO ZAO NSD and the socially important Golden Crown payment system. This assessment revealed these payment systems' high level of compliance with the international standard<sup>1</sup>.

To ensure the stability of the NPS, the Bank of Russia established a procedure for payment system operators to fulfil their duty to ensure continuous operation of their payment system, as provided for by Federal Law No. 161-FZ.

The Bank of Russia engaged in international cooperation with national (central) banks based on cooperation agreements (memoranda) concluded with these banks. A Cooperation Agreement was signed between the Bank of Russia and the National Bank of the Republic of Belarus regarding joint oversight and supervision of payment systems, and agreements were drafted for signing with the National Bank of the Republic of Kazakhstan, the Central Bank of the Republic of Armenia and the National Bank of the Kyrgyz Republic.

In 2014, the Bank of Russia took measures to implement the Framework to Reform the System of Budget Payments until 2017, which was approved by Order No. 227 of the Russian Ministry of Finance dated 29 August 2013. For this purpose, the Federal Treasury and the Bank of Russia approved the Plan of Joint Measures and the Interdepartmental Plan of Measures for Collaboration between the Federal Treasury and the Bank of Russia for 2014–2015.

To complete the transition of executing the budgets of the Russian Federation budgetary system to cash servicing through Federal Treasury bodies, in 2014 the Bank of Russia contributed to full transition of government extra-budgetary funds to cash servicing of the execution of their budgets by Federal Treasury bodies.

<sup>1</sup> Bank of Russia Letter No. 59-T, dated 14 April 2014, 'On Compliance with Bank of Russia Recommendations' and Bank of Russia Order No. OD-607, dated 9 April 2014, 'On the Methodology for Assessing the Level of Compliance of the Activities of Operators of Systemically Important Payment Systems, Involved Operators of Payment Infrastructure Services and Associated Systemically Important Payment Systems with Bank of Russia Recommendations'.

## II.11.2. Development and upgrading of the Bank of Russia payment system

In 2014, with a view to implementing the National Payment System Development Strategy with regard to the Bank of Russia payment system, work was begun to set up the Bank of Russia's next generation payment system based on a new centralised payment platform.

Steps were taken to create an automated system to support the functioning of the Bank of Russia's next-generation payment system, which meets high standards of reliability, security, performance and architecture.

The architecture and services of the next generation payment system assume increased efficiency and uninterrupted operation through centralisation of the clearing and settlement functions, as well as management and monitoring, consolidation of credit institutions' and the Federal Treasury's liquidity, optimisation of scheduled and unscheduled transfers, and establishment of unified operating hours (from 2:00 to 21:00, Moscow time). Provisions were made to develop mechanisms for communication (payment versus payment, delivery versus payment) between the Bank of Russia payment system and other payment systems and other financial market infrastructures in order to reduce financial risks.

As part of the Concept of the Bank of Russia Payment System's Development until 2015, in 2014 the development of the Bank of Russia payment system was characterised by an increase in the operating time of the BESP system, the regional component of the Moscow region and a number of other regional components of the Bank of Russia payment system by moving the start time two hours earlier (from 9:00 to 7:00, Moscow time) and further centralising at the federal level the management of Bank of Russia customers' involvement in the BESP system.

To improve electronic communication between Bank of Russia divisions and Bank of Russia customers, the unified transport environment for electronic communi-

cation between Bank of Russia regional branches and Bank of Russia customers was modernised in its 23 regional branches.

The Bank of Russia's electronic document turnover system was rolled out for use during certain settlement transactions between Bank of Russia divisions using remittance advice. This reduces the time required to transfer funds and the Bank of Russia's postal and telegraph expenditures.

As part of the work to create the NPCCS, technical infrastructure (two main data processing centres) was set up at the Bank of Russia to support the operation of the NPCCS. A series of measures were carried out to ensure the NPCCS's ability to communicate with the automated system serving as the Bank of Russia payment system and to ensure that Bank of Russia divisions are able to communicate when providing settlement services.

To ensure the continuous operation of payment processing using the BESP–SWIFT gateway as a federal component of the Bank of Russia payment infrastructure, work was completed to create a BESP–SWIFT gateway at a reserve site (Nudol Technical Centre).

In 2014, work continued with the Russian Ministry of Finance and the Federal Treasury to improve banks' communication with the Government Information System on Government and Municipal Payments (GIS GMP). At the end of 2014, based on information available to the Bank of Russia, 97.5% of credit institutions completed their registration as GIS GMP participants, of which 95.7% are sending information to the GIS GMP.

Pursuant to Articles 46, 60 and 76 of the Tax Code of the Russian Federation, a procedure was developed for sending certain tax authority documents to a bank and for the bank to send certain bank documents to the tax authorities electronically through the Bank of Russia; the list of such documents was also expanded.

## II.12. IMPROVING THE ACCOUNTING AND REPORTING OF CREDIT INSTITUTIONS AND NON-BANK FINANCIAL INSTITUTIONS

The methodological framework for accounting and financial reporting for credit institutions was improved in two areas in 2014: due to changes in legislation and in order to implement IFRS requirements in the Bank of Russia's regulatory documents.

In terms of the first area:

- the Chart of Accounts at credit institutions was supplemented and the characteristics of certain accounts were refined due to amendments to the Housing Code of the Russian Federation, Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System', and Bank of Russia Regulation No. 383-P, dated 19 June 2012, 'On Funds Transfer Rules';
- pursuant to amendments made to Federal Law No. 208-FZ, dated 26 December 1995, 'On Joint-stock Companies', the procedure for calculating dividends in accounting records was refined, which was established by Bank of Russia Ordinance No. 3054-U, dated 4 September 2013, 'On the Procedure for Credit Institutions to Compile Annual Accounting (Financial) Statements'.

In terms of the second area:

- the accounting procedure for investments, denominated in a foreign currency, in the debt instruments of organisations controlled by a credit institution or whose activities are significantly influenced by a credit institution and the accounting procedure for transactions involving securities under repo agreements were brought in line with IFRS;
- two industry standards based on IFRS requirements were issued and will be applied by credit institutions beginning from 1 January 2016 – one on accounting for property and the other on determining income, expenses and other aggregate income.

In relation to the Bank of Russia being granted powers to regulate, control and supervise the financial markets, the main areas of activity for the Bank of Russia in terms of improving accounting and reporting at non-bank financial institutions in 2014 were:

- developing a chart of accounts for non-bank financial institutions and a procedure for using this chart based on the Chart of Accounts at credit institutions;
- developing industry accounting standards for non-bank financial institutions, including industry standards that account for specific activities of certain types of non-bank financial institutions (insurers and non-governmental pension funds);
- developing industry standards on accounting (financial) statements for insurers, non-governmental pension funds and other non-bank financial institutions.

As a result of the work performed in 2014 in the first area mentioned above, a draft regulation was drawn up, which establishes a chart of accounts for non-bank financial institutions and a procedure for using this chart.

In terms of the second area mentioned above, work was carried out on draft industry standards on accounting at non-governmental pension funds, insurance companies and mutual insurance companies, as well as on draft industry standards on non-bank financial institutions' accounting for financial derivatives, securities transactions, transactions to supply (place) and borrow funds, deferred tax assets and deferred tax liabilities, reserves, contingent liabilities and contingent assets, lease agreements and property.

In the third area, draft regulatory documents were developed that establish requirements regarding the content, preparation procedure, submission to the Bank of Russia, and publication of non-bank financial institutions' accounting (financial) statements.

Out of the 23 industry standards which were due to be issued by the Bank of Russia as part of the development and improvement of accounting at non-bank financial institutions, 16 industry standards were prepared in 2014.

The industry standards for non-bank financial institutions developed in accordance with the Concept and the requirements set out in Federal Law No. 402-FZ, dated 6 December 2011, 'On Accounting' are based on international standards.

## II.13. IMPROVING LEGISLATION

In 2014, about 60 federal laws aimed at improving banking legislation or legislation governing the financial market as a whole were approved. These included a number of federal laws adopted to support the Russian financial system amid the deteriorating political and economic situation around the world.

For example, Federal Law No. 112-FZ, dated 5 May 2014, 'On Amending the Federal Law 'On the National Payment System' and Certain Laws of the Russian Federation' established legal foundations for operation of the national payment card system (NPCS) and the Bank of Russia's creation of an NPCS operator and its activities.

To raise capitalisation of systemically important banks, Federal Law No. 275-FZ, dated 21 July 2014, 'On Amending Articles 4 and 5 of the Federal Law 'On Additional Measures to Support the Financial System of the Russian Federation' provided for the ability to use funds from the National Wealth Fund to acquire preferred shares of credit institutions that have fulfilled their obligations under subordinated loans.

Federal Law No. 451-FZ dated 29 December 2014, 'On Amending Article 11 of the Federal Law 'On Insurance of Household Deposits in Russian Banks' and Article 46 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' increased the maximum compensation payable on household deposits at banks in the Russian Federation to 1.4 million rubles, while the Deposit Insurance Agency was granted the power to transfer federal government bonds added to the Agency's assets by the Russian Federation as an asset contribution, to subordinated loans and (or) by using the bonds to repay the banks' subordinated bond loans while complying with the set conditions.

To support this power of the Deposit Insurance Agency, Federal Law No. 448-FZ, dated 26 December 2014, 'On Amending Article 23 of the Federal Law 'On the Federal Budget for 2014 and the Plan Period of 2015 and 2016' granted the Government of the Russian Federation the right to make an asset contribution by the Russian Federation to the assets of the state corporation Deposit Insurance Agency of up to 1 trillion rubles.

To fund self-sustained infrastructure projects, Federal Law No. 449-FZ, dated 26 December 2014, 'On Amending the Budget Code of the Russian Federation'

provided for the ability to place, based on a decision by the Government of the Russian Federation, up to 10% of the funds of the National Wealth Fund into Russian credit institutions, whose equity capital is no less than 100 billion rubles, in subordinated deposits or subordinated bonds of these credit institutions.

On 1 July 2015, Federal Law No. 476-FZ, dated 29 December 2014, 'On Amending the Federal Law 'On Insolvency (Bankruptcy)' and Certain Laws of the Russian Federation with regard to Regulating Recovery Procedures Applied against a Debtor Citizen' will enter into force to regulate relations associated with the insolvency (bankruptcy) of citizens, including unincorporated entrepreneurs.

Federal Law No. 218-FZ, dated 21 July 2014, 'On Amending Certain Laws of the Russian Federation' aimed at revising pension reform provisions also made changes to the Criminal Code of the Russian Federation and other laws establishing criminal liability for entering deliberately incomplete or inaccurate information regarding the financial position of an organisation on the financial statements of credit and non-bank financial institutions.

To increase the protection of victims' rights to compensation for damage to their life, health or property caused by others' use of vehicles, Federal Law No. 223-FZ, dated 21 July 2014, 'On Amending the Federal Law 'On Compulsory Third Party Liability Insurance for Vehicle Owners' and Certain Laws of the Russian Federation' was adopted. The Law establishes a procedure for filing documents on road-traffic accidents (RTA) without the involvement of authorised police officers, increases the amount of insurance indemnities which may be paid when documents are filed on a RTA without the involvement of a police officer, and also makes provisions for administrative liability when an insurance company refuses, without justification, to conclude the standard agreements set forth by federal laws regarding specific types of compulsory insurance, or imposes on the insurer or the individual intending to conclude a compulsory insurance agreement additional services not stipulated in the requirements of the federal law on the specific type of compulsory insurance.

Federal Law No. 460-FZ, dated 29 December 2014, 'On Amending Certain Laws of the Russian Federation'

regulated the activities of forex dealers and set requirements for organisations engaging in such activities, established a procedure for forming a compensation fund for self-regulatory organisations of forex dealers, and also stipulated requirements for advertising that promotes transactions with forex dealers.

Federal Law No. 334-FZ, dated 4 November 2014, 'On Amending Article 8 of the Federal Law 'On Banks and Banking Activities' makes it obligatory for credit institutions to disclose information on the professional qualifications and work experience of members of the board of directors, managers, the chief accountant and the deputy chief accountant, as well as of the manager and chief accountant of a credit institution branch.

To consolidate standards of Russian Federation legislation on bankruptcy, Federal Law No. 432-FZ, dated 22 December 2014, 'On Amending Certain Laws of the Russian Federation and Invalidating Certain Laws (Provisions of Laws) of the Russian Federation' was adopted, which incorporated into the Federal Law 'On Insolvency (Bankruptcy)' provisions from the Federal Law 'On the Insolvency (Bankruptcy) of Credit Institutions' and certain provisions of the Federal Law 'On Additional Measures to Strengthen the Stability of the Banking System in the Period until 31 December 2014', which related to the Deposit Insurance Agency's involvement in the rehabilitation of banks. Moreover, the corresponding federal laws were repealed.

In addition, the law differentiated between rates on insurance premiums to an insurance deposit fund and also granted the Deposit Insurance Agency the right to set an additional or higher additional rate for banks on insurance premiums based on information submitted quarterly from the Bank of Russia to the Agency on banks' compliance with the criteria for payment of such rates.

The amendments made to Russian Federation legislation by Federal Law No. 484-FZ, dated 29 December 2014, 'On Amending Certain Laws of the Russian Federation' were aimed at improving the system to combat transactions to legalise (launder) criminally obtained incomes or finance terrorism in the banking sector and at refining the ability to revoke banking licences.

The law also stipulated that any credit institution found in violation of the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' would be subject to the measures listed in Article 74 of the Federal

Law 'On the Central Bank of the Russian Federation (Bank of Russia)' rather than the provisions set out in Article 15.27 of the Russian Federation Code of Administrative Offences (RF CoAO) as was previously the case. However, according to Article 15.27 of the RF CoAO, credit institution officers can still be held administratively liable.

The adoption of a series of federal laws resulted from the establishment of new constituent entities within the Russian Federation. These include Federal Constitutional Law No. 6-FKZ, dated 21 March 2014, 'On the Acceptance into the Russian Federation of the Republic of Crimea and the Establishment within the Russian Federation of New Constituent Entities: the Republic of Crimea and the Federal City of Sevastopol', which set out special provisions relating to the functioning of the financial system in these regions; Federal Law No. 37-FZ, dated 2 April 2014, 'On the Specifics of the Functioning of the Republic of Crimea's and the Federal City of Sevastopol's Financial System in the Transition Period', which, among other things, established special provisions on activities of banks and non-bank financial institutions in the transition period within the Republic of Crimea and the federal city of Sevastopol, re-registration and obtaining licences (other forms of permits and accreditation) and special provisions on the circulation of securities; and Federal Law No. 39-FZ, dated 2 April 2014, 'On Protecting the Interests of Households Having Deposits with Banks and Isolated Structural Divisions of Banks Registered and (or) Operating on the Territory of the Republic of Crimea and on the Territory of the Federal City of Sevastopol', which established a mechanism for compensation payments to households for deposits with banks operating under licence from the National Bank of Ukraine effective as of 16 March 2014.

Along with the work on the preparation and consideration of the aforementioned federal laws and the consideration of other draft federal laws, the Bank of Russia issued 416 regulatory documents during the period from 1 January to 31 December 2014: 13 instructions, 44 regulations, and 359 ordinances.

Of those issued, 227 Bank of Russia regulatory documents, including four instructions, 30 regulations and 193 ordinances, were submitted to the Ministry of Justice of the Russian Federation and formally registered.

The Bank of Russia prepared and sent out 238 letters to its regional branches for informative, methodological, organisational and instructive purposes.

## II.14. INTERNAL AUDITING

In 2014, the centralisation of internal auditing management, which began in 2012, was completed at the Bank of Russia: the Bank of Russia Chief Auditor's Service (hereinafter, the Service), which is made up of the Internal Auditing Department and seven internal auditing centres, was optimised, and internal auditing divisions were abolished at Bank of Russia regional branches and field institutions. As part of this phased restructuring, internal auditing became independent and risk-based and its continuity was ensured. Work continued to automate the Service's activities.

These improvements to the organisation of internal auditing have ensured its effectiveness. Internal auditing was carried out in 2014 taking into account the functional and structural reorganisation of the Bank of Russia and the risks inherent to the various areas of the Bank of Russia's activities. The risk focus of internal auditing was aimed at both divisions and business processes and corporate governance at the Bank of Russia with an assessment of the internal control and risk management systems.

To enhance independent monitoring of business processes, large-scale projects, and corporate governance, alongside audit inspections, internal auditing procedures such as monitoring, analytical measures and project audits were carried out.

The internal auditing procedures covered all areas of the Bank of Russia's activities. In 2014, the Service conducted scheduled and unscheduled audit inspections of divisions of the head office, regional branches, and other divisions of the Bank of Russia, including 108 comprehensive and 186 thematic inspections. Business processes and corporate governance were reviewed through 10 analytical activities, monitoring and project audits.

The Service continued its independent daily monitoring of transactions by the Bank of Russia involving assets in foreign currency and precious metals as part of managing Bank of Russia gold and foreign currency reserves.

When auditing monetary policy activities amid credit institutions' growing demand for Bank of Russia loans, especially secured by non-marketable assets, special attention was paid to the work carried out to ascertain

credit institutions' compliance with the criteria for accessing the refinancing system, assess the quality of the collateral on Bank of Russia loans, and manage the risks inherent in these operations, which include credit and operational risks.

With due account of banking sector risks and the social importance of this area of the Bank of Russia's activities, the risk focus of banking supervision auditing was aimed at assessing the quality of off-site supervision in view of key trends and the specifics of credit institutions' activities in market conditions, the effectiveness of supervisory response measures adopted, and collaboration between divisions carrying out supervision duties.

In connection with the Bank of Russia's expanded powers as the sole regulator of the financial market, a new internal auditing area was created: auditing the regulation and supervision of non-bank financial institutions.

As part of auditing funds transfer and customer service processes, Bank of Russia obligations towards customers, its compliance with funds transfer requirements, and the validity of account operations were assessed. Work on setting up the Bank of Russia's next-generation payment system was also monitored.

With regard to cash circulation, the audit's priority was to inspect the integrity of the Bank of Russia's banknotes and the continuity of the high-tech equipment for processing and storing banknotes, automated systems, and systems used in cash office work.

The internal auditing addressed such issues as ensuring the functioning of the Bank of Russia's system, including the procurement system's compliance with the fundamental requirements of the laws of the Russian Federation, the effectiveness of the Bank of Russia's spending and asset management, the accuracy of financial and tax accounting records, the continuous operation of the Bank of Russia's information and telecommunications system, data security, and internal security. Internal auditing of the Bank of Russia's information and telecommunications system was also monitored.

The results of the audit showed that audited Bank of Russia divisions had been carrying out the functions entrusted to them in line with Russian Federation leg-

islation and Bank of Russia regulatory and other documents. The internal control and risk management system was generally in line with the nature and scale of the operations carried out.

The National Financial Board and Bank of Russia directors were informed of the results of the internal audits and appropriate administrative decisions were made. Considering the results of the internal auditing, in order to minimise risks in the Bank of Russia's activities, changes were made to Bank of Russia regulatory documents, software was improved, and the work of structural divisions was optimised, together with the internal control and risk management system. The Ser-

vice monitored the implementation of the management decisions adopted based on the results of the audit.

The Service ensured cooperation between the Bank of Russia and the Audit Chamber of the Russian Federation in the course of its control and expert assessment measures at the Bank of Russia. Together with the Accounting and Reporting Department, steps were taken to ensure involvement in any collaboration with the auditor of the Bank of Russia's annual financial statements.

In 2014, the Service coordinated work to implement a project to develop the Bank of Russia's risk management system.

## II.15. OTHER BANK OF RUSSIA ACTIVITIES

### II.15.1. Changes in the Bank of Russia's organisational structure

The decision to transfer the regulation, control and supervision of the financial markets to the Bank of Russia required an overhaul of the Bank of Russia's activities to form an effective organisational structure.

Using the Bank of Russia Financial Markets Service (liquidated in 2014) as a foundation, an infrastructure of divisions for non-bank financial institutions was set up: the head office saw the introduction of the Financial Market Development Department, the Financial Market Access Department, the Insurance Market Department, the Collective Investment and Trust Management Department, the Securities Market and Commodity Market Department, the Main Office of Microfinance Market and Financial Inclusion Methodology, the Non-bank Financial Institutions' Statements Collection and Processing Department, the Main Office for Countering Malpractices in the Open Market, and the Service for Protection of Financial Services Consumers and Minority Shareholders, while Bank of Russia regional branches saw the introduction of independent divisions into their establishments.

The Bank of Russia implemented the transition to working under the new conditions using the existing funding base by optimising internal processes.

The measures started in 2014 to restructure the Bank of Russia's regional network were completed in January 2015. As a result, 79 regional branches and national banks were restructured into seven main branches with their respective divisions (national banks). The main cash settlement centres were fully liquidated as part of the restructuring.

Due to the change in the make-up of the constituent territories of the Russian Federation, the Bank of Russia set up two new regional branches: the Republic of Crimea Division and the Sevastopol Division.

The introduction of new technologies, the expansion of functional areas, and the optimisation of the Bank of Russia's structure have led to the need to adapt to the new operating conditions of information technology divisions. Based on the liquidated Information Technology and Telecommunications Department, Information Technology Centre and Interregional Information Technology Centre, a new Information Technology Depart-

ment and Interregional Information Processing Centre were set up.

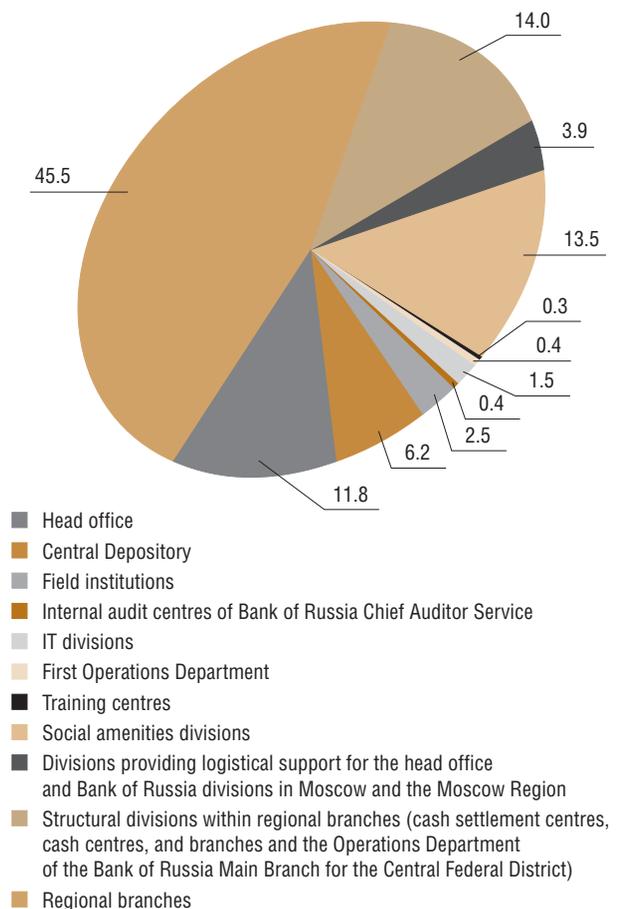
In 2014, special attention was paid to continuing the measures started in previous years.

Due to the establishment of seven regional internal auditing centres, the internal auditing divisions in regional branches were fully abolished.

In accordance with the scheduled optimisation of the regional branches' settlement network, 76 cash settlement centres (CSC) were liquidated in 2014, and the next step of optimising the staff at medical divisions of regional branches was completed.

With regard to the completion of measures to optimise the regional network, at the end of January 2015 the Bank

**Number of Bank of Russia personnel by division  
as of 1 January 2015  
(taking account of territorial structure reorganisation)  
(percent)**



of Russia's structure comprised 670 divisions, including: the head office, the First Operations Department, seven main branches with 72 divisions (national banks), the Republic of Crimea Division and the Sevastopol Division, 279 CSCs, four outlets and the Operations Department of the Bank of Russia Main Branch for the Central Federal District, seven internal auditing centres, an Interregional

Security Centre, two information technology and computing divisions, three Central Depository divisions, 95 field institutions and auxiliary divisions.

In general, as a result of the staffing optimisation in 2014, the Bank of Russia's staff decreased by 3,500 employees or by 5.3% to 61,800 employees as of the beginning of 2015.

## II.15.2. Staffing and personnel training

In 2014, the Bank of Russia's human resources policy was aimed at improving staff performance and motivation for quality work amid the reform of the Bank of Russia's functions and the optimisation of its structure.

As of 1 January 2015, the number of executive and specialist positions at the Bank of Russia increased by 0.8%, while the staffing level at those positions was 96.5%. More than half of the Bank of Russia's personnel (56.1%) are between 30 and 50 years old and have more than 15 years' work experience in the Bank of Russia system.

In the reporting period, the number of employees under 30 years of age increased by 0.8 percentage points to reach 11.2% of the total number of managers and specialists. The share of employees of pensionable age fell by 0.6 percentage points to 10.7%.

In 2014, as in previous years, the share of employees with a higher professional education rose to 86.0% as of 1 January 2015.

In 2014, during optimisation of the Bank of Russia's regional network, 22,674 executives and specialists underwent staff evaluation (70% of the total number of executives and specialists) from 79 regional branches. Employees in positions due to be replaced by specialists with a higher professional education took part in the evaluation, except those that had worked in the position for less than a year and pregnant women. As a result of the evaluation, 22,442 people, or 99% of the employees who participated, were recognised as qualified for their positions.

The introduction in 2014 of changes to the work pay and incentive system for staff and the transition to a new bonus policy, based mainly on assessment of employees' own work and that of Bank of Russia divisions, reinvigorated the development of a procedure and stepped up activity to assess the performance of Bank of Russia employees. The majority of executives and specialists at regional branches took part in this process. Compared with 2013, the number of regional branches where the assessment covered all executives and specialists increased by 30%.

The performance assessment results were considered not only when determining the size of employee bonuses but also when transferring employees to other positions, including them in the personnel reserve and sending them to training courses. In 2014, the number of administrative decisions adopted based on the assessment results increased by 30% on average.

An important area of staffing in the Bank of Russia's activities is training, retraining and raising the qualifications of executives and specialists. In 2014, 4,300 educational events were held as part of the corporate system for the advanced professional education of Bank of Russia personnel. Roughly 34,000 employees took part in these events.

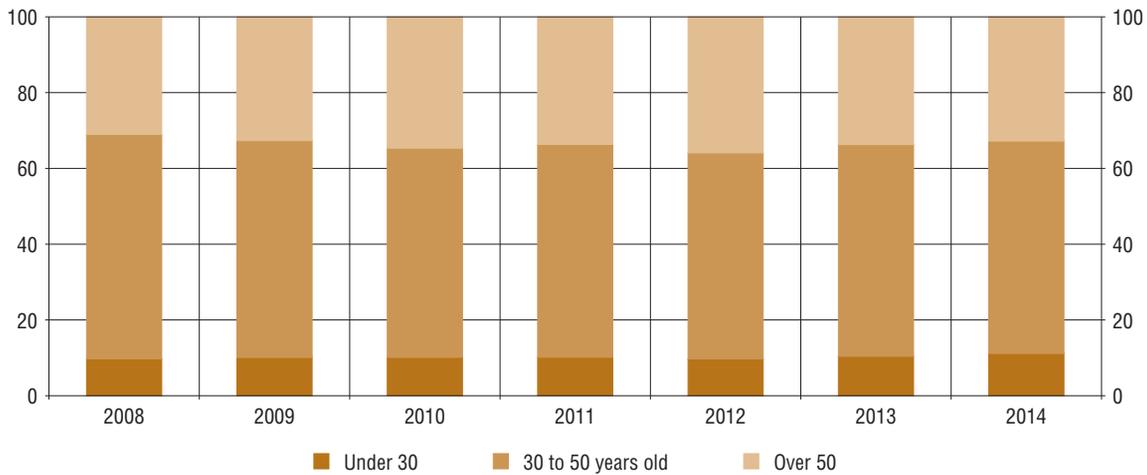
In 2014, training was organised for more than 600 executives and specialists in order for the Bank of Russia to effectively perform its assigned functions as the sole regulatory, monitoring, and supervisory body for the financial markets. The centralised training included more than 300 short-term educational events to raise the level of professional knowledge and practical skills among employees in various areas of the Bank of Russia's activities due to amendments to federal laws and regulatory documents, and roughly 6,000 employees were trained.

To develop the managerial potential of executives of structural divisions and raise the efficiency of specialists' activities, 58 training courses involving 899 employees were held at Bank of Russia regional branches in 2014. The main focus was development of social and psychological skills and stress resistance, increasing employee responsibility, preventing staff burnout in order to raise Bank of Russia performance, and preventing corruption.

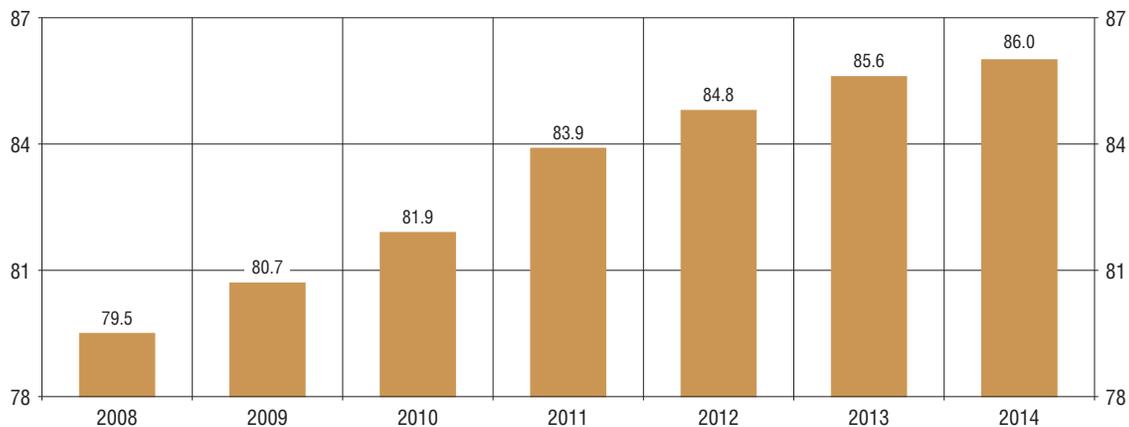
As part of professional staff retraining using programmes developed by Moscow universities at the request of the Bank of Russia, in 2014 credit institution curators and inspectors, provisional administration managers and credit institution financial recovery consultants, experts in monetary policy, payment systems and settlements, were trained. Bank of Russia structural division executives also underwent management training. Since the start of the project (in 2003), over 1,600 executives and specialists have undergone training, of which 24% received the qualification of Master of Business Administration.

To ensure the effective functioning of the Bank of Russia, as in previous years, specialists underwent further training in information technology and telecommunications, information systems for banking supervision and inspections, use of monetary regulation instruments, automation of administrative document turnover, and introduction of information technology into the mailing and archiving of Bank of Russia documents.

**Age structure of Bank of Russia executives and specialists  
(percent)**



**Ratio of executives and specialists with higher professional education  
(as a percentage of total executives and specialists)**



Particular attention was also paid to security and information protection.

As part of 57 educational events, more than 200 specialists from the Republic of Crimea Division and the Sevastopol Division underwent training. Sixty-six educational events were also held to train roughly 1,700 specialists of credit institutions based in the Crimea Federal District in order to prepare them for professional activity in line with Russian legislation.

In 2014, the collaboration in the area of staff training continued with the Bank of Russia's foreign partners: the German Federal Bank, the Bank of France, the Bank of England, the National Bank of Poland, the Bank of the Netherlands, the Czech National Bank, the Bank of Italy, the Bank for International Settlements, the US Federal Reserve System, the International Monetary Fund, the Austrian National Bank, and the central banks of member states of the Eurasian Economic Community (EurAsEC). In total, 612 Bank of Russia executives and

specialists took part in 205 international educational events on pressing topics in key banking areas.

According to the Programme of Professional Training of the Personnel of Central (National) Banks of the EurAsEC Member States, 13 internships for bank representatives at various Bank of Russia divisions were organised in 2014 and 23 international seminars were held, of which 11 were hosted by the Bank of Russia with the involvement of experts from the German Federal Bank, the National Bank of Poland, the National Bank of Serbia and the European Central Bank. Overall, 211 representatives of central (national) banks from EurAsEC member states, the CIS and Europe took part in international seminars hosted by the Bank of Russia. In addition, 14 representatives of the National Bank of the Republic of South Ossetia took part in eight educational events organised for Bank of Russia staff.

In 2014, 104 Bank of Russia employees completed the FSI Connect online learning programme developed

by the Financial Stability Institute of the Bank for International Settlements for specialists working as supervisors in the financial sector. Since it was rolled out in 2012, 437 employees have undergone this training.

The Bank of Russia's banking schools (colleges) make a significant contribution to raising the qualifications of Bank of Russia personnel, offering long-term professional retraining programmes, short-term courses to raise the qualifications of Bank of Russia employees, and specially adapted courses for newly hired specialists. Overall, the Bank of Russia's educational institutions held 469 educational events in 2014, in which more than 8,000 people underwent training, or 52% of the total number of those receiving training through

centralised educational events for Bank of Russia employees.

In 2014, the Moscow Banking School (College) of the Bank of Russia together with the National Research University Higher School of Economics completed the roll-out of the experimental four-year educational programme for an applied baccalaureate specialising in 'Banking', developed with the direct involvement of specialists from core Bank of Russia divisions. The practical nature of the programme and the high level of professional knowledge acquired by its students allowed 25 certified specialists (65.8% of the total number of graduates) to land jobs in regional branches of the Central Bank of the Russian Federation.

### II.15.3. Bank of Russia information and telecommunications system development

In 2014, in order to solve challenges in the optimisation of information technology (IT) at the Bank of Russia, key principles and areas for development of IT in 2014–2015 were elaborated, including an action plan to transform IT.

The process of registering the ruble's graphical symbol under international standard UNICODE/ISO10646 was successfully completed. Software using any operating system by any manufacturer around the world can now unambiguously identify the ruble symbol using the corresponding code for the block of symbols representing national currencies.

The multiservice telecommunications banking network for the Moscow region and the system allowing credit institutions in the Moscow region to access telecommunications were modernised. To guarantee the stable functioning of applied transportation systems, components of the Bank of Russia's Electronic Settlement Transport System were modernised at 22 Bank of Russia regional branches.

At the Bank of Russia Divisions for the Republic of Crimea and the City of Sevastopol automated systems were introduced to allow the Bank of Russia payment system (RABIS-NP) to operate, together with automated systems for issuing cash. Work was also carried

out to replicate the standard IT and analytical banking systems.

To develop information collaboration between the Bank of Russia and federal authorities in the Russian Federation and external organisations, the Single System for Data Exchange with External Subscribers (the Bank of Russia's external portal) underwent the first stage of modernisation. External subscribers were then able to interact with the external portal using an external certification authority.

To allow for the analysis of data arriving from various types of sorting machines, work was completed to introduce the automated 'Banknote Number Control' system.

Efforts were taken to develop and improve automated operational and technical management systems in order to ensure the continuity and accessibility of information and telecommunications system (ITS) services at the Bank of Russia (work was also carried out to equip 81 control stations at information technology subdivisions of Bank of Russia main branch divisions (national banks) with tools for aggregating and representing information on the state of ITS at the Bank of Russia and its components). Work was also carried out to develop segments of the Bank of Russia's single directory service at 24 Bank of Russia regional branches.

## II.15.4. International cooperation

The Bank of Russia's priorities in terms of cooperation with international financial and economic organisations in 2014 were shaped by the changes taking place in the world and the growing role of emerging market nations, primarily BRICS countries, in the global economy.

An important outcome of last year's work was the signing of the Treaty for the Establishment of a BRICS Contingent Reserve Arrangement (a pool of foreign exchange reserves) by the five member states at the annual BRICS summit in Fortaleza (Brazil) in July 2014 with the Bank of Russia's involvement.

In 2014, the Bank of Russia participated in meetings with governors of central banks at the Bank for International Settlements (BIS) where monetary policy, national and global inflation growth factors, international currencies, the global foreign exchange system and a number of other issues were discussed.

The Bank of Russia took part in a number of BIS studies, including 'Organising Auditing and Audit Activities in Central Banks', 'Changing the Model of Financial Mediation. Consequences for Central Bank Policy', and 'Legal Requirements for Central Banks to Report on their Activities and Use their Powers'.

The work of the Committee on Central Bank Statistics continued under the aegis of the BIS. At the invitation of the BIS, in 2014 the Bank of Russia became a full-fledged corporate member of the International Statistics Institute.

In 2014, the Bank of Russia participated in the work of the Basel Committee on Banking Supervision (BCBS) and its working groups, including to assess the quantitative impact of new regulatory standards and to jointly assess member states' compliance with fundamental BCBS documents.

To coordinate the activities of bodies supervising the activities of cross-border banking group institutions, the Bank of Russia collaborated with the supervisory bodies of foreign states through multilateral supervisory colleges. During the reporting year, Bank of Russia representatives also participated in the work of supervisory colleges organised by the supervisory authorities of Austria, Hungary and the Netherlands.

As part of its collaboration with the International Association of Insurance Supervisors, the Bank of Russia prepared comments on the second consultation document on the basic capital requirements for global sys-

temically important insurance companies, which will be at the foundation of global capital requirements.

The result of the work carried out during the reporting year was the Bank of Russia's signing of the International Organisation of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information in February 2015. This allows the Bank of Russia to make full use of its opportunities for cross-border cooperation with more than 100 foreign financial market regulators and to fully participate in the work of IOSCO committees and working groups and the development of standards.

As a permanent member of the IOSCO, the Bank of Russia participates in the work of the President's Committee, the Growth and Emerging Markets Committee, and the European Regional Committee.

In the year under review, the Bank of Russia continued to collaborate actively with the Financial Stability Board (FSB) and G20. Representatives of the Bank of Russia traditionally took part in all of the key measures through the Plenary Meeting and other FSB working bodies and in the activities of the G20.

In 2014, the FSB reviewed the implementation and effectiveness of Russia's compliance with international standards on financial regulation and supervision. As part of this review, it assessed compliance with standards on macroprudential policy and settlement of credit institution insolvency. The summary report was published on the official FSB website on 2 February 2015.

As part of the work by the FSB Regional Group for the CIS, a survey was carried out and a review prepared entitled 'The Experience of Member States of the Financial Stability Board's Regional Consultation Group for the CIS in Regulating National Systemically Important Banks'.

Through its collaboration with the G20, the Bank of Russia took part in preparing a growth strategy for the Russian Federation, which was presented at the G20 leaders' summit in Brisbane (Australia) in November 2014.

As part of efforts to set up the Global Legal Entity Identifier System (GLEIS), the first meeting of the board of directors of the Global Legal Entity Identifier Foundation (GLEIF) was held. The need of obtaining a code to report on OTC derivatives was set out by the Bank of Russia at a regulatory level. At present, the non-

bank credit institution National Settlement Depository, a closed joint-stock company, (the Russian operational division of GLEIS) has assigned more than 250 codes to Russian and foreign organisations.

In 2014, in accordance with the three-year Memorandum of Understanding between the European Central Bank and the Central Bank of the Russian Federation, a high-level meeting was held and three measures were implemented related to financial stability, monetary policy and insurance supervision.

During the reporting year, due to the delay in Russia's accession to the Organisation for Economic Cooperation and Development (OECD), efforts were focused on the Bank of Russia's involvement in the work of core OECD working bodies (Financial Markets Committee, Investment Committee, Insurance and Private Pensions Committee and Corporate Governance Committee).

Bank of Russia representatives took part in the activities of World Trade Organisation (WTO) working bodies, in particular in meetings of the Council for Trade in Services and the Committee on Trade in Financial Services, through which a new system of financial regulation was proposed for Russia.

In February 2014, the Bank of Russia became a member of the Alliance for Financial Inclusion (AFI) in order to exchange experience and introduce best practices to raise the accessibility of financial services. A representative of the Bank of Russia chaired the AFI's Digital Financial Services Working Group. The Bank of Russia was also a member of the AFI's Budget and Finance Committee.

In 2014, one of the priorities in terms of the Bank of Russia's international cooperation was its involvement in integration processes in the financial sphere in the CIS. In May, the Eurasian Economic Union (EAEU) Treaty was signed. The Bank of Russia was directly involved in the drafting of the treaty's sections on foreign exchange policy, macroeconomic policy and financial market regulation. In December, the governments and central (national) banks of the Republic of Belarus, the Republic of Kazakhstan, and the Russian Federation signed an Agreement on Information Exchange, including confidential information, in the financial sphere to create the necessary conditions in the financial markets for the free movement of capital. At the same time, Bank of Russia representatives took part in negotiations to determine the criteria for Armenia's and Kyrgyzstan's membership in the EAEU.

The Bank of Russia participated in the development of Guidelines for the EAEU's Two-Year Macroeconomic Policy and Implementation Measures and in the formation of EAEU Economic Development Guidelines for the Period up to 2030.

Through its cooperation in the financial sphere in the CIS, the Bank of Russia approved a Plan of Joint Measures by CIS Member States to Solve Pressing Problems in the Financial Sphere.

The Bank of Russia took steps to promote the development of the Interstate Bank (ISB) set up by the nine CIS nations. Proposals were drafted on the settlement of debt, financial recovery and restructuring of activities at this bank.

In 2014, the Bank of Russia continued its work on the Committee of Managers of Central (National) Banks of Member States of the Treaty on the Establishment of the Eurasian Economic Community (EurAsEC). In connection with the signing of the Agreement on the Termination of the EurAsEC beginning from 1 January 2015, work is now underway to restructure this Committee and refine its objectives amid the new conditions.

The Bank of Russia drafted proposals to develop project activities within the work of the Shanghai Cooperation Organisation for the period of 2017–2021.

In 2014, the Bank of Russia participated in bilateral partnerships with more than 15 countries, including China, India, Vietnam, Turkey, North Korea, Syria, Cuba and Iran. Special attention was paid to developing mechanisms to use and increase the share of national currencies in mutual settlements. Together with the Government of the Russian Federation, the Bank of Russia prepared proposals to promote payments in Russian rubles to foreign partners.

In October 2014, the Bank of Russia and the People's Bank of China signed a national currency swap agreement with a view to developing settlements in their national currencies and creating favourable conditions to further develop bilateral trade and mutual investment between the Russian Federation and the People's Republic of China.

Proposals by a number of other countries regarding the feasibility of concluding similar agreements were studied.

As part of collaboration agreements, in 2014 the Bank of Russia cooperated with the National Bank of the Republic of Abkhazia and the National Bank of South Ossetia on various matters of mutual interest.

## II.15.5. Bank of Russia stakeholdings in the capital of Russian and foreign credit institutions and other organisations

Pursuant to Article 8 of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' (hereinafter, Federal Law No. 86-FZ), the Bank of Russia participated in the capital of Sberbank of Russia, an open joint-stock company (OJSC Sberbank of Russia) and in the capital of resident organisations that supported operations of the Bank of Russia. These included the MICEX-RTS Moscow Exchange, an open joint-stock company (OJSC Moscow Exchange), and the St Petersburg Currency Exchange, a closed joint-stock company (CJSC SPCEX). The Bank of Russia was involved in these resident organisations through its representatives in their management and controlling bodies for the purpose of implementing the strategic objectives of the government economic policy and consistently upgrading the financial market's infrastructure for successful open market operations.

The Bank of Russia's stake in OJSC Sberbank of Russia's authorised capital was unchanged at 50% plus one voting share in 2014. The total dividends received by the Bank of Russia in the reporting year from OJSC Sberbank of Russia increased to more than 36.1 billion rubles (29.0 billion rubles in 2012) due to the growth in OJSC Sberbank of Russia's net profit in 2013.

In 2014, OJSC Sberbank of Russia set about implementing its Development Strategy for 2014–2018, which is aimed at further strengthening OJSC Sberbank of Russia's position as one of the leading and most stable financial institutions in the world.

In 2014, OJSC Sberbank of Russia's supervisory board examined and approved at its 2013 General Shareholders' Meeting the new version of OJSC Sberbank of Russia's charter, which had changes designed to improve corporate governance practices and corrections related to changes in legislation. OJSC Sberbank of Russia's supervisory board also approved a number of internal documents governing the activities of OJSC Sberbank of Russia's management.

The Bank of Russia's stake in the authorised capital of OJSC Moscow Exchange decreased to 11.73% over 2014. The reduction in the Bank of Russia's stake was down to a decision by the Bank of Russia Board of Directors to sell a portion of its shares in OJSC Moscow Exchange pursuant to Clause 14 of Article 49 of Federal Law No. 251-FZ, dated 23 July 2013, 'On Amending Certain Laws of the Russian Federation Due to the Del-

egation to the Central Bank of the Russian Federation of the Authority to Regulate, Control and Supervise Financial Markets'.

The dividends paid to the Bank of Russia by OJSC Moscow Exchange for 2013 amounted to 580 million rubles (roughly 594 million rubles for 2012).

Over the reporting year, OJSC Moscow Exchange took steps to develop its corporate governance: at an extraordinary general meeting of its shareholders it approved a new version of OJSC Moscow Exchange's charter, which expanded the powers of OJSC Moscow Exchange's supervisory board in corporate governance and risk management, and approved a new version of the Regulation on OJSC Moscow Exchange's Supervisory Board, which provided for more criteria to assess the independence of directors and set requirements on the minimum number of independent directors on the Supervisory Board of OJSC Moscow Exchange.

The Bank of Russia's stake in CJSC SPCEX did not change in 2014 and stood at 8.9%. The Bank of Russia holds a stake in CJSC SPCEX because St Petersburg is the country's second largest financial centre and CJSC SPCEX may be used as a reserve trading floor. Under a decision by the general shareholders' meeting of CJSC SPCEX, the profit generated by the exchange in 2013 was allocated to CJSC SPCEX funds. In 2014, the CJSC SPCEX general shareholders' meeting approved a new version of the exchange's charter with amendments aimed at improving corporate governance practices and refinements linked to changes in legislation.

In 2014, pursuant to 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 set up a joint-stock company National Payment Card System (JSC NPCCS). As the sole shareholder of JSC NPCCS, the Bank of Russia performed operations to buy JSC NPCCS shares by investing funds in the organisation's authorised capital. In accordance with the provisions of Part 6 of Article 8 of Federal Law No. 112-FZ, dated 5 May 2014, 'On Amending the Federal Law 'On the National Payment System' and Certain Laws of the Russian Federation', the Bank of Russia is not entitled to sell off its stake in the authorised capital of JSC NPCCS within two years of the state registration of the company.

Pursuant to Article 9 of Federal Law No. 86-FZ, in 2014 the Bank of Russia participated in the capital of

international organisations such as the Basel-based Bank for International Settlements (0.57% of the authorised capital) and the Belgium-based Society for Worldwide Interbank Financial Telecommunications (SWIFT) (0.006% of the authorised capital). At the same time, the Russian Federation's stake in the Moscow-based Interstate Bank also appears on the Bank of Russia's balance sheet. The Russian Federation holds 50% of the Interstate Bank's authorised capital, amounting to 10 million rubles, and a corresponding percentage of the votes in the bank's board, which is the highest management body of the Interstate Bank.

Moreover, in accordance with Article 4 of Federal Law No. 86-FZ, the Bank of Russia is the depository of IMF funds in the Russian currency and performs operations and transactions according to the provisions of IMF Articles of Agreement and agreements with the IMF. That is why the Russian Federation's quota with the IMF, which amounts to 5,945.4 million SDR, has been included on the Bank of Russia's balance sheet since 2011. The Bank of Russia's stake in the IMF's aggregate quotas (capital) did not change in 2014 and amounted to 2.5%, representing 2.39% of the total number of its member countries' votes.

## II.15.6. Managing lawsuits and claims

In 2014, 235 property-related suits and claims were brought against the Bank of Russia's regional branches for a total of 9,695.89 million rubles, of which 97 were settled out of court (for a total of 0.49 million rubles) and 15 were settled in court (for a total of 0.54 million rubles).

In 2014, 49 labour relations claims were initiated against the Bank of Russia.

Some credit institutions and non-bank financial institutions disputed the actions and decisions of the Bank

of Russia. Out of the 1,102 claims brought, 49 were settled.

The Bank of Russia's regional branches made claims and brought suits as part of their duty to monitor and supervise the activities of credit institutions and non-bank financial institutions. 6,050 claims and 647 suits were initiated against credit institutions and non-bank financial institutions, for an amount totalling 97.26 million rubles, of which 2,861 (for a total of 71.08 million rubles) had been settled by the end of the reporting period.



**III. BANK OR RUSSIA  
ANNUAL FINANCIAL STATEMENTS  
AS OF 1 JANUARY 2015  
AND AUDITORS' REPORTS**

## INTRODUCTION

The Annual Financial Statements include operations conducted by the Bank of Russia to fulfil its principal purposes and functions, as stipulated by Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)', as amended (hereinafter, the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)').

The Annual Financial Statements presented below (hereinafter, the financial statements) as of 1 January 2015 include:

- Annual Balance Sheet;
- Statement of Financial Performance;
- Statement of Profit and its Allocation;
- Statement of Bank of Russia Reserves and Funds;
- Statement of Bank of Russia Management of Securities and Stakeholdings in the Capital of Organisations Constituting Bank of Russia Property;
- Statement of the Volume of Bank of Russia Securities Trading on Organised Trading Venues;
- Statement of Bank of Russia Personnel Costs;
- Statement of Capital Investment Budget Performance.

The principal objectives of the Bank of Russia are:

- to protect the ruble and ensure its stability;
- to develop and strengthen the Russian banking system;
- to ensure the stability and development of the national payment system;
- to develop the Russian financial market;
- to ensure the stability of the Russian financial market.

**ANNUAL BALANCE SHEET AS OF 1 JANUARY 2015***(millions of rubles)*

	Note	2014	2013
<b>ASSETS</b>			
1. Precious metals	3	2,726,229	1,394,150
2. Funds placed with non-residents and foreign securities	4	18,378,563	15,091,147
3. Loans and deposits	5	9,950,119	4,881,376
4. Securities, of which:	6	622,456	450,306
4.1. Federal government debt obligations		368,160	364,063
5. Claims on the IMF	7	1,033,600	645,964
6. Other assets, of which:	8	186,590	99,468
6.1. Fixed assets		75,547	76,252
6.2. Profit tax advance payments		162	153
<b>Total assets</b>		<b>32,897,557</b>	<b>22,562,411</b>
<b>LIABILITIES</b>			
1. Cash in circulation	9	8,840,852	8,307,755
2. Funds on accounts with the Bank of Russia, of which:	10	13,876,032	10,358,984
2.1. Federal government funds		9,144,361	5,848,761
2.2. Funds of resident credit institutions		2,869,702	2,196,821
3. Float	11	1,897	5,680
4. Securities issued	12	0	0
5. Obligations to the IMF	13	840,763	500,028
6. Other liabilities	14	100,404	108,785
7. Capital, of which:		9,054,101	3,151,918
7.1. Authorised capital		3,000	3,000
7.2. Reserves and funds		9,051,101	3,148,918
8. Reporting year profit	15	183,508	129,261
<b>Total liabilities</b>		<b>32,897,557</b>	<b>22,562,411</b>

Governor of the Bank of Russia

Bank of Russia Chief Accountant

30 April 2015


E.S. Nabiullina

A.V. Kruzhalov

## STATEMENT OF FINANCIAL PERFORMANCE

(millions of rubles)

	Note	2014	2013
<b>INCOME</b>			
Interest income	16	518,683	251,947
Income from securities trading	17	23,969	3,862
Income from stakeholdings in credit institutions and other organisations	18	36,756	29,668
Net income from the recovery of provisions	23	0	3,376
Other income	19	11,452	18,943
<b>Total income</b>		<b>590,860</b>	<b>307,796</b>
<b>EXPENSES</b>			
Interest expenses	20	69,453	11,326
Expenses on securities trading	21	1,293	987
Cash turnover management expenses	22	10,486	11,354
Net expenses on the creation of provisions	23	122,918	0
Expenses on negative revaluation of securities available for sale	24	42,642	7,826
Other operating expenses	25	56,243	51,235
Bank of Russia personnel costs	26	104,317	95,807
<b>Total expenses</b>		<b>407,352</b>	<b>178,535</b>
<b>Financial result: profit</b>		<b>183,508</b>	<b>129,261</b>

## CAPITAL, FUNDS AND PROFIT ALLOCATION

(millions of rubles)

	Authorised capital	Reserves	Social fund	Accrued revaluation of precious metals	Accrued foreign currency exchange rate differences	Positive revaluation of securities available for sale	Growth in property value due to revaluation	Total capital	Profit for the year
<b>Balance as of 1 January 2012, after taxation and allocation of profit for 2011 in 2012</b>	<b>3,000</b>	<b>261,253</b>	<b>4,954</b>	<b>1,199,807</b>	<b>1,658,501</b>	<b>105,336</b>	<b>7,966</b>	<b>3,240,817</b>	<b>0</b>
Profit for 2012	0	0	0	0	0	0	0	0	247,326
Transferred to funds in 2012	0	0	4	0	0	38,341	0	38,345	0
Paid from funds in 2012	0	0	(750)	(2,583)	(498,457)	(52,915)	0	(554,705)	0
<b>Balance as of 1 January 2013, before taxation and allocation of profit for 2012</b>	<b>3,000</b>	<b>261,253</b>	<b>4,208</b>	<b>1,197,224</b>	<b>1,160,044</b>	<b>90,762</b>	<b>7,966</b>	<b>2,724,457</b>	<b>247,326</b>
Taxes and duties paid from Bank of Russia profit for 2012	0	0	0	0	0	0	0	0	(162)
Funds transferred to the federal budget in 2012 from the proceeds of sale of OJSC Sberbank of Russia shares according to Article 1 of Federal Law No. 247-FZ, dated 3 December 2012	0	0	0	0	0	0	0	0	(149,657)
Funds transferred to the federal budget according to Clause 8 Article 24 of Federal Law No. 216-FZ, dated 3 December 2012	0	0	0	0	0	0	0	0	(73,130)
Allocation of profit for 2012 retained by the Bank of Russia	0	23,402	975	0	0	0	0	24,377	(24,377)
<b>Balance as of 1 January 2013, after taxation and allocation of profit for 2012 in 2013</b>	<b>3,000</b>	<b>284,655</b>	<b>5,183</b>	<b>1,197,224</b>	<b>1,160,044</b>	<b>90,762</b>	<b>7,966</b>	<b>2,748,834</b>	<b>0</b>
Profit for 2013	0	0	0	0	0	0	0	0	129,261
Transferred to funds in 2013	0	0	42	0	828,707	4,025	0	832,774	0
Paid from funds in 2013	0	0	(3,337)	(385,733)	0	(40,620)	0	(429,690)	0

	Authorised capital	Reserves	Social fund	Accrued revaluation of precious metals	Accrued foreign currency exchange rate differences	Positive revaluation of securities available for sale	Growth in property value due to revaluation	Total capital	Profit for the year
<b>Balance as of 1 January 2014, after taxation and allocation of profit for 2013</b>	<b>3,000</b>	<b>284,655</b>	<b>1,888</b>	<b>811,491</b>	<b>1,988,751</b>	<b>54,167</b>	<b>7,966</b>	<b>3,151,918</b>	<b>129,261</b>
Taxes and duties paid from Bank of Russia profit for 2013	0	0	0	0	0	0	0	0	(160)
Contribution to the compulsory deposit insurance fund transferred to the state corporation Deposit Insurance Agency (DIA) according to Federal Law No. 40-FZ, dated 2 April 2014	0	0	0	0	0	0	0	0	(60,000)
Transferred to the federal budget	0	0	0	0	0	0	0	0	(51,826)
Allocation of profit for 2013 retained by the Bank of Russia	0	16,584	691	0	0	0	0	17,275	(17,275)
<b>Balance as of 1 January 2014, after taxation and allocation of profit for 2013 in 2014</b>	<b>3,000</b>	<b>301,239</b>	<b>2,579</b>	<b>811,491</b>	<b>1,988,751</b>	<b>54,167</b>	<b>7,966</b>	<b>3,169,193</b>	<b>0</b>
Profit for 2014	0	0	0	0	0	0	0	0	183,508
Transferred to funds in 2014	0	0	1	1,141,562	4,764,965	20,167	0	5,926,695	0
Paid from funds in 2014	0	0	(185)	0	0	(41,602)	0	(41,787)	0
Balance as of 1 January 2015, after taxation and allocation of profit for 2014	3,000	301,239	2,395	1,953,053	6,753,716	32,732	7,966	9,054,101	183,508
Taxes and duties paid in advance in 2014 from Bank of Russia profit for 2014	0	0	0	0	0	0	0	0	(162)
Taxes and duties levied additionally in 2015 after final settlement from Bank of Russia profit for 2014	0	0	0	0	0	0	0	0	(1)
Funds to be transferred to the federal budget	0	0	0	0	0	0	0	0	(137,509)
Funds to be transferred to the state corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) if the Federal Law 'On the Specifics for Transferring the Profit for 2014 Received by the Central Bank of the Russian Federation in 2015'	0	0	0	0	0	0	0	0	(27,502)
Allocation of profit for 2014 retained by the Bank of Russia	0	17,601	733	0	0	0	0	18,334	(18,334)
<b>Balance as of 1 January 2015, after taxation and allocation of profit for 2014 in 2015</b>	<b>3,000</b>	<b>318,840</b>	<b>3,128</b>	<b>1,953,053</b>	<b>6,753,716</b>	<b>32,732</b>	<b>7,966</b>	<b>9,072,435</b>	<b>0</b>

The positive unrealised differences, which resulted from the revaluation of precious metal balances in 2014 due to the change in the book price of precious metals, totalling 1,141,562 million rubles (2013: negative unrealised differences totalling 385,733 million rubles), were posted to the balance sheet account *Accrued revaluation of precious metals* as part of capital, which, as of 1 January 2015, totalled 1,953,053 million rubles (2013: 811,491 million rubles) (Note 1 (c) and Statement of Bank of Russia Reserves and Funds).

In 2014, positive unrealised foreign currency exchange rate differences exceeded negative unrealised foreign currency exchange rate differences. This excess, totalling 4,764,965 million rubles (2013: the excess of positive unrealised foreign currency exchange rate differences over negative ones was 828,707 million rubles) was recorded to the balance sheet account *Accrued foreign currency exchange rate differences* as part of capital. As of 1 January 2015, accrued foreign currency exchange rate differences as part of capital amounted to 6,753,716 million rubles (2013: 1,988,751 million rubles) (Note 1 (d) and Statement of Bank of Russia Reserves and Funds).

In 2014, there was a 21,435 million ruble decrease in the accrued revaluation of securities available for sale, due to writing off the excess of the negative revaluation of securities available for sale of the corresponding issue over the positive revaluation, not exceeding the previously accrued revaluation (recorded as capital), of securities of the issue and previously accrued revaluation (recorded as capital), and of securities sold in 2014, to the total amount of 41,602 million rubles (2013: 40,620 million rubles). It was also due to the recording of the excess positive revaluation of securities available for sale of the corresponding issue over the negative revaluation of the issue, including the amount recorded as expenses in previous years, to the total amount of 20,167 million rubles (2013: 4,025 million rubles). As of 1 January 2015, the accrued revaluation of securities available for sale and accounted for as capital made 32,732 million rubles (2013: 54,167 million rubles) (Note 1 (e) and Statement of Bank of Russia Reserves and Funds).

In 2014, the Bank of Russia paid 163 million rubles in profit taxes, including 162 million rubles in advance payments for 2014 (Note 8 and Statement of Profit and Its Allocation).

# NOTES TO ANNUAL FINANCIAL STATEMENTS AS OF 1 JANUARY 2015

## 1. Accounting and financial reporting principles

The Bank of Russia's accounting and financial reporting practices conform to the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Federal Law 'On Accounting', Bank of Russia Regulation No. 66-P, dated 1 January 2006, 'On Accounting Rules in the Central Bank of the Russian Federation (Bank of Russia)' (hereinafter, Regulation No. 66-P) and other Bank of Russia regulations issued pursuant to these federal laws.

### (a) Accounting principles

Accounting is based on the principle of recording balance sheet items at their initial value at the time assets are acquired, and when liabilities arise, under contractual terms and conditions. The principles used for revaluing individual asset and liability items are described below.

### (b) Financial reporting principles

These financial statements have been compiled on the basis of the balance sheet data provided by the Bank of Russia, its regional branches, and other divisions incorporated in the Bank of Russia as a legal entity.

These financial statements have been compiled exclusive of the financial statements of credit institutions and other organisations within and outside Russia in which the Bank of Russia holds a stake, and/or which it controls. Under Russian law, the Bank of Russia is not required to compile a consolidated financial statement that includes financial statements of credit institutions and other organisations in which it holds a stake, and/or which it controls.

These financial statements have been compiled in the currency of the Russian Federation, the Russian ruble (hereinafter, the ruble), in millions of rubles.

Figures shown in brackets in the tables denote negative values.

For the purposes of these financial statements, Bank of Russia operations with credit institutions and the Bank for Development and Foreign Economic Affairs (Vnesheconombank), a state corporation, are jointly referred to as operations with resident banks.

### (c) Precious metals

Precious metals are recorded at their book price and revalued as the book prices of precious metals are set in accordance with Bank of Russia regulations.

The Bank of Russia calculates book prices on the basis of the current fixed prices of precious metals on the London Metal Exchange. The fixed prices of precious metals, denominated in US dollars, are recalculated into rubles at the official US dollar/ruble exchange rate, effective as of the day following the day the book prices are fixed, which in turn also become effective as of the following day.

The excess of positive unrealised differences that arise from the revaluation of precious metal balances, due to the change in the book prices of precious metals, over negative unrealised differences is recorded to the balance sheet account *Accrued revaluation of precious metals* as part of capital and are 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 *Accrued revaluation of precious metals* as part of capital, in accordance with a decision of the Bank of Russia Board of Directors. If there are no funds in the balance sheet account *Accrued revaluation of precious metals* or if the funds are insufficient, the negative unrealised difference is entirely (or in the amount of the excess of the credit balance of the aforementioned balance sheet account) recorded to Bank of Russia operating expenses for the corresponding reporting year in accordance with a decision of the Bank of Russia Board of Directors.

The realised differences (income or expenses) that arise when trade operations with precious metals are conducted at a price different from the book price of such precious metals are calculated individually for each operation. The realised difference is the difference between the actual value of a transaction and the value based on the book price of the corresponding precious metal. The realised differences in operations with precious metals are calculated as of the date when the title to the precious metal under the transaction is transferred. Net positive realised differences are recorded as other income, while net negative realised differences are recorded as other operating expenses.

Precious metals in commemorative and investment coins in the currency of the Russian Federation, old coins, samples of commemorative and investment coins in the currency of the Russian Federation and samples of old coins recorded to the Bank of Bank of Russia balance sheet are revalued as book prices for precious metals are established in accordance with Bank of Russia regulatory documents.

Over the year, any unrealised revaluation of precious metals in coins is recorded to separate sub-accounts of the balance sheet accounts: *Revaluation of precious metals – positive differences* and *Revaluation of precious metals – negative differences*.

At end-year, the accrued revaluation of precious metals in coins is transferred to the balance sheet account *Accrued revaluation of precious metals*.

In accordance with a decision of the Bank of Russia Board of Directors, any funds recorded to the separate sub-accounts of the balance sheet account *Accrued revaluation of precious metals* may be used at the end of the year to offset a negative unrealised revaluation of precious metals in coins formed when the negative unrealised revaluation of precious metals in coins exceeds the positive unrealised revaluation of precious metals in coins.

If there are no funds (or insufficient funds) in the separate sub-account of the balance sheet account *Accrued revaluation of precious metals*, the negative unrealised revaluation of precious metals in coins may be booked to Bank of Russia operating expenses, in accordance with a decision of the Bank of Russia Board of Directors.

The value of any precious metals in coins used to conclude a purchase and sale transaction and their nominal value, as of their specification date, are entered to the balance sheet account for the retirement (sale) of assets. No further revaluation of the indicated precious metals is performed.

Precious metals placed on deposits or unallocated metal accounts at non-resident credit institutions are recognised at their book price, revalued according to Bank of Russia regulations, and posted to *Funds placed with non-residents and foreign securities* inclusive of accrued interest.

Bank of Russia claims and obligations with respect to the delivery of precious metals in forward transactions under signed contracts are recorded to off-balance sheet accounts from the transaction date to the settlement date, and revalued as the book prices of precious metals are set.

As of 1 January 2015, book prices used to recalculate assets and liabilities in precious metals were as follows: 2,146.0800 rubles per gram of gold (2013: 1,264.3000 rubles per gram of gold); 28.9400 rubles per gram of silver (2013: 20.9600 rubles per gram of silver); 2,183.1600 rubles per gram of platinum (2013: 1,434.2400 rubles per gram of platinum); 1,465.0900 rubles per gram of palladium (2013: 745.0100 rubles per gram of palladium).

#### **(d) Foreign currency assets and liabilities**

Foreign currency assets and liabilities are accounted for in rubles at the official rates of exchange of the ruble against foreign currencies set by the Bank of Russia (hereinafter, official exchange rates) as of the balance sheet compilation date. Foreign currency assets and liabilities are revalued daily at the official exchange rates. Income and expenditure relating to Bank of Russia foreign currency operations are accounted for on the balance sheet in rubles at the official exchange rates, as of the day income is received or expenses are incurred.

The excess of positive unrealised exchange rate differences that arise when revaluing the balances of balance sheet accounts, on which funds in foreign currency are recognised, over the negative unrealised exchange rate differences due to changes in the official exchange rates, is recorded to the balance sheet account *Accrued foreign currency exchange rate differences* as part of capital and is not included in the statement of financial performance.

If negative unrealised exchange rate differences exceed positive unrealised exchange rate differences accrued over the year, this excess is offset by previously accrued unrealised exchange rate differences recorded to the balance sheet account *Accrued foreign currency exchange rate differences* as part of capital in accordance with

a decision of the Bank of Russia Board of Directors. If there are no funds on the balance sheet account *Accrued foreign currency exchange rate differences* or if the funds are insufficient, the negative unrealised exchange rate differences are entirely (or in the amount that exceeds the credit balance of the above balance sheet account) posted to Bank of Russia expenses for the corresponding reporting year in accordance with a decision of 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. The total excess of positive realised exchange rate differences from foreign exchange operations over negative realised exchange rate differences is recorded as part of other income to *Net positive realised foreign currency exchange rate differences*, whereas the total excess of negative realised exchange rate differences from foreign exchange operations over positive realised exchange rate differences is recorded as part of other operating expenses to *Net negative realised foreign currency exchange rate differences*.

Bank of Russia claims and obligations under foreign currency purchase and sale forward contracts are recorded to off-balance sheet accounts from the transaction date to the settlement date and revalued at official exchange rates.

As of 1 January 2015, the official exchange rates used in recalculating foreign currency assets and liabilities were as follows: 56.2584 rubles to the US dollar (2013: 32.7292 rubles to the US dollar); 68.3427 rubles to the euro (2013: 44.9699 rubles to the euro); 87.4199 rubles to the pound sterling (2013: 53.9574 rubles to the pound sterling); 48.4026 rubles to the Canadian dollar (2013: 30.5452 rubles to the Canadian dollar); 47.0644 rubles to 100 Japanese yen (2013: 31.0568 rubles to 100 Japanese yen); 81.5015 rubles to the SDR (special drawing rights) (2013: 50.5735 rubles to the SDR); and 45.9125 rubles to the Australian dollar (2013: 28.9555 rubles to the Australian dollar).

#### (e) Securities

Securities are accounted for at the purchase price, including coupon income paid plus other additional material expenses (costs) directly related to their purchase. Expenses exceeding 5% of the transaction value are regarded as material.

Securities are accounted for in the currency in which they are issued.

The price of securities purchased in a currency other than that in which they were issued is calculated at the official exchange rate as of the purchase date, or at the cross rate set for corresponding currencies.

Investments in securities other than promissory notes are categorised as follows, depending on the purpose of the purchase:

Debt obligations appraised at fair value through profit or loss. These include securities purchased for short-term sale (up to one year), whose current (fair) value can be determined;

Debt held to redemption. This includes securities that the Bank of Russia intends to hold to maturity, regardless of the period between the purchase date and the redemption date;

Debt obligations available for sale. These include securities that are not categorised as 'appraised at fair value through profit or loss' or 'held to redemption' when purchased.

The balance sheet value of securities after their initial recognition is altered by the amount of the discount (premium) and coupon (interest) income accrued and received from the time of their initial recognition until retirement, as well as by the amount of the partial redemption of the nominal value of securities.

The amount of the discount and coupon (interest) income on securities, less the premium amount, is recognised as interest income accrued uniformly over the securities' circulation period.

Interest income on securities where there is no uncertainty as to the receipt of the said income is recognised as income on the last working day of the month in which the securities are retired (sold) or when interest income is paid by the issuer. Interest income on securities where receipt of the income is recognised to be uncertain is recorded to separate balance sheet accounts for interest income on debt obligations accrued prior to sale or redemption and is recognised as income when the funds are actually received.

Securities categorised as securities appraised at fair value through profit or loss and securities categorised as available for sale are revalued at current (fair) value.

Market quotations (prices) posted by trade organisers from the latest organised trades are used to evaluate the current (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 representative quotations (prices) posted by the information agency Bloomberg are used to evaluate securities traded in a foreign financial market not in organised (in over-the-counter) trading, securities traded in the domestic financial market which are not eligible for circulation in organised trading in the domestic financial market, and Russian Federation Eurobonds. Assessment models based on market data are used to evaluate the current (fair) value of securities which do not have representative quotations (prices).

The securities revaluation amount is the difference between the fair price of securities and their balance sheet price, inclusive of accrued interest income. Revaluation amounts that arise during the year due to a change in the current (fair) value are recorded to accounts, reflecting a positive or negative revaluation of securities.

The revaluation of securities categorised as securities appraised at fair value through profit or loss is recorded to the accounts reflecting the income from securities trading (positive differences) or to the accounts reflecting expenses incurred in securities trading (negative differences).

At year end, the excess of the positive revaluation over the negative revaluation of securities available for sale is written down to the account for income from securities transactions within the limits of the negative revaluation of the corresponding issue (issuer), recorded to the account showing expenses from the negative revaluation of securities available for sale in previous years; and in the absence of a negative revaluation of the corresponding issue (issuer), it is recorded to the expenses incurred in previous years or in the amount exceeding it to the account *Positive revaluation of securities available for sale* as part of capital. With respect to securities available for sale that are acquired in the reporting year, the positive revaluation of such securities from the corresponding issue (issuer) is recorded to the balance sheet account *Positive revaluation of securities available for sale* as part of capital.

At year end, the excess of the negative revaluation over the positive revaluation of securities available for sale from the corresponding issue (issuer) is written down against the positive revaluation of securities available for sale, and accounted for as capital within the limits of the previously accrued positive revaluations of this issue (issuer). In the absence (or shortage) of previously accrued positive revaluations of this issue (issuer) accounted for as capital, it is recorded to the account showing expenses on the negative revaluation of securities available for sale. With respect to securities available for sale and acquired in the reporting year, the negative revaluation of such securities from the corresponding issue (issuer) is written down to the account reflecting expenses on the negative revaluation of securities available for sale in the statement of financial performance.

When reclassifying securities from the 'available for sale' category into the 'held to redemption' category, the total accrued revaluation amount is recorded to the income or expenses on securities operations in the statements of financial performance.

The financial result of the retirement 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 and the contractual retirement (selling) price) and is recorded to the income or expenditure on securities operations in the statement of financial performance.

Securities received by the Bank of Russia in reverse transactions (including repo transactions with resident or non-resident credit institutions) are recorded to off-balance sheet accounts and revalued at their current (fair) value. Funds provided in repo transactions with resident or non-resident credit institutions are recorded to Bank of Russia balance sheet accounts as operations to provide funds.

Securities transferred by the Bank of Russia in reverse transactions (including repo transactions with resident or non-resident credit institutions) continue to be recognised on the Bank of Russia balance sheet in the same category of securities as they were recognised before the transaction, in separate balance sheet accounts. Funds obtained in repo transactions with resident or non-resident credit institutions are accounted for on the Bank of Russia balance sheet accounts as fund-raising operations.

Income received or expenses incurred by the Bank of Russia in reverse transactions are recorded as part of interest income or interest expense, respectively.

Securities received by the Bank of Russia as dividends paid with property (in a cashless form) are recognised as of the date of the transfer of title to the relevant securities.

Securities classified as held to redemption are recorded in the Bank of Russia's financial statements at the balance sheet value net of depreciation provisions and the accrued interest whose receipt is recognised as uncertain.

Promissory notes issued by credit institutions are accounted for at their purchase price net of depreciation provisions.

#### **(f) Bank of Russia bonds**

Bank of Russia bonds (OBRs), when placed and sold, are accounted for at the nominal value net of the discount (the difference between their nominal value and the placement or selling price) inclusive of accrued interest.

The discount is recognised as interest expenses accrued during the OBR's period to maturity and recorded to expense accounts on the last working day of the month in which the OBRs are bought back or redeemed.

When OBRs are bought back by the Bank of Russia, securities that were placed first are written off the Bank of Russia balance sheet, while the difference between the balance sheet price of the securities (including accrued interest expenses) and the amount paid is recorded to the statement of financial performance as expenses (income) relating to securities trading.

OBRs received by the Bank of Russia in repos with resident credit institutions are recorded to off-balance sheet accounts as securities received as collateral in repos.

#### **(g) Investments**

Bank of Russia investments in the authorised capital of credit institutions and other organisations inside and outside Russia are accounted for at their purchase price.

#### **(h) Loans and deposits**

Loans and deposits extended to credit institutions and state corporations, including those extended pursuant to federal laws and decisions made by the Bank of Russia Board of Directors, are recognised as part of the principal, including accrued interest whose receipt is regarded as certain, net of depreciation provisions.

The Bank of Russia extends loans against gold, collateral (blocking) of securities, and credit institutions' assets or guarantees.

The Bank of Russia places deposits and extends subordinated loans in accordance with certain federal laws and decisions of the Bank of Russia Board of Directors.

Foreign currency-denominated deposits placed with non-resident banks are recognised as part of the principal, including accrued interest.

#### **(i) Bank of Russia loss provisions**

To cover risks (probable losses) to which it may be exposed when conducting its operations or fulfilling obligations, the Bank of Russia, pursuant to the applicable laws of the Russian Federation, makes provisions for: probable losses on credit and other similar exposure; claims on interest income related to loans and other similar exposure; securities held to redemption; the Ministry of Finance's debt to the Bank of Russia (except debt in the form of government securities); Bank of Russia compensation payments for household deposits at bankrupt banks not covered by the compulsory household deposit insurance system; other Bank of Russia operations in rubles and foreign currency; deferred expenses involved in guaranteeing obligations to the participants in the Bank of Russia's pension plan; deferred expenses related to streamlining the Bank of Russia's structure and the need to cover losses in the event of insufficient funds in its reserves and funds; and for the contingent credit obligations of the Bank of Russia. The Bank of Russia may make provisions for other assets and probable losses if there is any reason to believe that losses may occur.

Provisions for the Bank of Russia's credit and other similar exposures in rubles and foreign currency are made according to a uniform scale for measuring credit risk on an individual basis and/or for homogeneous loan portfolios with similar credit exposure features.

Provisions for credit claims attributed to a homogeneous credit portfolio are made for the portfolio as a whole and reflect the amount of probable losses that may result from the overall depreciation of homogeneous credit claims pooled (grouped) in the portfolio. When determining the criteria for attributing credit claims to the portfolio

of homogeneous credit claims, the Bank of Russia may be guided by the following: types of credit claims; claims emerging from transactions under a single agreement; placement of funds in compliance with certain federal laws; the net settlement of debt obligations under several transactions; and other transaction characteristics.

Bank of Russia provisions are made in rubles. Provisions are made on the basis of decisions of the Bank of Russia Board of Directors and recognised as Bank of Russia expenses. Given a decrease in the amount of provisions as a result of the following events: full or partial repayments of loans, repayment of deposits, settlement of interest claims, repayment of promissory notes and other debts, retirement of other assets, reduction of obligations and/or expenses, termination of contingency obligations, return of funds that remain unclaimed by the depositors of a bankrupt bank and are transferred to the Bank of Russia by the agent bank after the completion of Bank of Russia payments or settlement of the Bank of Russia's claims by the bankrupt bank's receiver, change of the official rate of exchange of foreign currencies against the ruble, improvement of asset quality and mitigation of risk losses for Bank of Russia assets (contingency obligations), the corresponding part of provisions is to be recovered to Bank of Russia income.

Provisions are used to write off assets the Bank of Russia cannot recover, after it has undertaken necessary and sufficient legal and actual measures to recover them and exercise the rights arising from the availability of collateral for such assets, and to cover other losses and guarantee pension obligations and/or expenses.

The risk of probable losses on the Bank of Russia's assets (for which provisions are made) is assessed by measuring the probability of losing funds placed by the Bank of Russia, and the amount of its probable losses according to the provisioning procedure.

Provisions for credit and similar exposure, for exposure to credit interest income and other similar exposure are made by the Bank of Russia when the risk of probable losses (credit risk) arises in ruble- and foreign currency-denominated operations with credit institutions and other borrowers. Such risks are due to the non-fulfilment or improper fulfilment (if there is a threat of such non-fulfilment or improper fulfilment) by borrowers of their obligations with respect to Bank of Russia loans (deposits) and other placements, under the terms and conditions of agreements or other relevant documents that confirm the provision of loans (placement of deposits) and other placements by the Bank of Russia, its other claims, and non-payment of the promissory note.

The Bank of Russia assesses credit risk associated with the following credit and similar exposures: loans extended (deposits placed) by the Bank of Russia; promissory notes; and other claims exposed to credit risks.

When assessing credit risk, the Bank of Russia evaluates the financial standing of a borrower and the quality of its debt servicing. The amount of provisions is determined, with consideration given to the cost (value) of collateral provided under concluded agreements, and calculated using adjustment ratios (discounts), unless the Bank of Russia Board of Directors decides otherwise. Debt under credit exposure is not adjusted for the value of collateral provided, if the Bank of Russia has neither the possibility of recourse nor the right to recover the corresponding collateral.

Provisions for Bank of Russia compensation payments for household deposits in bankrupt banks not participating in the compulsory household deposit insurance system (hereinafter, Bank of Russia compensation payments) are made in the amount of funds actually transferred by the Bank of Russia to agent banks to effect the mentioned compensation payments, and also in the amount of bankrupt banks' debt to the Bank of Russia under obligations that arose in connection with the transfer of funds to bankrupt banks' depositors by the Bank of Russia.

Provisions to guarantee the Bank of Russia's obligations to participants in its pension plan are made for the purpose of ensuring the fulfilment of the supplementary pension obligations to Bank of Russia employees, under the terms and conditions of the pension plan. The amount of the provisions is determined by the excess of the forecast value of pension obligations over the forecast balance of funds on the pension account as of the end of the year following the reporting year.

Loss provision for the funds deposited at a credit institution by the Bank of Russia to compensate for part of the losses (expenses) sustained by the credit institution in transactions with other credit institutions that had their banking licences revoked (pursuant to Federal Law No. 173, dated 13 October 2008, 'On Additional Measures to Support the Financial System of the Russian Federation') are made when the credit institution writes off the compensation deposit in whole or in part.

Bank of Russia assets for which provisions are made are accounted for on the balance sheet net of the amount of the provisions made.

**(j) Fixed assets**

The Bank of Russia's fixed assets are defined as property with a service life over 12 months and a value in excess of the limit set by the Bank of Russia for the recognition of property as fixed assets. Since 1 January 2012, this limit has been set at 40,000 rubles.

Fixed assets are recognised at their residual value, i.e. at the purchase price including revaluation less accrued depreciation.

Bank of Russia fixed assets have been revalued in compliance with Russian Federation Government resolutions. The latest revaluation was made as of 1 January 1997.

Depreciation allowances are made each month, on the first day of the month following the month a fixed asset item is put into operation, at the rate of one twelfth of the annual amount, and are continued through its entire service life (except in cases when the asset is in the process of reconstruction or modernisation lasting longer than 12 months or has been closed down for more than three months following a decision of the Bank of Russia). They are discontinued from the first day of the month following the month in which the cost of the fixed asset item has been fully repaid or it has been written off the books.

The maximum amount of accrued depreciation should equal the balance sheet value of the fixed asset.

Fixed assets acquired and put into operation prior to 1 January 2002 are depreciated at the official rates of depreciation set by USSR Council of Ministers Resolution No. 1072, dated 22 October 1990, 'On Standard Rates of Depreciation Allowances for the Complete Restoration of Fixed Assets of the National Economy of the USSR':

	%
Buildings and other facilities	1–7
Equipment (including computers, furniture, transport vehicles, etc.)	1–8

Fixed assets put into operation from 1 January 2002, are depreciated according to Bank of Russia Order No. OD-715, dated 28 September 2011, 'On Approving the List of Bank of Russia Depreciated Fixed Assets, Categorised by Depreciation Group and Having their Service Life Indicated, and the Procedure for Using the List of the Bank of Russia Depreciated Fixed Assets, Categorised by Depreciation Group and Having their Service Life Indicated', issued pursuant to Russian Federation Government Resolution No. 1, dated 1 January 2002, 'On the Classification of Fixed Assets Included in Depreciation Groups' (as amended by Russian Federation Government Resolutions No. 415, dated 9 July 2003; No. 476, dated 8 August 2003; No. 697, dated 18 November 2006; No. 676, dated 12 September 2008; No. 165, dated 24 February 2009; and No. 1011, dated 10 December 2010):

	%
Buildings and other facilities	1–33
Equipment (including computers, furniture, transport vehicles, etc.)	2–80

The maximum annual depreciation rate decreased due to reaching 100% depreciation on fixed assets subject to the highest depreciation rates applied in the preceding reporting year.

Fixed assets' repair and maintenance expenses are recorded to the statement of financial performance as part of other operating expenses.

Profit and loss arising from the retirement of fixed assets are calculated as the difference between their balance sheet value and retirement value, including accrued depreciation and retirement cost, and are recorded to the statement of financial performance as other income or other operating expenses.

**(k) Intangible assets**

Intangible assets are identifiable objects which do not possess physical form, are intended for long-term use (i.e. a service life of at least 12 months), and which the Bank of Russia has the exclusive right to use.

Intangible assets are accounted for at their residual value, that is, at the purchase price net of accrued depreciation.

A change in the value of an intangible asset is possible if it is revalued. Intangible assets are revalued by recalculating their residual value.

Intangible assets have not been revalued before.

Depreciation allowances are made each month, on the first day of the month following the month an intangible asset is put into operation, at the rate of one twelfth of the annual sum, and are continued through the asset's entire service life. They are discontinued from the first day of the month following the month in which the cost of the asset was completely repaid or the asset was written off the books.

The maximum amount of accrued depreciation shall equal the balance sheet value of the intangible asset.

The following rates of depreciation are applied to intangible assets put into operation from 1 January 2002:

	%
Intangible assets	6–33

The annual depreciation rate decreased due to reaching 100% depreciation on intangible assets subject to the highest depreciation rates applied in the preceding reporting year.

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 Procedures for Recording the Acquisition of Software Licences to Bank of Russia Expenses'.

Profit and loss arising from the retirement of intangible assets is calculated as the difference between their balance sheet value and retirement value, including accrued depreciation and retirement costs are recorded to the statement of financial performance as other income or other operating expenses.

#### **(l) Cash in circulation**

The Bank of Russia is the sole issuer of cash and organiser of cash circulation. The banknotes and coins put into circulation are accounted for on the balance sheet at their nominal value, exclusive of ruble cash at Bank of Russia cash desks and cash in transit.

#### **(m) Funds on accounts with the Bank of Russia**

Funds on accounts with the Bank of Russia are comprised of federal government funds, credit institutions' correspondent accounts and required reserves deposited with the Bank of Russia, credit institutions' and other organisations' deposits taken by the Bank of Russia, as well as regional and local government budget funds and government extra-budgetary funds. Funds on accounts with the Bank of Russia are accounted for on the balance sheet at their nominal value, inclusive of interest accrued.

#### **(n) Float**

As of the year end, float includes the balances resulting from the completion of settlement operations across electronic remittance accounts and letter of advice settlement accounts, and balances of funds resulting from operations between Bank of Russia establishments, connected with the transfer of payments of Bank of Russia establishments and their customers. Float is accounted for on the balance sheet at its nominal value.

#### **(o) Capital**

The Bank of Russia capital consists of:

- authorised capital. Under Article 10 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia has authorised capital of three billion rubles;
- various reserves and funds created to enable the Bank of Russia to fulfil the functions assigned to it by the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'. Information about the sources and use of Bank of Russia reserves and funds is contained in the Statement of Bank of Russia Reserves and Funds, which is part of these Annual Financial Statements.

**(p) Reporting year profit**

Bank of Russia profit is calculated as a difference between total income from the transactions stipulated by Article 46 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and income from stakeholdings in the capital of credit institutions, and expenses associated with the Bank of Russia's fulfilment of the functions assigned to it by Article 4 of this Federal Law.

Reporting year profit, which is accounted for on the Bank of Russia's balance sheet, is the financial result of its performance during the reporting year.

Financial result, i.e. profit or loss, is defined as a difference between total income and total expenses (related to the Bank of Russia's core and non-core activities) recognised in the books for the reporting year.

**(q) Recognition of Bank of Russia income and expenses**

Income and expenses are recognised in the statement of financial performance on an accrual basis, if the amounts of income or expenses can be established, and there is no uncertainty concerning their receipt or payment; that is, they are recorded as soon as they occur rather than after the funds (or their equivalents) have been actually received or paid.

Income from stakeholdings in credit institutions or other organisations' capital is recorded to the statement of financial performance after the funds have been received.

Expenses on the replenishment of supplementary pension funds for Bank of Russia employees are recorded to the statement of financial performance after they have been incurred, based on the actuarial appraisal of pension obligations of the Bank of Russia. Income (expenses) received (incurred) and accrued in previous reporting periods is recorded to the corresponding items of the statement of financial performance for the reporting period.

The receipt of interest income on all credit and other similar claims with regard to borrowers, for whom claims are assigned to substandard loan groups according to the provisioning procedure, or with regard to operations that are pooled to a homogeneous loan portfolio, is recognised as uncertain from the date of assignment. Interest on such credit and similar claims is recorded to off-balance-sheet accounts.

Income and expenses are recorded in the period to which they relate.

**(r) Taxation of the Bank of Russia**

The Bank of Russia pays taxes and duties in compliance with the Tax Code of the Russian Federation. It has drawn up and approved its accounting policy for the purposes of taxation, which sets out the tax accounting principles, together with the methods and rules on and the procedure for creating a tax base for the calculation of taxes and duties paid by the Bank of Russia.

**(s) Transfer of profit to the federal budget**

Pursuant to Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', once the Annual Financial Statements have been approved by the Board of Directors, the Bank of Russia transfers 50% of the actual annual profit retained after the payment of taxes and duties under the Tax Code of the Russian Federation to the federal budget (beginning with the profit for 2015 – 75% of the profit actually received by the year-end).

Article 5 of Federal Law No. 245-FZ, dated 30 September 2010, 'On Amending the Budget Code and Other Laws of the Russian Federation' (as amended), suspended Part 1 of Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' until 1 January 2016. The suspended portion relates to the percentage of actual profit received for the year which is retained after the payment of taxes and duties under the Tax Code of the Russian Federation and which the Bank of Russia must transfer to the federal budget.

Article 6 of Federal Law No. 245-FZ, dated 30 September 2010, 'On Amending the Budget Code and Other Laws of the Russian Federation' (as amended), stipulated that 75% of profit actually received by the Bank of Russia for 2010, 2011, 2013 and 2014 and retained after the payment of taxes and duties under the Tax Code of the Russian Federation should be transferred to the federal budget, after the approval of the Bank of Russia Annual Financial Statements by its Board of Directors.

In accordance with Federal Law No. 40-FZ, dated 2 April 2014, 'On the Specifics for Transferring the Profit for 2013 Received by the Central Bank of the Russian Federation in 2014', funds totalling 60,000,000.0 thousand

rubles were transferred by the Bank of Russia to the state corporation Deposit Insurance Agency (hereinafter, the DIA) as an asset contribution to the compulsory deposit insurance fund from the profit received by the bank for 2013 and retained after the payment of taxes and duties in accordance with the Tax Code of the Russian Federation. After the Annual Financial Statements were approved by the Board of Directors, the Bank of Russia transferred to the federal budget 75% of the actual annual profit for 2013 retained after the payment of taxes and duties under the Tax Code of the Russian Federation and after the transfer of the funds serving as an asset contribution to the DIA.

After the Federal Law 'On the Specifics for Transferring the Profit for 2014 Received by the Central Bank of the Russian Federation in 2015', is adopted, the Bank of Russia will transfer, from the 2014 profit retained after the payment of taxes and duties in accordance with the Tax Code of the Russian Federation, 75% to the federal budget and 15% to the Bank for Development and Foreign Economic Affairs (Vnesheconombank) as an asset contribution to be used to enhance the financial stability of the banking system as prescribed by the Government of the Russian Federation.

#### **(t) Claims on the IMF and obligations to the IMF**

Pursuant to the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia serves as a depository for the Russian ruble funds of the IMF and performs operations and transactions stipulated by the IMF's Articles of Agreement and in line with agreements with the IMF.

The Bank of Russia keeps records of the Russian Federation's claims on the IMF (including its quota in the Fund) and debt to the IMF.

Claims on the IMF include the Russian Federation's quota in the Fund; funds in the Russian Federation account with the IMF's Special Drawing Rights Department (the SDR Department), and loans extended by the Bank of Russia to the IMF under the New Arrangements to Borrow, inclusive of accrued interest.

IMF quotas are subscriptions of all member states, which are paid in national and foreign currencies. The part of the quota paid in a foreign currency constitutes a position on the IMF reserve tranche. Quotas are denominated in Special Drawing Rights (SDRs).

SDRs are reserve assets created by the IMF. The SDR value is posted daily based on a basket of four currencies, consisting of the US dollar, euro, Japanese yen, and pound sterling.

The New Arrangements to Borrow (the NAB) are a lending facility to provide funds to the IMF, based on credit arrangements between the IMF and a group of member countries with sustainable balances of payments and sufficient international reserves. In 2012, upon agreement with member countries, the maximum maturity of NAB claims, including previously issued loans, was extended from five to ten years, while other terms and conditions remained unchanged. The Bank of Russia can recall its committed funds at any time, if necessary.

Obligations to the IMF are represented by the ruble balances on the IMF's Number 1 and 2 Accounts with the Bank of Russia and by the amount of obligations on SDRs received by the Russian Federation during previous issues of SDRs by the IMF, inclusive of accrued interest.

The IMF's Number 1 Account is used for financial operations and trades. The IMF's Number 2 Account is used to pay for the administrative expenses of the IMF representative office in the Russian Federation and is replenished by debiting funds from the IMF's Number 1 Account.

Claims on the IMF and obligations to the IMF, as well as interest accrual, are accounted for in line with IMF recommendations. In order to maintain the total of the Russian Federation 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 regular basis. 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. Total exchange rate differences accrued to the Number 2 Account are recorded to the Bank of Russia's income or expenses. The revaluation at the SDR-to-ruble exchange rate set by the IMF is accrued by the Bank of Russia monthly on the first working day of the month following the reporting month. At the end of the IMF's fiscal year (30 April), at a request of the IMF or the Bank of Russia, the amount of the accrued exchange rate differences from the revaluation of the IMF's Number 1 Account is recorded to the increase (decrease) in the balance of the IMF's Number 1 Account; the accrued exchange rate differences from the revaluation of the Number 2 Account is recorded to the increase (decrease) in this account balance.

SDR-denominated claims on the IMF and obligations to the IMF are revalued at the official SDR-to-ruble exchange rate set by the Bank of Russia.

**(u) Changes to comparative data**

Due to amendments to Bank of Russia Regulation No. 66-P, income (expenses) from the retirement (sale) and from the revaluation of retired (sold) securities available for sale was recorded under the same items in the Bank of Russia's statement of financial performance.

The change in the provisions formed for other funds placed with resident banks (in repo transactions) included in the sub-item *Increase in provisions for loans and deposits with resident banks* as of 1 January 2014 is moved to the separate sub-item *Increase/(decrease) in provisions for other funds placed with resident banks' (in repos)*; the change in the provisions formed for interest claims on loan and similar claims recorded under the sub-item *Increase in provisions for credit institutions' debt on other operations* as of 1 January 2014, is included in the sub-item *Increase in provisions for loans and deposits with resident banks*. The item *Increase in provisions for credit institutions' debt on other operations* is renamed as *Increase in provisions for debt on other operations*.

Due to the introduction of changes to the classification of items (sub-items) of the Bank of Russia personnel costs budget from 1 January 2014, changes were made to the Statement of Bank of Russia Personnel Costs.

(millions of rubles)

Statement of Financial Performance items		2013 (previously recorded amounts)	Changes	2013 (recalculated amounts)
<b>Income from securities trading</b>		<b>12,579</b>	<b>(8,717)</b>	<b>3,862</b>
Income from operations with foreign securities	A	10,616	(10,190)	426
Net income from retired (sold) securities available for sale	A	0	1,473	1,473
<b>Total income</b>		<b>316,513</b>	<b>(8,717)</b>	<b>307,796</b>
<b>Expenses on securities trading</b>		<b>9,704</b>	<b>(8,717)</b>	<b>987</b>
Expenses on operations with foreign securities	A	8,717	(8,717)	0
<b>Total expenses</b>		<b>187,252</b>	<b>(8,717)</b>	<b>178,535</b>

(A) Income from and expenses on the revaluation of retired (sold) securities available for sale and income from and expenses on the retirement (sale) of securities available for sale are reflected in the Statement of Financial Performance on a net basis (Statement of Financial Performance, Notes 17 and 21).

(millions of rubles)

Statement of Financial Performance items		2013 (previously recorded amounts)	Changes	2013 (recalculated amounts)
<b>Net expenses on (income from) the creation (recovery) of provisions</b>				
Increase in provisions for loans and deposits with resident banks	B	3,606	87	3,693
Increase/(decrease) in provisions for other funds placed with resident banks (on repo transactions)	B	0	(107)	(107)
Increase in provisions for debt on other operations	C	50	20	70

(B) Net expenses on (income from) the creation (recovery) of provisions for other funds placed with resident banks (on repo transactions) are recorded to a separate sub-item (Note 23).

(C) Change in the provisions created for interest claims on loan and similar claims is moved from the item *Increase in provisions for debt on other operations* to the item *Increase in provisions for loans and deposits with resident banks* (Note 23).

(millions of rubles)

Statement of Bank of Russia Personnel Costs items	2013 (previously recorded amounts)	Changes	2013 (recalculated amounts)
Compensation	D 80,358	(484)	79,874
Other benefits to Bank of Russia personnel	D 0	484	484

(D) As of 1 January 2014, the total other benefits to Bank of Russia personnel included in the item *Compensation* was moved to the separate sub-item *Other benefits to Bank of Russia personnel* due to changes in the classification of items (sub-items) of the Bank of Russia personnel costs budget (Statement of Bank of Russia Personnel Costs).

## 2. Impact of economic conditions on Bank of Russia financial statements

The annual balance sheet of the Bank of Russia and its financial performance in 2014 were affected by internal and external economic conditions and by the actions and decisions of the Bank of Russia and the Government of the Russian Federation.

2014 saw a deterioration in the dynamics of key economic activity indicators, predominantly as a result of unfavourable external economic conditions. According to Rosstat's estimates, in 2014 gross domestic product growth was 0.6% compared with 1.3% in 2013. Growth in household money income and consumer spending also slowed, despite the continuing high levels of employment. Industrial production and investment activity indicators remained weak.

At the end of 2014, annual growth in consumer prices was 11.4% (December 2014 on December 2013). Inflation expectations were high. The acceleration in inflation during the reporting period was largely shaped by the effect of the ruble's depreciation on prices for a wide range of goods and services. The foreign trade restrictions introduced in 2014 also had an impact on price dynamics. Taking into account the balance of inflation risks and economic growth outlook, the Bank of Russia consistently raised its key rate in March, April, July, October and December 2014 from 5.5% to 17.0% p.a. overall.

In 2014, amid the sluggish economic activity, the annual growth of cash in circulation continued to slow to 6.4% as of 1 January 2015 compared with 8.3% on the same date the previous year. At the same time, cash in circulation as a percentage of the liabilities structure dropped by 9.9 percentage points to 26.9% in 2014. The cash balances in credit institutions' accounts with the Bank of Russia increased over the year by 672,881 million rubles to 2,869,702 million rubles, while their share in the annual balance sheet structure fell by 1.0 percentage point to 8.7%.

In 2014, the ruble suffered significant depreciation primarily as a result of the drop in global oil prices and the intensified capital outflow amid growing economic uncertainty and the introduction of external sanctions against Russia. In view of the change in external factors, the Bank of Russia took steps to stabilise the situation in the domestic foreign exchange market, including direct interventions to sell foreign currency in the domestic market, and reverse operations to provide refinancing to Russian banks in foreign currency.

During 2014, the Russian Federation's international reserves shrank by \$124.1 billion in dollar terms to \$385.5 billion. However, in ruble terms, the balance in the item *Precious metals* increased (by 95.5%) due to purchases and the revaluation effect. The growth in the balance of the item *Funds placed with non-residents and foreign securities* in ruble terms was a result of revaluation (by 21.8%). Overall, the increase in the balances on these

items amounted to 4,619,495 million rubles compared with early 2014, while their share in the Bank of Russia's consolidated annual balance sheet assets fell from 73.1% to 64.2% over 2014.

The balance in the Federal Government funds on accounts with the Bank of Russia increased by 3,295,600 million rubles in 2014. The share of the *Federal Government Funds on accounts with the Bank of Russia* item in the consolidated balance sheet liabilities grew from 25.9% as of 1 January 2014 to 27.8% as of 1 January 2015. The considerable increase in the accrued revaluation of precious metals and accrued foreign exchange differences in foreign currency contributed to the increase in the Bank of Russia capital: balances in the *Reserves and funds* item increased by 5,902,183 million rubles to 9,051,101 million rubles and their share in the consolidated balance sheet rose from 14.0% to 27.5%.

In 2014, amid the intensified structural liquidity deficit in the banking sector, credit institutions' demand for Bank of Russia refinancing remained on the upward track. As a result, as of 1 January 2015, the balance in the *Loans and deposits* item soared more than twofold, and its share in the consolidated annual balance sheet assets grew from 21.6% to 30.2%.

All the internal and external economic factors outlined above had an impact on the Bank of Russia's income and expenses in 2014. In the context of relatively low interest rates in the global financial markets and the reduction of international reserves in dollar terms due to the Bank of Russia's exchange rate policy operations, income from the placement of reserve assets remained at 2013 levels. At the same time, due to enhanced banking sector refinancing in 2014 compared with the previous year and increase in the Bank of Russia's interest rates, its interest income was up. However, the change in the Bank of Russia's asset structure drove up its spending on creating provisions. The Bank of Russia's interest expenses on federal budget funds and expenses on the negative revaluation of securities available for sale also increased. Overall, these factors shaped the Bank of Russia's financial performance at a higher level than in 2013.

### 3. Precious metals

(millions of rubles)

	2014	2013
Precious metals in physical form	2,712,736	1,384,289
Precious metals in coins and commemorative medals	13,493	9,861
<b>Total</b>	<b>2,726,229</b>	<b>1,394,150</b>

The increase in the *Precious metals in physical form* item was due to the purchase of gold through purchase and sale transactions with Russian credit institutions under master agreements and the revaluation of precious metals at the Bank of Russia's book prices.

The increase in the *Precious metals in coins and commemorative medals* item was due to the revaluation of precious metals at the Bank of Russia's book prices.

## 4. Funds placed with non-residents and foreign securities

(millions of rubles)

	2014	2013
Foreign securities	16,059,121	12,711,640
Balances on correspondent accounts and deposits placed with non-resident banks	2,310,073	2,189,690
Funds placed with non-residents in repo transactions	9,369	189,817
<b>Total</b>	<b>18,378,563</b>	<b>15,091,147</b>

Foreign issuers' securities are classified as securities available for sale and mostly consist of French government bonds, US treasuries, government debt obligations of Germany, the United Kingdom, Canada, Australia, the Netherlands, Finland, Austria, Sweden and Denmark, as well as non-government bonds guaranteed by the aforementioned governments, and debt obligations issued by supranational financial institutions.

As of 1 January 2015, foreign securities had maturities ranging from 2015 to 2019 and were either coupon-free or had coupon income rates between 0% and 11.25% p.a.

As of 1 January 2014, foreign securities had maturities ranging from 2014 to 2023 and were either coupon-free or had coupon income rates between 0% and 11.25% p.a.

As of 1 January 2015, the current (fair) value of foreign securities in the Bank of Russia's portfolio totalled 16,059,121 million rubles (2013: 12,711,640 million rubles) (Statement of Bank of Russia Management of Securities and Stakeholdings in the Capital of Organisations Constituting Bank of Russia Property).

The change in the *Foreign securities* item was mostly driven by growth in the exchange rates of the foreign currencies in which the securities were denominated and decreased Bank of Russia investment in foreign securities during the reporting period.

This item includes securities transferred by the Bank of Russia in reverse transactions in international markets, with a total current (fair) value of 342,658 million rubles (2013: 359,391 million rubles), including those transferred in repos, with a total current (fair) value of 9,374 million rubles (2013: 136,842 million rubles) (Note 10), and those transferred as a loan, with a total current (fair) value of 333,284 million rubles (2013: 222,502 million rubles). As of 1 January 2014, this item included securities transferred as additional collateral (margin) in repos, with a total current (fair) value of 47 million rubles.

The most recent representative purchase quotations provided in the Bloomberg analytics system were used to determine the current (fair) value of foreign securities.

In accordance with the Eurasian Economic Union Treaty of 29 May 2014 and, taking into account the Treaty (dated 10 October 2014) on the accession of the Republic of Armenia to the Treaty on the Eurasian Economic Union, the central (national) banks of one party are to transfer funds in 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 National Bank of the Republic of Belarus, the National Bank of the Republic of Kazakhstan and the Central Bank of the Republic of Armenia, correspondent accounts were opened in the national currencies of the member states of the Eurasian Economic Union.

As of 1 January 2015, a total of 494 million rubles were accounted for on the Bank of Russia's correspondent accounts opened with the National Bank of the Republic of Belarus, the National Bank of the Republic of Kazakhstan and the Central Bank of the Republic of Armenia within the framework of the Eurasian Economic Union (2013: 286 million rubles).

The item *Funds placed with non-residents in repo transactions* shows the funds placed with non-resident banks in transactions to purchase foreign securities with an obligation to resell (reverse repos) and interest claims on these transactions, totalling 2 million rubles (2013: 16 million rubles). As of 1 January 2015, these funds constituted monetary funds placed totalling 9,367 million rubles (2013: 77,036 million rubles) which were received in transactions to sell securities with an obligation to repurchase (repo transactions) concluded with the same counterparty (Note 10).

Securities received by the Bank of Russia in reverse repos with non-residents are recorded to off-balance sheet accounts at the current (fair) value totalling 9,395 million rubles (2013: 190,076 million rubles) (Note 27). Of these, securities received in reverse repos executed to place funds received in repo transactions have a current (fair) value of 9,395 million rubles (2013: 77,199 million rubles) (Notes 10 and 27).

The decrease in the item *Funds placed with non-residents in repo transactions* is caused by the reduction in the total amount of funds provided by the Bank of Russia in repos as of the year end.

## 5. Loans and deposits

	<i>(millions of rubles)</i>	
	<b>2014</b>	<b>2013</b>
Loans to and deposits with resident banks,	5,653,095	1,848,914
of which:		
– extended and placed under certain federal laws	503,927	303,366
– unsecured loans	2,559	2,559
Other funds placed with resident banks (in repo transactions)	3,899,452	2,891,194
Other,	657,541	314,523
of which:		
– extended and placed under certain federal laws	646,740	302,623
Provisions	(259,969)	(173,255)
<b>Total</b>	<b>9,950,119</b>	<b>4,881,376</b>

The item *Loans to and deposits with resident banks* mainly shows debt on Bank of Russia loans secured by receivables under loan agreements or guarantees of credit institutions, by pledges of securities from the Bank of Russia Lombard List, promissory notes and gold, as well as amounts outstanding on subordinated loans extended to OJSC Sberbank of Russia in 2008 and 2014 as part of the legislative measures implemented by the Russian Federation to support Russia's financial system, and deposits placed in accordance with decisions of the Bank of Russia Board of Directors (Note 27).

The debt on loans to and deposits with resident banks with a 50% to 100% government stake in their authorised capital amounts to 3,979,238 million rubles (2013: 1,545,958 million rubles), including interest claims of 5,139 million rubles (2013: 3,841 million rubles).

In 2014, increase in the *Loans to and deposits with resident banks* item was caused by credit institutions' massive demand for Bank of Russia loans secured by pledges of receivables under loan agreements or credit institutions' guarantees. Over the year, the debt on the specified Bank of Russia loans increased by 3,135,880 million rubles (2013: 642,301 million rubles) and, as of 1 January 2015, totalled 4,428,784 million rubles (as of 1 January 2014: 1,292,904 million rubles).

Additionally, the *Loans to and deposits with resident banks* item includes loans restructured in 2010, that were originally extended to credit institutions as unsecured loans in the context of measures taken in pursuance of the federal laws of the Russian Federation to support Russia's financial system in line with Article 46 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', as amended by Federal Law No. 171-FZ, dated 13 October 2008, 'On Amending Article 46 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', and by Federal Law No. 317-FZ, dated 30 December 2008, 'On Amending Articles 46 and 76 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'.

The debt on restructured loans amounts to 30,384 million rubles (2013: 30,384 million rubles). All borrowers who have defaulted on restructured loans are currently subject to bankruptcy proceedings due to the revocation of their banking licences.

The *Loans to and deposits with resident banks, of which: extended and placed under certain federal laws* item lists operations to provide 503,927 million rubles in subordinated loans to OJSC Sberbank of Russia (2013: 303,366 million rubles), including interest claims of 3,927 million rubles (2013: 3,366 million rubles).

The *Loans to and deposits with resident banks, of which: unsecured loans* item reflects the overdue debt on the unsecured loan to a credit institution in 2008, totalling 2,559 million rubles (2013: 2,559 million rubles), which was extended as part of the measures taken pursuant to federal laws to support the Russian financial system.

The item *Other funds placed with resident banks (in repo transactions)* reflects funds placed by the Bank of Russia with resident banks in transactions to purchase securities with an obligation to resell, amounting to 3,899,452 million rubles (2013: 2,891,194 million rubles), including interest claims on these transactions in the amount of 1,253 million rubles (2013: 1,338 million rubles). These funds also include foreign-currency funds placed by the Bank of Russia with resident banks in transactions to purchase securities with an obligation to resell, amounting to 1,113,142 million rubles (2013: 0 million rubles), including interest claims on these transactions in the amount of 325 million rubles (2013: 0 million rubles).

The increase in this item can be attributed to the growth of the overall amount of funds provided by the Bank of Russia in repos, including in connection with the start of its transactions in 2014 to provide foreign currency in the domestic market through transactions to buy securities with an obligation to resell.

Securities received by the Bank of Russia as collateral in repos with resident banks are recorded to off-balance sheet accounts at their current (fair) value, amounting to 4,288,841 million rubles (2013: 3,228,101 million rubles), including in foreign currency repo transactions totalling 1,235,494 million rubles (2013: 0 million rubles) (Note 27).

The amount of other funds placed in repo transactions with resident banks with a 50% to 100% government stake in their authorised capital amounts to 1,320,849 million rubles (2013: 1,435,202 million rubles), including interest claims of 565 million rubles (2013: 851 million rubles).

The item *Other* mainly reflects the debt on loans extended to the state corporation Deposit Insurance Agency (DIA) in the amount of 644,520 million rubles (2013: 300,364 million rubles) and a compensation deposit of 2,220 million rubles (2013: 2,259 million rubles). The latter was placed by the Bank of Russia with a credit institution in 2010 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 its borrower whose banking licence had been revoked. This item also includes a subordinated loan issued to the Interstate Bank in the amount of 2,589 million rubles, which was restructured in 2014 from the foreign currency deposit and subordinated loan in line with a decision by the Bank of Russia Board of Directors (in 2013: the foreign currency deposit of 982 million rubles and subordinated loan of 1,500 million rubles).

Additionally, as of 1 January 2015, the *Other* item also included:

- the Bank of Russia's claim on the re-established debt owed to the Bank of Russia on unsecured loans, pursuant to the Moscow Court of Arbitration ruling. In 2014, due to funds transferred to the Bank of Russia by the receiver when satisfying claims of third-priority creditors whose claims were included in the register of creditors' claims, the above-mentioned claim was reduced by 330 million rubles, and as of 1 January 2015, it totalled 530 million rubles (2013: 860 million rubles);
- the Bank of Russia's claim for 2 million rubles (2013: 2 million rubles) arising as a result of the termination of obligations under repo transactions pursuant to clearing rules. The obligations were terminated in accordance with Article 4.1 of Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)' following the revocation of a credit institution's banking licence.

Securities received as loan collateral and accepted for the reduction of required provisions are appraised at the market value of the securities set as of the transfer date of the collateralised property on the Bank of Russia's loan, using adjustment ratios established by the Bank of Russia.

The value of collateral on Bank of Russia loans provided against credit institution guarantees is calculated as the amount of loan debt increased by the interest to be paid in the period remaining to maturity, in accordance with the loan agreement signed with the Bank of Russia.

The collateral value, including guarantees, received on Bank of Russia loans amounts to 5,089,080 million rubles (2013: 1,442,660 million rubles).

The available collateral has allowed resident banks to decrease the amount of provisions for loans (in rubles) by 386,515 million rubles (2013: 321,528 million rubles).

Provisions totalling 259,969 million rubles were made for loans, deposits and other placed funds (2013: 173,255 million rubles), including:

- provisions for the debt on secured ruble-denominated loans extended by the Bank of Russia to resident banks and deposits totalling 92,638 million rubles (2013: 74,628 million rubles);
- provisions for the debt on restructured loans, initially extended to credit institutions as unsecured loans, totalling 30,384 million rubles (2013: 30,384 million rubles);
- provisions for the debt on the unsecured ruble-denominated loan extended to a credit institution totalling 2,559 million rubles (2013: 2,559 million rubles);
- provisions for the debt on funds provided by the Bank of Russia to finance bankruptcy prevention measures in the amount of 128,904 million rubles (2013: 60,073 million rubles);
- provisions for the debt on other funds placed with resident banks (in repo transactions) in the amount of 145 million rubles (2013: 11 million rubles);
- provisions for the debt on other loans and deposits in the amount of 5,339 million rubles (2013: 5,600 million rubles).

## 6. Securities

	<i>(millions of rubles)</i>	
	2014	2013
<b>Debt obligations available for sale, of which:</b>		
Russian federal government debt obligations, of which:	368,160	364,063
– Federal government bonds (OFZs)	150,577	215,638
– Russian government external foreign currency-denominated loan bonds (Russian Eurobonds)	217,583	148,425
Other Russian issuers' debt obligations	252	413
<b>Subtotal</b>	<b>368,412</b>	<b>364,476</b>
<b>Debt obligations held to maturity, of which:</b>		
Other Russian issuers' debt obligations	212,636	0
Provisions	(42,527)	0
<b>Subtotal</b>	<b>170,109</b>	<b>0</b>
Shares issued by credit institutions and other organisations (Bank of Russia stakeholdings)	83,923	85,818
Credit institutions' promissory notes acquired by the Bank of Russia	23	23
Provisions	(11)	(11)
<b>Total</b>	<b>622,456</b>	<b>450,306</b>

### **Debt obligations available for sale**

#### ***Federal government bonds (OFZs)***

The Bank of Russia's OFZ portfolio largely results from the 2003–2005 restructuring of government securities pursuant to federal budget laws, as well as from the purchase and subsequent sales transactions in the securities market in 2007–2009. The characteristics of the securities received as a result of the restructuring comply with federal legal requirements and agreements between the Ministry of Finance of the Russian Federation and the Bank of Russia.

As of 1 January 2015, the OFZ bonds in the Bank of Russia's portfolio had maturity dates from 2015 to 2036, and coupon income rates between 0% and 10% p.a. Zero-coupon-income bonds were set to mature from 2019 to 2027 and accounted for 41% in terms of nominal value or 25% at current (fair) value of the total OFZ portfolio.

As of 1 January 2014, the Bank of Russia had in its portfolio OFZ bonds maturing from 2014 to 2036, with coupon income rates of 0% to 10% p.a. Zero-coupon-income bonds were set to mature from 2019 to 2027 and accounted for 40% in terms of nominal value or 24% at current (fair) value of the total OFZ portfolio.

As of 1 January 2015, the current (fair) value of the OFZs was 150,577 million rubles (2013: 215,638 million rubles).

The change in this item results mainly from the revaluation of securities at current (fair) value due to the fall in market prices and the redemption of OFZs.

The current (fair) value of OFZ issues was determined on the basis of market prices provided by the trade organiser (MICEX Stock Exchange) or using a model to estimate future cash flows discounted on the basis of zero-coupon income rates on government securities calculated by the trade organiser based on the results of the last organised trades of the corresponding year.

As of 1 January 2015, the current (fair) value of OFZs assessed at market prices totalled 73,596 million rubles (2013: 132,658 million rubles).

As of 1 January 2015, the current (fair) value of OFZs assessed using the model for measuring future cash flows totalled 76,981 million rubles (2013: 82,980 million rubles).

#### ***Russian government external foreign currency-denominated loan bonds (Russian Eurobonds)***

Russian government external foreign currency-denominated loan bonds (Russian Eurobonds) are US dollar-denominated government securities issued by Russia's Ministry of Finance. As of 1 January 2015 and 1 January 2014, Russian Eurobonds mature between 2018 and 2030, and have a coupon income of 7.5% to 12.75% p.a.

As of 1 January 2015, the current (fair) value of Russian Eurobonds was 217,583 million rubles (2013: 148,425 million rubles).

The change in this item is mainly caused by the movement of the US dollar exchange rate to the ruble and the revaluation of Russian Eurobonds at current (fair) value due to the fall in market prices.

The current (fair) value of Russian Eurobonds is determined using their latest representative quoted purchase prices, as cited by the financial news and data service Bloomberg.

#### ***Other Russian issuers' debt obligations***

Other Russian issuers' debt obligations available for sale are ruble-denominated bonds issued by the regional governments of the Russian Federation and other Russian issuers authorised to engage in organised trading. The bonds were acquired by the Bank of Russia in 2008 and 2014 following the settlement of unfulfilled repo transaction obligations in the domestic market and its obligations under repo transactions coming to an end in accordance with Article 4.1 of Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)' (termination of obligations pursuant to clearing rules) following the revocation of a credit institution's banking licence.

As of 1 January 2015, Russian regional government bonds in the Bank of Russia's portfolio mature in 2015 and have a coupon income of 5.5% to 7% p.a. As of 1 January 2014, Russian regional government bonds in the Bank of Russia's portfolio were set to mature in 2014 or 2015 and had a coupon income of 5.5% to 8% p.a.

As of 1 January 2015, the current (fair) value of the Eurobonds held by the constituent territories of the Russian Federation was 156 million rubles (2013: 413 million rubles). The change in this item is formed by the redemption of bonds held by constituent territories of the Russian Federation, the Bank of Russia receiving securities as a result

of the termination of its repo transaction obligations, and the revaluation of securities at their current (fair) value due to the fall in market prices.

As of 1 January 2015, other Russian issuers' bonds in the Bank of Russia's portfolio mature in 2023 and have a coupon income of 8% p.a. As of the said date, the current (fair) value of other Russian issuers' bonds was 96 million rubles. And as of 1 January 2014, there were no bonds from other Russian issuers in the Bank of Russia's portfolio.

To determine the current (fair) value of other Russian issuers' debt obligations available for sale, the Bank of Russia used their latest representative quoted prices cited by the trade organiser, i.e. MICEX Stock Exchange.

### Debt obligations held to maturity

#### Other Russian issuers' debt obligations

The debt obligations of other issuers held to maturity consist of Bank for Development and Foreign Economic Affairs (Vnesheconombank) bonds acquired by the Bank of Russia in 2014.

These bonds mature in 2021 and have a coupon income of 2% p.a.

Provisions in the amount of 42,527 million rubles were created for the purchase of Vnesheconombank bonds.

### Shares issued by credit institutions and other organisations (Bank of Russia stakeholdings)

The structure of Bank of Russia investments in the shares of credit institutions and other organisations is shown in the Statement of Bank of Russia Management of Securities and Stakeholdings in the Capital of Organisations Constituting Bank of Russia Property.

The change in the item *Shares issued by credit institutions and other organisations (Bank of Russia stakeholdings)* is due to the Bank of Russia's partial sale of its block of shares of the Moscow Exchange, the purchase of shares in the joint-stock company National Payment Card System, and the revaluation of the Bank of Russia's stake in the authorised capitals of the Bank for International Settlements (Basel) and the Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T) (Belgium), following the change in foreign currency interest rates against the ruble (Statement of Bank of Russia Management of Securities and Stakeholdings in the Capital of Organisations Constituting Bank of Russia Property).

### Credit institutions' promissory notes acquired by the Bank of Russia

This item includes debt on a promissory note acquired by the Bank of Russia in 2001 under the terms and conditions of the Amicable Agreement.

The item *Provisions* shows provisions created for the promissory note issued by a credit institution in the amount of 11 million rubles (2013: 11 million rubles).

## 7. Claims on the IMF

(millions of rubles)

	2014	2013
The Russian Federation's quota with the IMF	484,559	300,680
– quota with the IMF paid in rubles	378,461	213,133
– position on the IMF reserve tranche	105,984	86,826
– revaluation of the Russian Federation's quota with the IMF paid in rubles (positive differences)	114	721
Funds on the Russian Federation account with the IMF SDR Department	463,886	287,755
Loans to the IMF extended by the Bank of Russia under the New Arrangements to Borrow	85,147	57,515
Remuneration on the reserve tranche position	8	14
<b>Total</b>	<b>1,033,600</b>	<b>645,964</b>

The Russian Federation's IMF quota (in SDRs) (5,945.4 million SDRs or 2.5% of all IMF quotas) did not change in 2014 (the increase in the ruble equivalent of the quota was due to growth in the official exchange rate of the SDR against the ruble). The change in the components of the Russian Federation's IMF quota by an increase in the size of the quota paid in rubles and a corresponding decrease in its reserve tranche position was mainly due to the IMF returning funds to the Bank of Russia which had previously been received by the IMF in operations carried out within the limits of the quota.

Due to the Russian Federation's participation in the IMF credit facility under the New Arrangements to Borrow (the NAB), in 2014, the Bank of Russia issued loans to the IMF amounting to 165 million SDRs (2013: 199.4 million SDRs) and received from the IMF 257.4 million SDRs in repayment of the debt (2013: 93.8 million SDRs).

As of 1 January 2015, claims on the IMF under the NAB totalled 1,044.6 million SDRs or 85,140 million rubles (2013: 1,137 million SDRs or 57,505 million rubles), including interest claims of 7 million rubles (2013: 10 million rubles). The credit line's undrawn balance amounted to 7,696.2 million SDRs or 627,250 million rubles (2013: 7,603.8 million SDRs or 384,549 million rubles) (Note 27). The change in the balance of the item *Loans to the IMF extended by the Bank of Russia under the New Arrangements to Borrow* was largely down to growth in the official exchange rate of the SDR against the ruble.

## 8. Other assets

	(millions of rubles)	
	2014	2013
<b>Fixed assets (at residual value)</b>		
Buildings and other facilities	44,663	42,776
Equipment (including computers, IT and data processing systems, furniture, transport vehicles, etc.)	30,884	33,476
<b>Subtotal fixed assets</b>	<b>75,547</b>	<b>76,252</b>
Till cash	77,709	211
Construction projects in progress	16,892	14,247
Bank of Russia correspondent accounts	2,828	3
Intangible assets (at residual value)	1,681	1,529
Settlements with suppliers, contractors and buyers	1,581	2,081
Profit tax advance payments	162	153
Funds transferred by the Bank of Russia to agent banks for payments to the depositors of bankrupt banks	1	77
Other	11,027	6,133
Provisions	(838)	(1,218)
<b>Subtotal other assets</b>	<b>111,043</b>	<b>23,216</b>
<b>Total</b>	<b>186,590</b>	<b>99,468</b>

The table below shows the movement of fixed assets:

	<i>(millions of rubles)</i>	
	<b>2014</b>	<b>2013</b>
<b>Fixed asset value net of accrued depreciation</b>		
Balance as of 1 January	159,437	151,840
Receipt	11,497	12,241
Retirement	(4,317)	(4,644)
<b>Balance as of end-year</b>	<b>166,617</b>	<b>159,437</b>
<b>Accrued depreciation</b>		
Balance as of 1 January	83,185	75,564
Depreciation allowances due to expenses	12,104	12,045
Depreciation allowances due to other sources	3	3
Accrued depreciation of retired fixed assets	(4,222)	(4,427)
<b>Balance as of end-year</b>	<b>91,070</b>	<b>83,185</b>
<b>Fixed asset residual value as of end-year</b>	<b>75,547</b>	<b>76,252</b>

Fixed asset structure and value net of accrued depreciation:

	<i>(millions of rubles)</i>	
	<b>2014</b>	<b>2013</b>
Buildings and other facilities	56,124	53,187
Equipment	51,231	47,622
Computers, office equipment and furniture	29,659	29,614
IT and data processing systems	24,967	24,521
Transport vehicles	3,741	3,616
Other	895	877
<b>Total</b>	<b>166,617</b>	<b>159,437</b>

The increase in the *Buildings and other facilities* item is largely due to the construction and reconstruction of Bank of Russia office buildings.

The increase in the *Equipment* item is due to the purchase of technical equipment to develop and upgrade engineering equipment for the Bank of Russia's IT and telecommunications system, and also to set up the national payment card system.

The increase in the item *Computers, office equipment and furniture* is largely due to the purchases of computer equipment, hardware systems and devices of differing versions, which are designed to support operation of accounting systems, and hardware for collective data processing centres, to develop Bank of Russia information analysis and data storage systems. The increase also occurred following the purchase of additional computer equipment and copiers, in part to implement the Plan of Measures to Guarantee the Uninterrupted Functioning of the Bank of Russia's IT System Infrastructure in the event of sanctions on the supplies of computer equipment and IT services.

The increase in the item *IT and data processing systems* is mostly due to the purchase of telecommunications equipment, including equipment for central nodes of regional segments of the Unified Banking Telecommunications Network, the multiservice telecommunications banking network for the Moscow Region, and communications equipment to set up and modernise local computer networks to develop the Bank of Russia's IT and communications system.

The increase in the *Construction in progress* item mainly occurred as a result of the expanded construction and renovation of Bank of Russia administrative buildings, and the creation and development of information analysis systems, and also banking information protection tools and engineering security equipment.

The increase in the item *Bank of Russia correspondent accounts* results from the growth of balances in foreign currencies on these accounts with resident banks.

The increase in the item *Intangible assets* is caused by the purchase of software products to which the Bank of Russia has exclusive rights.

The item *Profit tax advance payments* reflects profit tax advance payments for 2014.

The item *Other* mostly shows expenses related to the purchase and receipt of software products, licences and certificates, as well as shares of a closed unit investment fund which the Bank of Russia received pursuant to the Agreement on the out-of-court recourse of the collateral for a partial repayment of debt on a loan restructured in 2010 in the amount of 837 million rubles (2013: 819 million rubles) and Russian Federation investment in the authorised capital of the Interstate Bank totalling 10 million rubles (2013: 10 million rubles) (the Statement of Bank of Russia Management of Securities and Stakeholdings in the Capital of Organisations Constituting Bank of Russia Property).

The item *Provisions* reflects created provisions totalling 838 million rubles (2013: 1,218 million rubles), consisting of the following:

- 1 million rubles for transfers to agent banks for the payment of compensation to the depositors of bankrupt banks (2013: 77 million rubles);
- 837 million rubles for other assets (2013: 1,141 million rubles), of which 837 million rubles were allocated for investments in the shares of a closed unit investment fund (2013: 837 million rubles).

## 9. Cash in circulation

The increase in the item *Cash in circulation* is attributable to expanded demand for cash among households and economic agents.

## 10. Funds on accounts with the Bank of Russia

(millions of rubles)

	2014	2013
Federal government funds, of which:	9,144,361	5,848,761
– Reserve Fund	4,975,497	2,863,574
– National Wealth Fund	3,310,694	2,126,481
Credit institutions' funds on correspondent accounts, of which:	1,593,833	1,270,381
– foreign currency funds on correspondent accounts	378,223	18
Deposits taken by the Bank of Russia from credit institutions	804,557	517,631
Government and other extra-budgetary funds	713,890	895,605
Required reserves deposited with the Bank of Russia	471,312	408,809
Regional and local budget funds	443,926	468,647
Non-resident banks' funds raised in repo transactions	9,369	136,851
Other	694,784	812,299
<b>Total</b>	<b>13,876,032</b>	<b>10,358,984</b>

The increase in the balance of the *Federal government funds* item is mainly the result of the growth in the official exchange rates of foreign currencies against the ruble in which assets of the Reserve Fund and National Wealth Fund are placed, and the growth of foreign currency balances on Reserve Fund accounts. In order to comply with the Budget Code and the federal government's resolutions, the Bank of Russia concluded bank account agreements with the Federal Treasury, whereby the Bank of Russia opened foreign currency accounts to record Reserve Fund and National Wealth Fund assets.

The item *Credit institutions' funds on correspondent accounts, of which: foreign currency funds on correspondent accounts* reflects the balances of resident banks' foreign currency correspondent accounts opened under bank account agreements.

The item *Deposits taken by the Bank of Russia from credit institutions* is comprised of the balances of funds raised from resident credit institutions in Russian rubles, including deposits of credit institutions in whose authorised capital the government holds stakes from 50% to 100% inclusive, totalling 25,641 million rubles (2013: 103,702 million rubles), including interest obligations of 0 million rubles (2013: 2 million rubles).

The fall in the item *Government and other extra-budgetary funds* is mostly due to a reduction on the account balances of the Pension Fund of the Russian Federation.

The item *Non-resident banks' funds raised in repo transactions* includes funds raised from non-resident banks in deals to sell foreign securities with an obligation to repurchase them (repo transactions) and interest obligations on these transactions. The Bank of Russia concludes repos to bridge cash gaps and to lend securities to foreign counterparties.

The lending is executed via simultaneous repos and reverse repos concluded with a counterparty. In a repo transaction the counterparty is provided with securities it is interested in, with an obligation for the counterparty to return the securities to the Bank of Russia. In a reverse repo transaction, the Bank of Russia places funds raised in a repo transaction at a higher interest rate and receives other securities as collateral. The reverse repos and repos are concluded for the same tenor. The Bank of Russia benefits from the difference between the repo and reverse repo interest rates. The amount of funds raised in repos opened by the end of the year and placed in reverse repos totalled 9,367 million rubles (2013: 77,036 million rubles). Foreign securities provided in these deals have a total current (fair) value of 9,374 million rubles (2013: 77,042 million rubles) (Note 4). Foreign securities received in these deals as collateral have a total current (fair) value of 9,395 million rubles (2013: 77,199 million rubles) (Note 27).

The interest income received from these repos and reverse repos amounted to 265 million rubles (2013: 636 million rubles) and is recognised in the item *Interest income from foreign currency loans, deposits and other placements* in the amount of 260 million rubles (2013: 632 million rubles), and *Other* in the amount of 5 million rubles (2013: 4 million rubles) in Note 16 *Interest income*. The interest expenses amounted to 220 million rubles (2013: 559 million rubles) and are recognised in the item *Interest expenses on funds raised against the collateral of foreign currency-denominated securities in international markets* in Note 21 *Interest expenses*.

The decrease in the balance of the item *Non-resident banks' funds raised in repo transactions* is due to the fall in the value of funds raised by the Bank of Russia in deals to sell securities with an obligation to repurchase them at the end of the year.

Foreign securities provided in repos with a total current (fair) value of 9,374 million rubles (2013: 136,842 million rubles) are recognised as foreign securities in *Foreign securities* in Note 4.

The *Other* item includes balances on accounts of government, non-profit, and non-governmental organisations, and other clients, as well as deposits taken from the state corporation DIA, and funds on correspondent accounts of the National Bank of the Republic of Belarus and the National Bank of Kazakhstan, which were opened with the Bank of Russia within the framework of the Eurasian Economic Union, in the amount 230 million rubles (2013: 191 million rubles).

The decrease in this item is mainly due to the reduction in the funds of non-governmental financial organisations.

Pursuant to Article 23 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia conducts operations with federal budget funds, government extra-budgetary funds, and regional and local government budget funds without charging a commission.

## 11. Float

The reduction in the balance of this item was due to the decrease in the amounts of inter-regional electronic fund transfers between Bank of Russia establishments related to operations by Bank of Russia establishments and their customers in the final days of the year.

## 12. Securities issued

Given the money market situation and the banking system's liquidity condition in 2014 and 2013, the Bank of Russia did not conduct any OBR placement operations. Therefore, as of 1 January 2015 and as of 1 January 2014, the balance of the *Securities issued* item equalled zero.

## 13. Obligations to the IMF

	<i>(millions of rubles)</i>	
	<b>2014</b>	<b>2013</b>
Obligations on the funds provided to the Russian Federation as a result of the SDR allocation by the IMF	462,299	286,893
Balances on IMF Number 1 and Number 2 Accounts with the Bank of Russia	378,464	198,941
Bank of Russia obligations arising as a result of the revaluation by the IMF of its account balances with the Bank of Russia	0	14,194
<b>Total</b>	<b>840,763</b>	<b>500,028</b>

The obligations on the funds provided to the Russian Federation under the SDR allocation by the IMF did not change in 2014 in SDR terms, totalling 5,671.8 million SDRs or 462,260 million rubles (2013: 5,671.8 million SDRs or 286,843 million rubles). The increase in the ruble equivalent of this item was due to growth in the official exchange rate of the SDR against the ruble.

The increase in the item *Balances on IMF Number 1 and Number 2 Accounts with the Bank of Russia* was largely down to the accrued positive revaluation of these accounts caused by the change in the exchange rate set by the IMF for the SDR against the ruble being credited to the IMF's Number 1 and Number 2 Accounts. This revaluation includes, among other things, the total accrued revaluation for the period from May to December 2013 totalling 14,194 million rubles (not attributed to the increase in the balances of the IMF's Number 1 and Number 2 Accounts in 2013), which was previously recorded in the item *Bank of Russia obligations arising as a result of the revaluation by the IMF of its account balances with the Bank of Russia*.

## 14. Other liabilities

(millions of rubles)

	2014	2013
Assets of the Bank of Russia pension fund	94,381	96,202
Other	1,003	1,168
Provisions	5,020	11,415
<b>Total</b>	<b>100,404</b>	<b>108,785</b>

Under the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia has the right to set up a supplementary pension fund for its employees. The Bank of Russia is implementing a pension plan with defined benefits in line with its regulatory acts. These take into account the fact that Bank of Russia employees are not covered by the guarantees eligible for civil servants, and that similar pension arrangements are widely used by other central banks. The volume of funds allocated for supplementary pension provision to Bank of Russia employees is determined on the basis of an actuarial appraisal made by a certified actuary. As of 1 January 2015, based on the results of the actuary's appraisal of Bank of Russia pension obligations, no funds were added to the supplementary pension fund for Bank of Russia employees (2013: 0 million rubles).

The decrease in this item is due to operations to pay supplementary pension benefits to former employees of the Bank of Russia system.

The item *Other* mostly reflects the amounts of accrued taxes and duties, payable to the federal budget and extra-budgetary funds; accrued liabilities of the Bank of Russia under intra-bank agreements; the funds of educational institutions (banking schools/colleges and secondary educational institutions founded by the Bank of Russia), and funds withdrawn by pre-trial inquiry and investigation authorities.

The item *Provisions* reflects provision set up to meet obligations to the participants in the Bank of Russia's Pension Plan, which was created pursuant to the decision of the Bank of Russia Board of Directors in the amount of 5,020 million rubles (2013: 11,415 million rubles) on the basis of indicative evaluation of the Bank of Russia's pension obligations as of 1 January 2014, conducted by independent professional actuaries (Note 28).

## 15. Reporting year profit

*Reporting year profit* is a balance-sheet item used to reflect the Bank of Russia's financial performance for the year 2014. It is formed by recognising income (received and accrued), whose receipt is considered to be certain, and expenses (paid and accrued) where there is no uncertainty with respect to the performance of contractual obligations.

The outcome of the Bank of Russia's financial performance for 2014 changed compared with the 2013 outcome, mainly due to the following:

- the increase in interest income from loans, deposits and other funds placed with resident banks (Note 16);
- the increase in interest expenses with regard to the Reserve Fund and National Wealth Fund (Note 20);
- the increase in net expenses on the creation of provisions (Note 23);
- the increase in expenses on the negative revaluation of securities available for sale (Note 24).

## 16. Interest income

(millions of rubles)

	2014	2013
Interest income from ruble loans, deposits and other placements with resident banks, of which:	437,525	167,664
– extended and placed under certain federal laws	26,481	19,500
Interest income from securities	72,365	73,774
Interest income from foreign currency loans, deposits and other placements	5,453	6,090
Interest income from Bank of Russia claims on the IMF	397	330
Other, of which:	2,943	4,089
– extended and placed under certain federal laws	2,449	3,632
<b>Total</b>	<b>518,683</b>	<b>251,947</b>

*Interest income from ruble loans, deposits and other placements with resident banks* reflects interest income from Bank of Russia loans extended against the pledge of securities from the Bank of Russia Lombard List, gold, receivables under credit institutions' loan agreements or guarantees, subordinated loans extended in 2008 and 2014 to OJSC Sberbank of Russia in the framework of measures designed to support the financial system of the Russian Federation, as prescribed by the laws of the Russian Federation, interest income from ruble deposits placed by the Bank of Russia pursuant to the decisions of the Bank of Russia Board of Directors, and interest income from repo transactions.

The item *Interest income from ruble loans, deposits and other placements with resident banks, of which: extended and placed under certain federal laws* reflects interest income from subordinated loans extended to OJSC Sberbank of Russia in 2008 and 2014, totalling 26,481 million rubles (2013: 19,500 million rubles).

The increase in *Interest income from ruble loans, deposits and other placements with resident banks* was caused by an increase in credit institutions' debt to the Bank of Russia resulting from growth in their demand for Bank of Russia loans secured by receivables under credit institutions' loan agreements or guarantees, and also growth in the total amount of funds provided by the Bank of Russia through repo transactions.

*Interest income from securities* consists of 48,520 million rubles in interest income from foreign issuers' debt obligations acquired for the purpose of managing foreign exchange reserves (2013: 54,189 million rubles), and of 23,845 million rubles in interest income from Russian issuers' debt obligations (2013: 19,585 million rubles).

The item *Interest income from foreign currency loans, deposits and other placements* mainly shows interest accrued and received from Bank of Russia placements with non-resident banks, and interest from funds provided in repo transactions with foreign securities and from deposits which were placed with non-resident banks in foreign currency and precious metals.

*Interest income from Bank of Russia claims on the IMF* shows interest accrued on the funds on the account with the SDR Department, on loans extended 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 pursuant to Federal Law No. 175-FZ, dated 27 October 2008, amounting to 2,449 million rubles (2013: 3,632 million rubles), from securities lending to non-resident banks on a reverse basis, and also interest income received on accounts opened with non-resident banks.

## 17. Income from securities trading

(millions of rubles)

	2014	2013
Income from operations with foreign securities	5,436	426
Net income from the retirement (sale) of foreign securities available for sale	8,822	1,473
Income from operations with Russian debt obligations	0	1,963
Other	9,711	0
<b>Total</b>	<b>23,969</b>	<b>3,862</b>

The item *Income from operations with foreign securities* includes income from the positive revaluation of foreign securities, which was used to offset the negative revaluation of respective issues, recorded to expenses in previous years.

*Net income from the retirement (sale) of foreign securities available for sale* consists of the net income from the sale and revaluation, at current (fair) value, of retired (sold) foreign government securities, as well as securities issued by non-resident banks and other non-resident debt obligations.

As of 1 January 2014, the item *Income from operations with Russian debt obligations* reflects income from the positive revaluation, at current (fair) value, of Russian debt obligations, which was used to offset the negative revaluation, at current (fair) value, of the relevant issues, recorded to expenses in previous years.

*Other* shows net income from the sale of Moscow Exchange shares, totalling 9,711 million rubles.

In order to implement the provisions of Federal Law No. 251-FZ, dated 23 July 2013, 'On Amending Certain Laws of the Russian Federation Due to the Delegation to the Central Bank of the Russian Federation of the Authority to Regulate, Control and Supervise Financial Markets' with regard to ending the Bank of Russia's stakeholding in the capital of MICEX-RTS Moscow Exchange, an open joint-stock company (the Moscow Exchange) by 1 January 2016, in 2014 the Bank of Russia decided to sell 267,274,238 of its ordinary shares of the Moscow Exchange. The shares were sold through an international share offering. Following the sale of this stock, the Bank of Russia's stakeholding in the Moscow Exchange's capital decreased to 11.73% (Statement of Bank of Russia Management of Securities and Stakeholdings in the Capital of Organisations Constituting Bank of Russia Property).

## 18. Income from stakeholdings in credit institutions and other organisations

(millions of rubles)

	2014	2013
Income from investments in the shares of subsidiary and affiliated credit institutions	36,139	29,024
Income from investments in the shares of subsidiary and affiliated organisations	580	594
Income from investments in the shares of non-resident banks (excluding subsidiary and affiliated banks)	37	50
<b>Total</b>	<b>36,756</b>	<b>29,668</b>

The item *Income from investments in the shares of subsidiary and affiliated credit institutions* reflects income from the Bank of Russia's stakeholdings in OJSC Sberbank of Russia.

*Income from investments in the shares of subsidiary and affiliated organisations* includes income from the stakeholdings in the capital of the Moscow Exchange.

*Income from investments in the shares of non-resident banks (excluding subsidiary and affiliated banks)* reflects income from the Bank of Russia's stakeholdings in the Bank for International Settlements (Basel).

## 19. Other income

(millions of rubles)

	2014	2013
Fees for Bank of Russia services provided to customers	8,470	8,231
Income from the sale of coins made from precious metals	599	1,100
Fines and penalties received	177	130
Income of previous years (net of interest income) identified in the reporting year	117	49
Income from technological processing of precious metals and other income	25	6
Net positive realised foreign currency exchange rate differences	0	5,968
Other	2,064	3,459
<b>Total</b>	<b>11,452</b>	<b>18,943</b>

The item *Fees for Bank of Russia services provided to customers* mostly consists of 8,438 million rubles received in fees for the settlement services provided by the Bank of Russia (2013: 8,203 million rubles) and other fees totalling 32 million rubles (2013: 28 million rubles).

*Other* mainly reflects income resulting from the leasing of property and from property received free of charge.

## 20. Interest expenses

(millions of rubles)

	2014	2013
Interest expenses on federal budget balances, of which:	54,757	4,345
– Reserve Fund balances	31,323	2,802
– National Wealth Fund balances	23,424	1,543
Interest expenses on deposits taken from credit institutions in the domestic market	10,563	5,284
Interest expenses on deposits taken from the state corporation	3,590	901
Interest expenses on Bank of Russia obligations to the IMF	275	221
Interest expenses on funds raised against the collateral of foreign currency-denominated securities in international markets	266	573
Other	2	2
<b>Total</b>	<b>69,453</b>	<b>11,326</b>

In 2008, pursuant to the Budget Code and resolutions of the Government of the Russian Federation, the Bank of Russia concluded bank account agreements with the Federal Treasury, whereby the Bank of Russia opened accounts in rubles and foreign currencies for the Reserve Fund and National Wealth Fund, to which the balances of the Stabilisation Fund accounts were transferred on 30 January 2008.

As of 1 January 2015, the item *Interest expenses on federal budget balances* mostly reflects the interest paid on the balances of the Reserve Fund and National Wealth Fund foreign currency accounts, in accordance with the bank account agreements, for the period of 1 to 15 January 2014, totalling 2,367 million rubles, and the interest accrued for the period of 16 January to 31 December 2014, totalling 52,380 million rubles.

Under the bank account agreements, the Bank of Russia pays an interest based on the yields of indices, each being an aggregate of foreign governments' securities that have specific shares in that aggregate. The set of foreign governments' securities included in these indices is established by the Federal Treasury and regularly revised in compliance with procedures set forth in the bank account agreements between the Bank of Russia and the Federal Treasury.

This item has grown due to the decrease in interest rates, which raised the cost of securities included in these indices. The surge in interest expenses can be largely explained by the growth in the official exchange rates of foreign currencies in which the funds of the Reserve Fund and National Wealth Fund are placed, against the ruble.

Under the bank account agreements, on 20 January 2014, interest was paid to the federal budget income for the period of 16 January 2013 to 15 January 2014, and on 20 January 2015 – for the period of 16 January 2014 to 15 January 2015 (Note 28).

The increase in the item *Interest expenses on deposits taken from credit institutions in the domestic market* is linked to the growth of funds deposited by resident credit institutions in the currency of the Russian Federation with the Bank of Russia in connection with its efforts to absorb excess liquidity on certain days in 2014 (Note 10).

The item *Interest expenses on deposits attracted from the state corporation* includes interest expenses on deposits attracted from the DIA.

The item *Interest expenses on Bank of Russia obligations to the IMF* includes the interest paid and accrued on the balance of the Russian Federation's obligations to the IMF with regard to the allocated SDRs.

The item *Interest expenses on funds raised against the collateral of foreign currency-denominated securities in international markets* includes interest expenses on other funds raised from non-resident banks (in repos).

## 21. Expenses on securities trading

	<i>(millions of rubles)</i>	
	<b>2014</b>	<b>2013</b>
Other	1,293	987
<b>Total</b>	<b>1,293</b>	<b>987</b>

The item *Other* mainly includes expenses on fee payments to organisations supporting securities trading in the domestic market.

## 22. Cash turnover management expenses

This balance sheet item includes expenses involved in the manufacture, destruction and anti-counterfeit protection of banknotes and coins, as well as the purchase and delivery of packaging materials and accessories necessary for the processing of cash.

The drop in expenses in this item is explained by the contracted volumes of manufactured commemorative coins compared with 2013.

## 23. Net expenses on (income from) the creation (recovery) of provisions

	<i>(millions of rubles)</i>	
	<b>2014</b>	<b>2013</b>
Increase/(decrease) in provisions for funds provided to the state corporation	68,831	(7,016)
Increase in provisions for securities acquired from resident banks	42,527	0
Increase in provisions for ruble loans to and deposits with resident banks	18,082	3,693
Increase/(decrease) in provisions for other funds placed with resident banks (in repos)	135	(107)
Increase in provisions for debt on other operations	107	70
Increase in provisions for possible debit of funds from the Russian Federation provisional administered account with the IMF	0	52
(Decrease) in provisions for Bank of Russia compensation payments to the depositors of bankrupt banks	(1)	(1)
(Decrease) in provisions for claims on the withdrawn compensation deposit previously placed by the Bank of Russia with a credit institution	(38)	(43)
(Decrease) in provisions for other active operations	(330)	(24)
(Decrease) in provisions to secure obligations to participants in the Bank of Russia's Pension Plan	(6,395)	0
<b>Total</b>	<b>122,918</b>	<b>(3,376)</b>

The increase in provisions on funds provided to the state corporation DIA is linked to the rise in the amount of funds provided by the Bank of Russia to prevent bankruptcy of credit institutions in connection with the expansion of the list of credit institutions rehabilitated by the Bank of Russia (Note 5).

The increase in provisions for securities acquired from resident banks is linked to the Bank of Russia's acquisition of Vnesheconombank bonds (Note 6).

The increase in provisions for ruble loans to and deposits with resident banks is a result of the expanded volume of Bank of Russia loans secured by credit claims under loan agreements or guarantees of credit institutions, extended according to Bank of Russia Regulation No. 312-P, dated 12 November 2007, 'On the Procedure for Extending Bank of Russia Loans Covered by Assets or Guarantees to Credit Institutions' (Note 5).

The increase in provisions for other funds placed by resident banks (in repo transactions) is driven by the growth in the total amount of funds provided by the Bank of Russia in repo transactions (Note 5).

The increase in provisions for debt on other operations is linked to the increase in provisions for the subordinated loan to the Interstate Bank, which was restructured from a foreign currency-denominated deposit and subordinated loan in accordance with a decision by the Bank of Russia Board of Directors, due to the change in the exchange rate of the US dollar against the ruble as of the date when the mentioned foreign currency-denominated deposit was restructured (Note 5).

Provisions for Bank of Russia compensation payments to the depositors of bankrupt banks are made pursuant to Federal Law No. 96-FZ, dated 29 July 2004, 'On Bank of Russia Compensation Payments for Household Deposits with Russian Bankrupt Banks Uncovered by the Deposit Insurance System', and Bank of Russia regulations. The contraction in provisions is associated with the decrease in funds transferred by the Bank of Russia to agent banks for compensation payments to the depositors of bankrupt banks (Note 8).

The decrease in provisions for claims on the withdrawn compensation deposit is due to the partial redemption of the mentioned deposit placed by the Bank of Russia earlier with the 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 (Note 5).

The decrease in provisions for other active operations is associated with the partial repayment of the debt to the Bank of Russia for unsecured loans; which debt has been re-established on the basis of the Court of Arbitration ruling.

The provisions set up to meet the obligations to the participants in the Bank of Russia's Pension Plan were reduced in accordance with a decision by the Bank of Russia Board of Directors.

## 24. Expenses on negative revaluation of securities available for sale

(millions of rubles)

	2014	2013
Expenses on negative revaluation of securities available for sale	42,642	7,826
<b>Total</b>	<b>42,642</b>	<b>7,826</b>

At the end of 2014, there was a negative unrealised revaluation of securities available for sale for certain issues of foreign debt totalling 1,920 million rubles (2013: 5,845 million rubles) and Russian issuers' debt totalling 40,722 million rubles (2013: 1,981 million rubles), which was recorded to Bank of Russia expenses (Note 1 (e)).

## 25. Other operating expenses

(millions of rubles)

	2014	2013
Depreciation allowances	12,528	12,406
Expenses on IT maintenance and logistics	9,137	8,290
Net negative realised foreign currency exchange rate differences	6,058	0
Security expenses	4,954	4,955
Expenses on the maintenance of buildings	3,454	3,453
Repair expenses	3,129	3,228
Expenses on the delivery of bank documents and valuables	2,843	4,377
Expenses involved in the use of titles to intellectual property	2,420	2,396
Postage, telegraph and telephone expenses and expenses on renting communication lines and channels	1,934	1,912
Taxes and duties paid	1,878	1,996
Net negative realised differences for precious metals	1,041	30
Expenses on foreign currency operations	182	66
Expenses on operations with precious metals	63	83
Other	6,622	8,043
<b>Total</b>	<b>56,243</b>	<b>51,235</b>

*Net negative realised foreign currency exchange rate differences* reflect net exchange rate differences arising from the purchase (sale) of foreign currency in the domestic and international markets at exchange rates that differ from the official rates established by the Bank of Russia.

*Net negative realised differences for precious metals* show net negative realised differences arising from the purchase (sale) of precious metals in the domestic and international markets as well as the commission paid in transactions to sell commemorative and investment coins in the international market.

*Other* is mainly comprised of personnel training expenses, expenses to retire/sell assets, business travel expenses, printing and other expenses for the production, purchase and mailing of forms and data media, and expenses related to the purchase of equipment and accessories put into operation/use.

## 26. Personnel costs

For explanation, see the Statement of Bank of Russia Personnel Costs.

## 27. Off-balance sheet claims and obligations accounts

Claims and obligations on forward operations recorded to off-balance sheet accounts are as follows:

	<i>(millions of rubles)</i>	
	<b>2014</b>	<b>2013</b>
<b>Claims</b>		
Claims for the delivery of rubles in spot transactions	155,749	285,210
Claims for the delivery of foreign currency in spot transactions	90,013	0
Claims for the delivery of foreign currency from non-residents in spot transactions	41,444	25,764
Claims for the delivery of foreign currency-denominated securities from non-residents in spot transactions	0	14,586
Claims for the delivery of foreign currency from non-residents in forward transactions	124,555	77,055
Claims for the delivery of foreign currency-denominated securities from non-residents in forward transactions	0	23,189
Unrealised (negative) exchange rate differences from the revaluation of foreign currency	0	511
<b>Total claims</b>	<b>411,761</b>	<b>426,315</b>
<b>Obligations</b>		
Obligations to deliver rubles in spot transactions	86,904	0
Obligations to deliver foreign currency in spot transactions	152,943	285,999
Obligations to deliver foreign currency from non-residents in spot transactions	40,337	39,196
Obligations to deliver foreign currency-denominated securities from non-residents in spot transactions	1,011	1,113
Obligations to deliver foreign currency from non-residents in forward transactions	124,381	99,230
Obligations to deliver precious metals from non-residents in forward transactions	0	695
Unrealised (positive) exchange rate differences from the revaluation of foreign currency	6,185	0
Unrealised (positive) exchange rate differences from the revaluation of precious metals	0	82
<b>Total obligations</b>	<b>411,761</b>	<b>426,315</b>

The decrease in *Claims for the delivery of rubles in spot transactions* and in *Obligations to deliver foreign currency in spot transactions* mainly results from the fall (as of the reporting date compared with the previous reporting date) in the volume of FX swaps in the domestic financial market.

The increase in *Claims for the delivery of foreign currency in spot transactions* and in *Obligations to deliver rubles in spot transactions* is explained by the existence (as of the reporting date) of FX spot swaps in the domestic financial market.

The increase in *Claims for the delivery of foreign currency from non-residents in spot transactions* and in *Obligations to deliver foreign currency from non-residents in spot transactions* is largely driven by the increase in the

claims (obligations), in ruble terms, to deliver foreign currency in conversion deals in international financial markets as of the reporting date, compared with the claims (obligations), in ruble terms, to deliver foreign currency in conversion deals in international financial markets as of the previous reporting date, which is caused by growth in the official exchange rates of foreign currencies.

The decrease in *Claims for the delivery of foreign currency-denominated securities from non-residents in spot transactions* is attributable to the lack of deals to buy securities in international financial markets.

The increase in *Claims for the delivery of foreign currency from non-residents in forward transactions* and in *Obligations to deliver foreign currency from non-residents in forward transactions* is mainly the result of the increase in the claims (obligations), in ruble terms, to deliver foreign currency in conversion deals in international financial markets as of the reporting date, compared with the claims (obligations), in ruble terms, to deliver foreign currency in conversion deals in international financial markets as of the previous reporting date, which is caused by growth in the official exchange rates of foreign currencies.

The decrease in *Claims for the delivery of foreign currency-denominated securities from non-residents in forward transactions* results from the lack of deals to buy securities in international financial markets as of the reporting date.

The decrease in *Obligations to deliver foreign currency-denominated securities from non-residents in spot transactions* is related to the decrease in transactions to sell securities in international financial markets as of the reporting date compared with the previous reporting date.

The decrease in *Obligations to deliver precious metals from non-residents in forward transactions* is the result of the lack, as of the reporting date, of put options for precious metals contracted in international financial markets in the course of placing precious metals in conditional deposits.

Other claims and obligations recorded to the off-balance sheet accounts include:

	<i>(millions of rubles)</i>	
	<b>2014</b>	<b>2013</b>
Securities accepted as collateral for funds placed	351,449	14,619
Securities received in reverse transactions	4,298,236	3,418,216
Guarantees and sureties received	909,580	477,722
Assets accepted as collateral for funds placed, except for securities and precious metals	4,193,990	995,537
Unused lines of credit facilities	1,012	16,968
Guarantees and sureties issued	567,112	351,906
Unused limits to provide funds in the form of overdrafts and 'against the debt limit' loans	3,017,485	717,311
Settlements with the IMF related to servicing funds raised and placed	7,002	4,342
Arrears in interest payments on the principal debt not written off the balance sheet	15,522	2,439
Unused limits to receive interbank funds in the form of overdrafts and 'against the debt limit' loans	2,373,259	0

Securities accepted as collateral for funds placed are securities accepted by the Bank of Russia from credit institutions as collateral for the issued loans (Note 5) and securities accepted by the Bank of Russia as collateral in reverse transactions to provide securities in the form of loans in international markets.

Securities included in the item *Securities received by the Bank of Russia in reverse transactions* are securities received from counterparties in repos with resident banks in the domestic securities market and with non-residents in international markets, and also 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 with resident banks in the domestic securities market are accounted for at their current (fair) value, which, as of 1 January 2015, totals 4,288,841 million rubles (2013: 3,228,101 million rubles) (Note 5).

Securities received by the Bank of Russia from counterparties in repos with non-residents are accounted for at their current (fair) value, which, as of 1 January 2015, totals 9,395 million rubles (2013: 190,076 million rubles), this includes the current (fair) value of securities received in reverse repos that match repos, totalling 9,395 million rubles (2013: 77,199 million rubles) (Notes 4 and 10).

As of 1 January 2014, the Bank of Russia received additional collateral (margin) in the form of foreign securities in repos with non-residents in international markets, with a total current (fair) value of 39 million rubles. These securities were received due to excess of the total volume of Bank of Russia counterparty's obligations over the total volume of Bank of Russia obligations in all repos with that counterparty.

The increase in this item is mainly the result of growth in the volume of repos concluded in the domestic market, including foreign currency repos.

Guarantees and sureties received by the Bank of Russia are predominantly credit institutions' guarantees accepted as collateral for issued loans (Note 5).

Assets accepted as collateral for funds placed, except for securities and precious metals, constitute claims under loan agreements accepted by the Bank of Russia as chiefly collateral for loans extended to credit institutions; these assets total 4,193,990 million rubles (2013: 995,537 million rubles) (Note 5).

Unused lines of credit facilities in the amount of 1,012 million rubles (2013: 16,968 million rubles) are foreign currency-denominated deposit transactions concluded in international markets, which have not yet reached their maturity date (as of 1 January 2015), totalling 1,012 million rubles (2013: 12,446 million rubles) and deposits with precious metals totalling 0 million rubles (2013: 4,522 million rubles).

Guarantees and sureties issued include Bank of Russia contingent liability to the IMF to pay for the increase in the Russian Federation's IMF quota in line with the 14th General Review of Quotas, amounting to 6,958.3 million SDRs or 567,112 million rubles (2013: 6,958.3 million SDRs or 351,906 million rubles). The decision to increase country quotas with the IMF raises the Russian Federation's new quota to 12,903.7 million SDRs or to 2.7% of all IMF quotas. The payment for the increased quotas will take place after the decision has been ratified by the majority of IMF member states.

Unused limits to provide funds in the form of overdrafts and 'against the debt limit' loans totalling 3,017,485 million rubles (2013: 717,311 million rubles) include:

- unused line of Bank of Russia credit facilities to be provided to the IMF under the New Arrangements to Borrow in the amount of 7,696.2 million SDRs or 627,250 million rubles (2013: 7,603.8 million SDRs or 384,549 million rubles) (Note 7);
- 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 562,584 million rubles (2013: \$10,000 million or 327,292 million rubles);
- unused ruble limits to conclude swaps between the Bank of Russia and the People's Bank of China under the bilateral national currency swap agreement concluded in 2014 in the amount of 815,000 million rubles. These limits constitute the current maximum ruble funds which can be provided by the Bank of Russia via swaps;
- unused limits for the Bank of Russia to provide US dollars under the Treaty for the Establishment of a BRICS Contingent Reserve Arrangement concluded in 2014 between the BRICS nations, totalling \$18,000 million or 1,012,651 million rubles.

As an IMF member country, the Russian Federation participates in a burden-sharing mechanism for debt arrears. Under this mechanism, in order to compensate for third party defaults on their payments to the IMF, IMF borrower countries pay surcharges to the interest rate, while a deduction on this rate is withheld from creditor countries. Settlements with the IMF related to servicing raised and placed funds represent amounts of the Russian Federation's claims on the IMF for paid interest rate surcharges and charged interest rate deductions that accrued in 1993–2005 and in 2009–2014 under the burden-sharing mechanism, and total 85.9 million SDRs (7,002 million rubles) as of 1 January 2015 (2013: 85.9 million SDRs or 4,342 million rubles).

Arrears in interest payments on the principal debt 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, whose receipt is uncertain.

Unused limits to receive interbank funds in the form of overdrafts and 'against the debt limit' loans totalling 2,373,259 million rubles (2013: 0 million rubles) include:

- unused limits in Chinese yuan to conclude swaps between the Bank of Russia and the People's Bank of China under the bilateral national currency swap agreement concluded in 2014, amounting to 150,000 million Chinese yuan or 1,360,608 million rubles. These limits are the current maximum amount of Chinese yuan which can be obtained by the Bank of Russia through swap transactions;
- unused limits for the Bank of Russia to obtain US dollars under the Treaty for the Establishment of a BRICS Contingent Reserve Arrangement concluded in 2014 by the BRICS countries, totalling \$18,000 million or 1,012,651 million rubles.

## 28. Post-accounting date events

The adjustment of the amount of taxes and duties after the final settlement for the reporting tax period are recognised in Bank of Russia accounting records in 2015. Taxes and duties after the final settlement, paid on 27 March 2015 from the Bank of Russia's 2014 profit, amounted to 1 million rubles (Statement of Profit and its Allocation and Table *Capital, funds and profit allocation*).

Upon the adoption of the Federal Law 'On the Specifics for Transferring the Profit for 2014 Received by the Central Bank of the Russian Federation in 2015', following approval by the Bank of Russia Board of Directors of the Bank of Russia's 2014 Annual Financial Statements, the Bank of Russia will transfer, from the profit actually received for 2014 after the payment of taxes and duties in accordance with the Tax Code of the Russian Federation, 75%, or 137,509 million rubles, to the federal budget and 15%, or 27,502 million rubles, to the Bank for Development and Foreign Economic Affairs (Vnesheconombank) as an asset contribution to be used to strengthen the financial stability of the banking system as prescribed by the Government of the Russian Federation (Statement of Profit and its Allocation and Table *Capital, funds and profit allocation*).

From the profit retained by the Bank of Russia, the Bank of Russia Board of Directors decided to allocate: 17,601 million rubles to the Bank of Russia Reserve Fund and 733 million rubles to the Bank of Russia Social Fund (Statement of Profit and its Allocation and Table *Capital, funds and profit allocation*).

In January 2015, the Bank of Russia paid to the federal budget interest on the assets of the Reserve Fund and National Wealth Fund for the period from 16 January 2014 to 15 January 2015, totalling 86,474 million rubles, with the amount of interest for the period from 16 January to 31 December 2014 being 52,380 million rubles and the amount of interest for the period from 1 to 15 January 2015 being 34,094 million rubles.

In connection with the entry into force on 21 July 2014 of Federal Law No. 275-FZ 'On Amending Articles 4 and 5 of the Federal Law 'On Additional Measures to Support the Financial System of the Russian Federation'', in March 2015, the Bank of Russia and OJSC Sberbank of Russia signed addenda to the subordinated loan agreements whereby the Bank of Russia provided subordinated loans to OJSC Sberbank of Russia pursuant to the measures set out in the legislation of the Russian Federation to support the financial system of the Russian Federation. These addenda provided for an increase in the terms of the Bank of Russia's subordinated loans to OJSC Sberbank of Russia to 50 years with the option for OJSC Sberbank of Russia to extend the validity of the agreements no more than once in 50 years without approval by the Bank of Russia, at a rate of 6.5% p.a. with the possibility of a rate revision after 31 December 2019.

On 27 March 2015, the Bank of Russia Board of Directors decided to reduce the previously formed provisions to cover obligations to Bank of Russia Pension Plan participants by 5,020 million rubles with this amount being recovered to the Bank of Russia's income in April 2015 (Note 14).

## STATEMENT OF PROFIT AND ITS ALLOCATION

*(millions of rubles)*

	2014	2013
1 Actual profit for the year	183,508	129,261
2 Taxes and duties paid from Bank of Russia profit under the Tax Code of the Russian Federation, total:	163	160
of which:		
– advance payments in the reporting year	162	153
– after the final settlement for the reporting year*	1	7
3 Profit after the payment of taxes and duties under the Tax Code of the Russian Federation	183,345	129,101
4 Funds transferred from the 2013 profit to the DIA	–	60,000
5 Funds to be transferred to the federal budget pursuant to Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'	137,509	51,826
6 Funds to be transferred to Vnesheconombank upon the adoption of the Federal Law 'On the Specifics for Transferring the Profit for 2014 Received by the Central Bank of the Russian Federation in 2015'	27,502	–
7 Profit remaining at the Bank of Russia, total*	18,334	17,275
of which, allocated to:		
– Reserve Fund	17,601	16,584
– Social Fund	733	691

In accordance with Article 11 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', Bank of Russia profit is calculated, at the end of the year, as a difference between total income from banking operations and transactions stipulated by Article 46 of the aforementioned Federal Law, income from the stakeholding in the capital of credit institutions, and expenses involved in the Bank of Russia's fulfilment of the functions assigned to it by Article 4 of this Federal Law.

In 2014, the financial indicators of the Bank of Russia's performance were predominantly shaped by its operations in the domestic market. Under the influence of unfavourable external factors and the fall in the ruble's exchange rate against major world currencies, the Russian Federation's banking system showed a significant increase in demand for liquidity. Accordingly, the Bank of Russia's interest income also grew considerably compared with the previous year. At the same time, changes in the Bank of Russia's asset structure triggered an increase in its expenses on creating corresponding provisions. The Bank of Russia's interest expenses on federal budget funds and on the negative revaluation of securities available for sale also went up. These factors meant that the Bank of Russia's financial performance was at a higher level than in 2013.

The Bank of Russia's profit for the year is allocated according to the procedure established by Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'. This article stipulates that up to 2016, after the Bank of Russia's Annual Financial Statements have been approved by its Board of Directors, the Bank of Russia must transfer 50% of the profit, which it actually received for the year and which remains after the payment of taxes and duties, to the federal budget in accordance with the Tax Code of the Russian Federation (starting with the profit for 2015, 75% of the profit it actually receives for the year). The Bank of Russia Board of Directors transfers retained profit to reserves and various funds.

Articles 5 and 6 of Federal Law No. 245-FZ, dated 30 September 2010, 'On Amending the Budget Code and Other Laws of the Russian Federation' (as amended) suspended Part 1 of Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' until 1 January 2016 and set the relative size of the actual profit received for 2013 and 2014 which remained after the payment of taxes and duties under the Tax Code of the Russian Federation and which the Bank of Russia must transfer to the federal budget at 75%.

\* The payment of taxes and duties from the reporting year's profit pursuant to the Tax Code of the Russian Federation after the final calculation of profit for the reporting tax period, and the allocation of the reporting years' actual profit retained after the payment of taxes and duties are recognised in the Bank of Russia's balance sheet for the current year (Note 28).

Upon the adoption of the Federal Law 'On the Specifics for Transferring the Profit for 2014 Received by the Central Bank of the Russian Federation in 2015', the Bank of Russia will transfer, from the 2014 profit retained after the payment of taxes and duties in accordance with the Tax Code of the Russian Federation, 75% to the federal budget and 15% to Vnesheconombank as an asset contribution to be used to strengthen the financial stability of the banking system.

## STATEMENT OF BANK OF RUSSIA RESERVES AND FUNDS

*(millions of rubles)*

	Reserve fund	Social fund	Accrued precious metal revaluation	Positive revaluation of securities available for sale	Accrued foreign currency exchange rate differences	Growth in the value of property after revaluation	Total
<b>Opening balance of the reporting year, inclusive of funds received as a result of profit allocation for the year preceding the reporting year</b>	<b>301,239</b>	<b>2,579</b>	<b>811,491</b>	<b>54,167</b>	<b>1,988,751</b>	<b>7,966</b>	<b>3,166,193</b>
Transferred to funds from other sources	0	1	1,141,562	20,167	4,764,965	0	5,926,695
Funds used	0	(185)	0	(41,602)	0	0	(41,787)
<b>Opening balance of the year following the reporting year</b>	<b>301,239</b>	<b>2,395</b>	<b>1,953,053</b>	<b>32,732</b>	<b>6,753,716</b>	<b>7,966</b>	<b>9,051,101</b>
Transferred from reporting year profit*	17,601	733	0	0	0	0	18,334
<b>Total, inclusive of funds received as a result of reporting year profit allocation</b>	<b>318,840</b>	<b>3,128</b>	<b>1,953,053</b>	<b>32,732</b>	<b>6,753,716</b>	<b>7,966</b>	<b>9,069,435</b>

\* The allocation of the reporting year's actual profit is recognised in the Bank of Russia balance sheet for the current year (Note 28).

Pursuant to Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', once the Annual Financial Statements have been approved by the Board of Directors, the Bank of Russia allocates its profit, retained after the payment of taxes and duties in accordance with the Tax Code of the Russian Federation and after transferring a part of this profit to the federal budget, to reserves and various funds. The procedure for the allocation of the profit retained by the Bank of Russia is established by its 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 Reserve Fund was created to ensure stable operation of the Bank of Russia for the fulfilment of functions assigned to it by law. The Bank of Russia Reserve Fund is formed from its profit. According to a decision of the Board of Directors, the Bank of Russia may also transfer money from other funds and reserves that are part of its capital to the Reserve Fund.

In accordance with the procedure for allocating the Bank of Russia's retained profit and the decision of the Bank of Russia Board of Directors on the 2014 profit allocation; 17,601 million rubles were transferred to the Reserve Fund (2013: 16,584 million rubles).

The Bank of Russia Social Fund was set up to provide financing for the social needs of Bank of Russia employees and, in some cases, pensioners registered with the Bank of Russia.

Money from the Social Fund is mainly used to provide one-off social benefits to Bank of Russia employees. The Social Fund is formed from the Bank of Russia's retained profit.

The procedure for creating and using the Social Fund is governed by the Bank of Russia Regulation 'On the Social Fund of the Central Bank of the Russian Federation'.

In accordance with the procedure for allocating the Bank of Russia's retained profit and the decision of the Bank of Russia Board of Directors on the 2014 profit allocation, 733 million rubles or 4% were transferred to the Bank of Russia Social Fund (2013: 691 million rubles or 4%) out of the Bank of Russia's retained profit.

According to the decisions of the Bank of Russia Board of Directors, precious metals and precious metals in coins (from 1 January 2007 and 1 July 2013 respectively) are recognised in accounting records at the book price for precious metals set in accordance with Bank of Russia regulatory documents and are revalued as book prices are set. In 2014, the positive unrealised differences exceeded the negative ones by 1,141,562 million rubles. This excess was posted to the balance sheet account *Accrued precious metal revaluation* as part of the Bank of Russia capital (in 2013, the negative unrealised differences exceeded the positive ones by 385,733 million rubles).

Accrued foreign currency exchange rate differences result from the revaluation of foreign currency funds, caused by changes in the official rate of foreign currencies against the ruble. In 2014, the positive unrealised foreign currency exchange rate differences exceeded the negative ones by 4,764,965 million rubles. This excess was posted to the balance sheet account *Accrued foreign currency exchange rate differences* as part of the Bank of Russia capital (2013: 828,707 million rubles).

In compliance with the Bank of Russia's accounting rules, beginning from 1 January 2008, securities available for sale have been evaluated (revalued) at their current (fair) value. In 2014, the accrued positive revaluation of securities available for sale totalling 20,167 million rubles was posted to the balance sheet account *Positive revaluation of securities available for sale* as part of the Bank of Russia capital (2013: 4,025 million rubles). The positive revaluation accrued in previous years was written off as the securities of corresponding issues (issuers) were retired (sold) in 2014, and was also used to settle the negative unrealised revaluation of securities from corresponding issues (issuers) accrued in 2014 in the amount of 41,602 million rubles (2013: 40,620 million rubles).

The fixed asset revaluation fund is the increase in the value of property due to the revaluation of fixed assets, made in compliance with the Russian Federation Government Resolutions in 1992, 1994, 1995, 1996 and 1998.

## STATEMENT OF BANK OF RUSSIA MANAGEMENT OF SECURITIES AND STAKEHOLDINGS IN THE CAPITAL OF ORGANISATIONS CONSTITUTING BANK OF RUSSIA PROPERTY

### Bank of Russia investments in debt obligations

(millions of rubles)

	2014	2013
<b>Foreign issuers' debt obligations, of which:</b>		
US and Canadian issuers' debt obligations	5,407,303	5,030,034
– denominated in US dollars	4,873,106	4,568,372
– denominated in euros	0	0
– denominated in Canadian dollars	532,581	460,041
– denominated in pounds sterling	0	1,621
– denominated in Australian dollars	1,616	0
EU issuers' debt obligations	10,243,866	7,451,817
– denominated in US dollars	309,539	122,049
– denominated in euros	8,127,901	6,047,858
– denominated in pounds sterling	1,803,996	1,281,465
– denominated in Australian dollars	2,430	445
Japanese issuers' debt obligations	0	0
– denominated in Japanese yen	0	0
Australian issuers' debt obligations	130,907	116,022
– denominated in Australian dollars	130,907	116,022
Debt obligations of international organisations	277,045	113,767
– denominated in US dollars	153,801	69,153
– denominated in euros	107,911	42,072
– denominated in pounds sterling	8,235	0
– denominated in Australian dollars	7,098	2,542
<b>Subtotal</b>	<b>16,059,121</b>	<b>12,711,640</b>
<b>Russian issuers' debt obligations, of which:</b>		
Russian federal government debt obligations	368,160	364,063
– denominated in rubles	150,577	215,638
– denominated in US dollars	217,583	148,425
Other Russian issuers' debt obligations (excluding promissory notes)*	212,888	413
– denominated in rubles	212,888	413
Promissory notes issued by credit institutions	23	23
<b>Subtotal</b>	<b>581,071</b>	<b>364,499</b>
<b>Total</b>	<b>16,640,192</b>	<b>13,076,139</b>

\* The value of securities not accounted for at their current (fair) value is indicated net of provisions created (Note 6).

Foreign issuers' debt mostly consists of French government bonds, US treasuries, government debt obligations of Germany, the United Kingdom, Canada, Australia, the Netherlands, Finland, Austria, Sweden and Denmark, and also non-government securities guaranteed by the aforementioned governments, and debt obligations issued by supranational institutions.

The change in this item was mostly due to the increased value of foreign securities following growth in the official exchange rates of foreign currencies in which the foreign securities were denominated against the ruble, despite decreased Bank of Russia investment in foreign securities denominated in foreign currencies.

In 2014, the Bank of Russia did not carry out operations with securities from its own portfolio in organised trading in the domestic financial market, except for the sales of other Russian issuers' debt obligations received by the Bank of Russia in connection with the termination of its obligations under repo transactions (termination of obligations pursuant to Article 4.1 of Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)', in accordance with clearing rules following the revocation of the banking licence of a credit institution).

In 2014, due to the termination of the Bank of Russia's obligations under repo transactions, federal government bonds (OFZs) and bonds issued by the constituent territories of the Russian Federation and other Russian issuers were added to the Bank of Russia's portfolio. Also in 2014, as a result of a credit institution's default on the Bank of Russia's loan, the Bank of Russia acquired the OFZ pledged for the loan. And the same year, Vnesheconombank bonds were included in the Bank of Russia's portfolio.

The ruble-denominated Russian government debt obligations are known as OFZ bonds (federal government bonds). The change in this item results mainly from the revaluation of securities at current (fair) value due to the fall in market prices and the redemption of OFZs.

The US dollar-denominated Russian government debt obligations are known as external foreign currency bonds. This increase in the balance of this item is largely driven by growth in the US dollar/ruble exchange rate, despite the negative revaluation of their current (fair) value due to the fall in market prices.

Other Russian issuers' ruble-denominated debt obligations are securities issued by the constituent territories of the Russian Federation and other Russian issuers. The increase in the balance of this item is mainly the result of the acquisition of Vnesheconombank bonds. Moreover, the item's balance was affected by the acquisition (including subsequent sales) of securities as a result of the termination of obligations under repo transactions, the redemption of securities, and the revaluation of securities at their current (fair) value forced by the drop in market prices.

**Bank of Russia investments in authorised capital of banks and other organisations***(millions of rubles)*

Name	2014		2013	
	Investment amount (at purchase price)	Share in authorised capital, percent (at par)	Investment amount (at purchase price)	Share in authorised capital, percent (at par)
<b>Investment in resident shares, of which:</b>	<b>81,451</b>		<b>84,362</b>	
Sberbank of Russia, Moscow	72,938	50.00% + 1 voting share	72,938	50.00% + 1 voting share
Moscow Exchange (MICEX-RTS), Moscow	5,710	11.73	11,421	22.47
St. Petersburg Currency Exchange (SPCEX)	3	8.90	3	8.90
National Payment Card System (NPCS), Moscow	2,800	100	0	0
<b>Investment in non-resident shares, of which:</b>	<b>2,472</b>		<b>1,456</b>	
Bank for International Settlements, Basel	2,471	0.57	1,455	0.57
Society for Worldwide Interbank Financial Telecommunications (S.W.I.F.T.), Belgium	1	0.006	0.724	0.006

The Bank of Russia holds stakes in the capital of credit institutions and other organisations in compliance with Articles 8 and 9 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'.

In pursuance with Clause 14 of Article 49 of Federal Law No. 251-FZ, dated 23 July 2013, 'On Amending Certain Laws of the Russian Federation Due to the Delegation to the Central Bank of the Russian Federation of the Authority to Regulate, Control and Supervise Financial Markets', which obligates the Bank of Russia to dispose of its stakeholding in the Moscow Exchange by 1 January 2016, the Bank of Russia Board of Directors decided to sell its block of Moscow Exchange shares through several transactions.

In 2014, following the sale of this block of shares, the Bank of Russia's stakeholding in the capital of the Moscow Exchange fell to 11.73%.

In 2014, pursuant to 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 created the National Payment Card System, joint-stock company (NPCS JSC), which is the operator of the national payment card system. As the sole shareholder of NPCS JSC, the Bank of Russia acquired NPCS JSC shares by paying up its authorised capital.

The change in the item *Investment in non-resident shares* was caused by the revaluation of the Bank of Russia's investment in the authorised capital of the Bank for International Settlements (Basel) and Society for Worldwide Interbank Financial Telecommunications (S.W.I.F.T.) (Belgium), as a result of changes in the exchange rates of foreign currencies against the ruble.

In addition, the Bank of Russia's balance sheet also reflects the Russian Federation's stakeholdings in various international financial institutions: the Russian quota with the International Monetary Fund (IMF) totalling 5,945.4 million SDRs, which is 2.5% of the IMF's aggregate quotas (capital) and 2.39% of the total number of votes held by IMF member states, and the Russian Federation's investment in the authorised capital of the Interstate Bank totalling 10 million rubles, which represents 50% of its authorised capital and 50% of the total number of votes held by Interstate Bank member states (Notes 7 and 8).

## 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 at the instruction of its customers		Volume of Bank of Russia sales of collateral for Lombard loans and repos	
	2014	2013	2014	2013	2014	2013
MICEX Stock Exchange	103,158,893	129,129,273	151,542	838,948	0	0
St Petersburg Currency Exchange (SPCEX)	0	105	0	0	0	0
	<b>103,158,893</b>	<b>129,129,378</b>	<b>151,542</b>	<b>838,948</b>	<b>0</b>	<b>0</b>

The column *Volume of Bank of Russia own securities trading (including repos)* shows summary data on the volumes of the following Bank of Russia operations with securities:

- acquisition of securities in the first leg of repos in the currency of the Russian Federation;
- acquisition of securities in the first leg of repos in a foreign currency (the ruble equivalent of the volume of operations in the foreign currency is given at the exchange rate as of 31 December 2014. These operations amounted to \$24,862 million in their respective settlement currencies);
- sale of other Russian issuers' securities from the Bank of Russia's portfolio.

The change in the volume of transactions was largely down to the reduction in the volume of repos carried out by the Bank of Russia in organised trading venues and the increase in the number of repos carried out by the Bank of Russia outside of organised trading venues.

The column *Volume of Bank of Russia securities trading at the instruction of its customers* shows summary data on the sale of Russian government securities by the Bank of Russia at the instruction of the Ministry of Finance under agency agreements.

In 2013 and 2014, the Bank of Russia did not recover pledges by selling securities which collateralised loans issued or by selling collateral on repos.

## STATEMENT OF BANK OF RUSSIA PERSONNEL COSTS

	<i>(millions of rubles)</i>	
	<b>2014</b>	<b>2013</b>
Compensation	86,636	79,874
Other benefits to Bank of Russia personnel	1,269	484
Charges on compensation and other benefits	16,412	15,449
<b>Total Bank of Russia personnel costs</b>	<b>104,317</b>	<b>95,807</b>

The Bank of Russia's personnel costs grew by 8,510 million rubles, or 8.9%, compared with 2013, with compensation and other benefit-related expenses up by 7,547 million rubles, or 9.4%, and charges on compensation and other benefits up by 936 million rubles, or 6.2%.

Compensation expenses include: salary payments, seniority bonuses for the length of service with the Bank of Russia, additional payments for participation in inspections, other increments and benefits established by Bank of Russia regulations, quarterly and year-end bonuses, regular paid leaves and study leaves, one-off allowances for annual paid leaves, payments of regional coefficients and interest allowances for those working in the Extreme North and similar regions in accordance with the legislation of the Russian Federation, and one-off allowances upon old age retirement.

Other benefits to Bank of Russia personnel under applicable legislation of the Russian Federation and Bank of Russia regulations include: financial support to offset spending on improving living conditions, emergency allowances, benefits for employees living (working) in regions affected by the Chernobyl nuclear power plant disaster, benefits for employees taking parental leave until their child reaches the age of three, allowances for temporary disability due to a disease or injury paid for the first three days of disability, compensation for holiday travel expenses for employees working in the Extreme North and similar regions and their non-working family members for the payment of their round-trip tickets, and for the expenses incurred in moving to a new place of residence in a different region upon the expiration of their labour contracts or due to retirement.

In 2014, the average number of Bank of Russia employees fell by 2,952 (4.7%) to 60,547. This reduction resulted from measures to restructure the Bank of Russia's regional network and optimise the Bank of Russia's settlement network.

The average monthly income per one Bank of Russia employee was 120,987 rubles in 2014 (2013: 105,458 rubles).

Insurance contributions to government extra-budgetary funds constituted 18.5% of total compensation and other benefit-related expenses (2013: 19.0%). Charges to the Social Insurance Fund for compulsory insurance against on-the-job accidents and occupational diseases were made at the fixed rate of 0.2%.

The expenses for the remuneration of key management personnel (members of the Bank of Russia Board of Directors, the Deputy Governors of the Bank of Russia, and the Chief Auditor of the Bank of Russia – 19 persons) amounted to 285.3 million rubles, or 0.3% of the total Bank of Russia expenses on compensation and other personnel benefits, including 47.1 million rubles in year-end bonuses for 2013 (2013: 24 persons, 294.4 million rubles or 0.4%, including 61.9 million rubles in year-end bonuses for 2012).

## STATEMENT OF CAPITAL INVESTMENT BUDGET PERFORMANCE

(millions of rubles)

Capital investment	Approved for 2014	Actual amount in 2014	Actual amount in 2013
<b>Capital investment</b>	<b>19,612</b>	<b>14,005</b>	<b>16,478</b>
Capital investment in fixed assets,	15,148	13,629	15,849
of which:			
– capital investment in information technology	7,948	6,976	6,103
– capital investment in construction (reconstruction) and logistics (except cash turnover management)	3,789	3,416	5,128
– capital investment relating to cash turnover management	2,267	2,137	3,220
– capital investment relating to security and protection of Bank of Russia facilities	1,144	1,100	1,398
Capital investment in intangible assets	394	376	629
Centralised capital investment reserve	4,070	0	0
Memo item:			
<b>Other capital expenses</b>	<b>1,728</b>	<b>1,109</b>	<b>1,941</b>
<b>Total capital expenses</b>	<b>21,340</b>	<b>15,114</b>	<b>18,419</b>

Capital investment in information technology made up the largest part of capital investment (49.8%), followed by construction (reconstruction) and logistics (24.4%). The share of capital investment in cash turnover management was 15.3%, capital investment in the security and protection of Bank of Russia facilities accounted for 7.8%, and capital investment in intangible assets was 2.7%.

The Bank of Russia's capital investments contracted by 2,473 million rubles compared with 2013, with expenses across all areas falling with the exception of investment in information technology.

Capital investment in information technology grew by 873 million rubles in 2014, or by 14.3%. Funds were used to develop soft- and hardware infrastructure of the Collective Data Processing Centres to guarantee the sustainable functioning of the Bank of Russia payment system; to maintain operation of existing accounting systems, IT and information analysis systems of the Bank of Russia, the consolidation framework of computing resources in IT systems, transport systems for electronic settlements, transport systems supporting information analysis systems and the Intranet, components ensuring information security of Bank of Russia IT system; to develop technical infrastructure (including engineering systems) supporting operation of Bank of Russia information and telecommunications system; and to ensure data security and protection.

Capital investment in construction (reconstruction) and logistics to support the Bank of Russia's operations (excluding cash turnover management) shrank by 1,712 million rubles or 33.4%. Funds were used to build (reconstruct) 93 office buildings and other facilities; to set up engineering and technical systems and installations for building operation and maintenance; to purchase replacement equipment, tools and furniture; and to additionally equip operating facilities, refurbish facilities, and purchase vehicles.

Capital investment in cash turnover management fell by 1,083 million rubles, or by 33.6%. The funds were used to build (reconstruct) six cash depositories and cash centres, install in Bank of Russia offices technological equipment and cash office hardware, including hard-/software complexes and banknote processing systems, and to create (modernise) video systems for the surveillance and recording of operations with valuables.

Capital investment relating to the security and protection of Bank of Russia facilities decreased by 298 million rubles, or 21.3%. The funds were used to establish and develop fire-alarm systems, video security and surveillance systems, control and access systems, as well as to replace expired and obsolete facilities.

Capital investment in intangible assets contracted by 253 million rubles in 2014, or by 40.2%. The funds were used to purchase and develop software products (constituting the intellectual property of the Bank of Russia) for information technology support, and also for information security and protection.

Other capital expenses include expenses for the purchase of the right to use certain software products (not categorised as intangible assets), as well as licences, certificates and permits that are valid for over one year. Compared to 2013, these expenses went down by 832 million rubles, or by 42.9%.

## AUDITORS' REPORTS



### *Auditor's report*

#### *on the Bank of Russia Annual Financial Statements as of 1 January 2015*

#### **To the management of the Central Bank of the Russian Federation:**

#### **Audited Entity**

Full title of the Bank: The Central Bank of the Russian Federation (Bank of Russia).

Domicile: 12 Neglinnaya Street, Moscow 107016, Russian Federation.

State registration certificate: 77 No. 006996300 issued on 10 January 2003.

The Bank of Russia performs its functions pursuant to the Constitution of the Russian Federation, Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' (as amended) and other federal laws.

#### **Auditors**

- 1) PricewaterhouseCoopers Audit, a closed joint-stock company (PwC Audit), located at: 10 Butyrsky Val Street, Moscow 125047, Russian Federation.

The joint-stock company's state registration certificate No. 008.890 was issued by the Moscow Registration Chamber on 28 February 1992.

The certificate of registration of a legal entity registered before 1 July 2002, in the Single State Register of Legal Entities No. 1027700148431, dated 22 August 2002, was issued by Moscow Interdistrict Inspectorate No. 39 of the Russian Federation Ministry of Taxes and Duties.

PwC Audit is a member of the Russian Audit Chamber (NP APR), a non-profit partnership and self-regulatory organisation of auditors; it has registration number 870 in the NP APR members' register.

PwC Audit is included in the register of auditors and audit organisations under main registration entry number (MREN) 10201003683.

- 2) Financial and Accounting Consultants, a limited liability company (FBK), located at: Bldg. 2AB, 44/1 Myasnitskaya Street, Moscow 101990, Russian Federation.

Certificate of state registration of the limited liability company No. 484.583 was issued by the Moscow Registration Chamber on 15 November 1993.

The certificate of registration of a legal entity registered before 1 July 2002, in the Single State Register of Legal Entities No. 1027700058286, dated 24 July 2002, was issued by Moscow Interdistrict Inspectorate No. 39 of the Russian Federation Ministry of Taxes and Duties.

FBK is a member of the Russian Audit Chamber (NP APR), a non-profit partnership and self-regulatory organisation of auditors; it has registration number 5353 in the NP APR members' register.

FBK's MREN in the register of auditors and audit organisations is 10201039470.

*PricewaterhouseCoopers Audit (PwC Audit),  
a closed joint-stock company (PwC Audit)  
White Square Business Centre,  
10 Butyrsky Val Street, Moscow 125047, Russia  
Tel: +7 (495) 967-6000, Fax: +7 (495) 967-6001,  
www.pwc.ru*

*Financial and Accounting Consultants,  
a limited liability company (FBK)  
Bldg. 2AB, 44/1 Myasnitskaya Street,  
Moscow 101990, Russia  
Tel: +7 (495) 737-5353, Fax: +7 (495) 737-5347,  
www.fbkr.ru*



### **Auditor's report**

We have conducted an audit of the attached Annual Financial Statements of the Central Bank of the Russian Federation (hereinafter, the Bank of Russia) for the period from 1 January to 31 December 2014. Pursuant to Article 25 of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' (as amended), the Bank of Russia Annual Financial Statements consist of: the annual balance sheet, the statement of financial performance (including the statement of profit and its allocation), the statement of Bank of Russia reserves and funds, the statement of Bank of Russia management of securities and stakeholdings in the capital of organisations constituting Bank of Russia property, the statement of Bank of Russia personnel costs, the statement of capital investment budget performance, and the statement of volume of Bank of Russia securities trading on organised trading venues (hereinafter all these statements are collectively referred to as the Annual Financial Statements). The Annual Financial Statements were drawn on the basis of the financial reporting that was compiled according to the requirements of the legislation of the Russian Federation and Bank of Russia regulations. The Annual Financial Statements prepared on that basis differ from financial reporting prepared according to the International Financial Reporting Standards.

### **Responsibility of the Audited Entity for the Annual Financial Statements**

The management of the Bank of Russia bears responsibility for the compilation and credibility of the Annual Financial Statements in accordance with the requirements of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' (as amended), Federal Law No. 402-FZ, dated 6 December 2011, 'On Accounting' (as amended), Bank of Russia Regulation No. 66-P, dated 1 January 2006, 'On the Accounting Rules in the Central Bank of the Russian Federation (Bank of Russia)' (as amended), and also for the internal control system required for preparing Annual Financial Statements that are free of material distortions which could result from malpractice or errors.

### **Responsibility of the Auditor**

Our duty is to express our opinion, based on the audit we have conducted, with regard to the credibility of these Annual Financial Statements in every material respect. We have conducted the audit in compliance with the Russian federal standards that govern auditing activities. These standards mandate that we comply with all applicable ethical norms, and the audit was planned and conducted in such a way as to allow us to be reasonably convinced that the Annual Financial Statements contain no material distortions.

The audit includes auditing procedures which are aimed at obtaining audit evidence confirming the numerical indicators of the Annual Financial Statements and disclosure of information. The choice of auditing procedures is subject to our judgement, which is based on our assessment of the risk of material distortions, which may result from malpractice or errors. In the process of assessing this risk, we examined the internal control system that ensures the compilation and credibility of the Annual Financial Statements in order to select relevant auditing procedures and not to express our opinion on the efficiency of the internal control system. The audit also includes an assessment of the Bank of Russia's compliance with accounting principles, rules used and the validity of reference indicators obtained by the management, as well as an assessment of the general presentation of the Annual Financial Statements.

We believe that the evidence we have obtained in the course of the audit gives us sufficient grounds to formulate a conclusive opinion on the credibility of the Annual Financial Statements.



### Opinion

In our opinion, the Annual Financial Statements reflect, in all material respects, the Bank of Russia's financial standing as of 1 January 2015 and the results of its financial and economic activities for the period from 1 January to 31 December 2014 inclusive, as required by Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' (as amended), Federal Law No. 402-FZ, dated 6 December 2011, 'On Accounting' (as amended), and Bank of Russia Regulation No. 66-P, dated 1 January 2006, 'On the Accounting Rules in the Central Bank of the Russian Federation (Bank of Russia)' (as amended).

### Other information

Without any prejudice to the credibility of the Annual Financial Statements, we would like to draw attention to the fact that, pursuant to Article 25 of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' (as amended), the reliability of restricted-access data, in line with the provisions of Federal Law No. 5485-1, dated 21 July 1993, 'On State Secrecy' (as amended), which are included in the balance sheet and the statement of financial performance items constituting the Bank of Russia's Annual Financial Statements, has been confirmed by the Audit Chamber of the Russian Federation in its Statement dated 24 April 2015 as a result of the examination of the accounts and operations of the Central Bank of the Russian Federation, and also data covered by Federal Law No. 5485-1, dated 21 July 1993, 'On State Secrecy' (as amended), as of 1 January 2015 and for the period from 1 January to 31 December 2014 inclusive.

Ye.V. Filippova  
Auditor qualification certificate  
No. 01-000195  
General Director  
PricewaterhouseCoopers Audit, CJSC

S.M. Shapiguzov  
Auditor qualification certificate  
No. 01-001230  
President  
Financial and Accounting Consultants, LLC

30 April 2015



# THE AUDIT CHAMBER OF THE RUSSIAN FEDERATION

2 Zubovskaya St., Moscow 119991

Tel: 986-05-09, fax: 986-09-52

24 April 2015

No. 06-81/06-02

To the Governor of the Central Bank  
of the Russian Federation

E.S. NABIULLINA

## STATEMENT

**on the Results of the Examination of the Accounts and Operations  
of the Central Bank of the Russian Federation (Bank of Russia)  
and Data for 2014 Covered by the Federal Law 'On State Secrecy'  
(approved by the decision of the Collegium of the Audit Chamber  
of the Russian Federation of 24 April 2015, protocol No. 16K (1027))**

The Audit Chamber of the Russian Federation has examined the accounts and operations of the Central Bank of the Russian Federation (Bank of Russia) and data for 2014 covered by the Federal Law 'On State Secrecy' at the Bank of Russia's head office structural divisions and regional branches, pursuant to the provisions of Article 25 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and in accordance with the Work Plan of the Audit Chamber of the Russian Federation for 2015.

The management of the Bank of Russia is responsible for assigning information to the category of data covered by the Federal Law 'On State Secrecy', and for delineating the competences of the Audit Chamber of the Russian Federation and the auditing organisations PricewaterhouseCoopers Audit, CJSC, and Financial and Accounting Consultants, LLC (the auditors of the Bank of Russia Annual Financial Statements as of 1 January 2015).

Under applicable legislation, the Audit Chamber's duty is to present to the Bank of Russia a statement, compiled as a result of the examination of the accounts and operations of the Central Bank of the Russian Federation (Bank of Russia) and data for 2014, covered by the Federal Law 'On State Secrecy', and to express an opinion on the credibility in all material aspects of the Bank of Russia Annual Financial Statements as of 1 January 2015, and on the compliance of the accounting procedure with Russian federal legislation and Bank of Russia regulations.

The Audit Chamber of the Russian Federation has conducted an examination of Bank of Russia accounts and operations, and also data for 2014 covered by the Federal Law 'On State Secrecy', in

the head office structural divisions and regional branches of the Central Bank of the Russian Federation (Bank of Russia) in such a way as to become sufficiently convinced that the Bank of Russia's consolidated annual balance sheet (with respect to sub-accounts and off-balance sheet accounts) and its statement of financial performance as of 1 January 2015, falling within the scope of competence of the Audit Chamber of the Russian Federation, do not contain any material errors and adequately recognise in all material aspects the assets and liabilities of the Central Bank of the Russian Federation (Bank of Russia) as of 1 January 2015, and the income and expenses of the Central Bank of the Russian Federation (Bank of Russia) for 2014 in line with the Bank of Russia's accounting policy.

Having examined the Bank of Russia's accounts and operations and data for 2014, covered by the Federal Law 'On State Secrecy', the Audit Chamber of the Russian Federation confirms, within the scope of its competence, the following data:

the Bank of Russia annual balance sheet as of 1 January 2015 (balance sheet assets totalling 714,625 million rubles and balance sheet liabilities totalling (-18) million rubles), the statement of financial performance as of 1 January 2015 (income totalling 3,574 million rubles and expenses totalling 9,691 million rubles);

precious metals revaluation for the reporting year and as of 1 January 2015: positive unrealised differences from the revaluation of precious metals totalling 58,927.4 million rubles;

revaluation of foreign currency funds for the reporting year and as of 1 January 2015: positive unrealised exchange rate differences from the revaluation of foreign currency totalling 881.7 million rubles;

consolidated annual balance sheet as of 1 January 2015 (with respect to sub-accounts and off-balance sheet accounts) and the consolidated statement of financial performance as of 1 January 2015;

data on the total number of Bank of Russia notes and coins of 1997 (exclusive of commemorative coins containing precious metals), which should be in circulation as of 1 January 2015.

According to the accounting data of the Central Bank of the Russian Federation relating to the accounts and operations covered by the Federal Law 'On State Secrecy', a total of 8,848,217.4 million rubles in Bank of Russia notes and coins of 1997 should be in circulation as of 1 January 2015 (exclusive of commemorative coins containing precious metals).

Over the period from 1 January to 31 December 2014, the Bank of Russia put into circulation banknotes and coins of 1997 (exclusive of commemorative coins containing precious metals) totalling 13,178,279.9 million rubles, and withdrew from circulation Bank of Russia banknotes and coins of 1997 (exclusive of commemorative coins containing precious metals) totalling 12,645,080.5 million rubles.

Consequently, in the period under review, the amount of Bank of Russia notes and coins of 1997 (exclusive of commemorative coins containing precious metals) in circulation increased by 533,199.4 million rubles.

The Audit Chamber of the Russian Federation confirms the credibility, in all material aspects, of the Bank of Russia Annual Financial Statements as of 1 January 2015, and the compliance of the accounting procedure with Russian federal legislation and Bank of Russia regulations.

## **IV. ADDENDA**

## IV.1. PRINCIPAL MEASURES TO IMPLEMENT THE SINGLE STATE MONETARY POLICY IN 2014

### Monetary policy instruments and measures

#### Interest rates

At the start of 2014, the Bank of Russia key rate was 5.50% p.a. Over the course of the year, the Bank of Russia Board of Directors made several decisions to increase the key rate: to 7.00% p.a. from 3 March 2014, to 7.50% p.a. from 28 April 2014, to 8.00% p.a. from 28 July 2014, to 9.50% p.a. from 5 November 2014, to 10.50% p.a. from 12 December 2014, and to 17.00% p.a. from 16 December 2014.

In 2014, the minimum interest rate on seven-day repo auctions and the maximum interest rate on seven-day deposit auctions were in line with the Bank of Russia key rate.

In January 2014, the minimum interest rates on other regular Bank of Russia auctions to provide liquidity secured by assets on the Bank of Russia Lombard List were: 5.50% p.a. at one-day repo auctions and seven-day Lombard loan auctions, 6.50% p.a. at three-month repo auctions and Lombard loan auctions, and 7.25% p.a. at twelve-month repo auctions and Lombard loan auctions. From February 2014, the Bank of Russia Board of Directors decided to cancel daily one-day repo auctions and to suspend other above-mentioned auctions.

From 3 February 2014, the minimum interest rate on one- to six-day fine-tuning repo auctions and, from 17 February 2014, the maximum interest rate on one- to six-day fine-tuning deposit auctions were set equal to the Bank of Russia key rate in accordance with the Bank of Russia Board of Directors' decision.

In 2014, the Bank of Russia Board of Directors decided to set the minimum interest rates on auctions to provide loans secured by non-marketable assets at a floating interest rate (conducted in accordance with Bank of Russia Regulation No. 312-P, dated 12 November 2007) 0.25 percentage points above the Bank of Russia key rate.

On 12 December 2014, the minimum interest rate on the Lombard loan auction to provide 36-month loans at a floating interest rate (conducted in accordance with Bank of Russia Regulation No. 236-P, dated 4 August 2003) was set 0.25 percentage points above the Bank of Russia key rate (10.75% p.a.) pursuant to a decision by the Bank of Russia Board of Directors.

In 2014, the fixed interest rate on one-day liquidity-providing facilities, which corresponded to the upper bound of the interest rate corridor, was set one percentage point above the key rate in accordance with decisions by the Bank of Russia Board of Directors. This rate was applied to one-day Lombard loans (pursuant to Bank of Russia Regulation No. 236-P, dated 4 August 2003), loans secured by gold (pursuant to Bank of Russia Regulation No. 362-P, dated 30 November 2010), loans secured by non-marketable assets or guarantees (pursuant to Bank of Russia Regulation No. 312-P, dated 12 November 2007), repo transactions, FX swaps in US dollars and euros, and overnight loans.

In 2014, the fixed interest rate on one-day and demand deposit operations, which corresponded to the lower bound of the interest rate corridor, was set one percentage point below the key rate in accordance with decisions by the Bank of Russia Board of Directors.

In January 2014, fixed interest rates on loans secured by gold with terms over one day were: 6.50% p.a. for two- to 90-day loans, 7.00% p.a. for 91- to 180-day loans, and 7.25% p.a. for 181- to 365-day loans.

In January 2014, fixed interest rates on loans secured by non-marketable assets or guarantees with terms over one day were: 6.75% p.a. for two- to 90-day loans, 7.25% p.a. for 91- to 180-day loans, and 7.50% p.a. for 181- to 365-day loans.

From 3 February 2014, interest rates on standing lending facilities across all terms over one day were harmonised as follows:

- on loans secured by gold provided under Bank of Russia Regulation No. 362-P, dated 30 November 2010, 1.5 percentage points above the key rate;
- on loans secured by non-marketable assets or guarantees provided under Bank of Russia Regulation No. 312-P, dated 12 November 2007, 1.75 percentage points above the key rate.

However, pursuant to decisions by the Bank of Russia Board of Directors, instead of a fixed interest rate, these loans were provided at a floating interest rate for terms between 91 and 549 days, from 30 June 2014, and for the terms from two to 90 days, from 16 December 2014.

In 2014, pursuant to decisions by the Bank of Russia Board of Directors, the refinancing rate remained unchanged at 8.25% p.a.

In 2014, in line with decisions by the Bank of Russia Board of Directors, interest rates on suspended operations, excluding twelve-month standing repo facilities, were raised on two occasions; and, from 25 July 2014, no such rates have been set. The interest rate on twelve-month standing repo facilities was raised on four occasions, and, from 1 December 2014, no such rates have been set.

Fixed interest rates on one-week repo operations and one-week and 30-day Lombard loans were set as follows: 6.50% p.a. as of the beginning of 2014, 8.00% p.a. from 4 April 2014, and 8.50% p.a. from 28 April 2014. The fixed interest rate on twelve-month repos was set as follows: 7.25% p.a. as of the beginning of 2014, 8.75% p.a. from 4 April 2014, 9.25% p.a. from 28 April 2014, 9.75% p.a. from 28 July 2014, and 11.25% p.a. from 5 November 2014. Fixed interest rates on one-week and one-month deposit operations were set as follows: 4.50% p.a. as of the beginning of 2014, 6.00% p.a. from 4 April 2014, and 6.50% p.a. from 28 April 2014.

The minimum interest rate on one-week Lombard loan auctions was set as follows: 5.50% p.a. in February 2014, 7.00% p.a. from 4 April 2014, and 7.50% p.a. from 28 April 2014.

Minimum interest rates on repo auctions and Lombard loan auctions across other terms were set as follows:

- three-month: 6.50% p.a. in February 2014, 8.00% p.a. from 4 April 2014, and 8.50% p.a. from 28 April 2014;
- six-month: 7.00% p.a. as of the beginning of 2014, 8.50% p.a. from 4 April 2014, and 9.00% p.a. from 28 April 2014;
- twelve-month: 7.25% p.a. in February 2014, 8.75% p.a. from 4 April 2014, and 9.25% p.a. from 28 April 2014.

Maximum interest rates on deposit auctions were set as follows:

- one-month: 5.75% p.a. as of the beginning of 2014, 7.25% p.a. from 4 April 2014, and 7.75% p.a. from 28 April 2014;
- three-month: 6.50% p.a. as of the beginning of 2014, 8.00% p.a. from 4 April 2014, and 8.50% p.a. from 28 April 2014.

### Required reserves

Seeking to improve the required reserve mechanism, the Bank of Russia issued Ordinance No. 3395-U, dated 26 September 2014, 'On Amending Bank of Russia Regulation No. 342-P, Dated 7 August 2009, 'On Credit Institutions' Required Reserves', which stipulated the following:

- the option to use the averaging of required reserves by the banks included in the third classification group based on the assessments of their economic standing in accordance with Bank of Russia Ordinance No. 2005-U, dated 30 April 2008, 'On Assessing Banks' Economic Situation';
- the easing of standards regarding credit institutions' ability to use required reserves deposited on separate accounts with the Bank of Russia in the event of a stress situation (unscheduled adjustment of the amount of required reserves by a Bank of Russia regional branch's decision in case of a reduction in the credit institution's reservable liabilities); in particular, the minimum reduction in a credit institution's reservable liabilities that qualifies it to request that the Bank of Russia regional branch perform an unscheduled adjustment of the required reserves, was set at 10% of the credit institution's balance sheet value;
- other changes affecting the procedure for monitoring required reserves, in particular the structure of credit institutions' reservable liabilities.

### Refinancing of credit institutions

In 2014, the Bank of Russia took steps aimed at broadening the opportunities for credit institutions to obtain liquidity from the Bank of Russia.

The Bank of Russia decided that credit institutions included in the third classification group could obtain its secured loans.

This decision was implemented in Bank of Russia Ordinance No. 3319-U, dated 11 July 2014, 'On Amending Bank of Russia Regulation No. 312-P, Dated 12 November 2007, 'On the Procedure for Extending Bank of Russia Loans Covered by Assets or Guarantees to Credit Institutions', Bank of Russia Ordinance No. 3443-U, dated 16 November 2014, 'On Amending Bank of Russia Regulation No. 236-P, Dated 4 August 2003, 'On the Procedure for Extending Bank of Russia Loans Secured by the Pledge (Blocking) of Securities to Credit Institutions', and Bank of Russia Ordinance No. 3467-U, dated 2 December 2014, 'On Amending Clause 2.1 of Bank of Russia Regulation No. 362-P, Dated 30 November 2010, 'On the Procedure for Extending Bank of Russia Loans Secured by Gold to Credit Institutions'.

However, the Bank of Russia reserves the right to set special conditions for extending loans to such credit institutions. Currently, credit institutions included in the third classification group can obtain from the Bank of Russia one-day loans secured by securities or gold, and loans secured by guarantees for terms up to seven days.

From 30 June 2014, the term of Bank of Russia loans secured by non-marketable assets or guarantees or gold was extended from 365 to 549 days. Moreover, these loans began to be provided at a floating interest rate.

In 2014, the Bank of Russia also held auctions to extend loans secured by non-marketable assets at a floating rate with terms that differ from the terms of regular loan auctions: three weeks, twelve and 18 months.

From 3 February 2014, fine-tuning liquidity provision operations in the form of one- to six-day repo auctions were added to the Bank of Russia's system of monetary policy instruments. The Bank of Russia key rate was used as the minimum interest rate for these operations.

As part of measures to improve existing refinancing mechanisms, from 1 April 2014, an electronic document workflow was introduced between the Bank of Russia and its counterparty credit institutions whose main accounts were opened with Moscow and Moscow Region subdivisions of the Bank of Russia's Main Branch for the Central Federal District for operations to extend secured loans.

Also, since January 2014, the Bank of Russia has been providing credit institutions with loans secured by non-marketable assets by rolling over the collateral, which makes it possible to use assets pledged for an earlier extended loan as collateral for a new loan once the conditions set by the Bank of Russia have been satisfied. The option of applying this principle was set out in Bank of Russia Ordinance No. 3113-U, dated 18 November 2013, "On Amending Bank of Russia Regulation No. 312-P, Dated 12 November 2007, 'On the Procedure for Extending Bank of Russia Loans Covered by Assets or Guarantees to Credit Institutions'.

In 2014, a similar option to roll over collateral was introduced on intra-day loans and overnight loans secured by securities in accordance with Bank of Russia Ordinance No. 3112-U, dated 18 November 2013, 'On Amending Bank of Russia Regulation No. 236-P, Dated 4 August 2003, 'On the Procedure for Extending Bank of Russia Loans Secured by the Pledge (Blocking) of Securities to Credit Institutions'.

With a view to stabilising the situation in the domestic foreign exchange market, the Bank of Russia Board of Directors decided to introduce a limit on the provision of ruble-denominated liquidity through FX swaps from 12 November 2014. In the period from 12 to 18 December 2014, the limit was set at \$2 billion in ruble terms per day, and from 19 to 30 December 2014, it was set at \$10 billion in ruble terms per day.

### Deposit operations

From 1 February 2014, the Bank of Russia's deposit operations have been regulated by its Regulation No. 404-P, dated 9 August 2013, 'On Bank of Russia Deposit Operations with Credit Institutions' and other Bank of Russia regulatory acts prepared in pursuance of the above document, several orders issued on 15 January 2014, namely: No. OD-17 'On the Size of the Fine for Violation of General Deposit Agreement Conditions', No. OD-18 'On Organising Bank of Russia Deposit Operations with Credit Institutions', and No. OD-26 "On Organising Interaction Between Bank of Russia Structural Divisions and Credit Institutions While Conducting Deposit Operations', and Bank of Russia letters: No. 3-T, dated 15 January 2014, 'On the Form of a General Deposit Agreement to Participate in Bank of Russia Deposit Operations' and No. 23-T, dated 13 February 2014, 'On Concluding General Deposit Agreements and Addenda to General Deposit Agreements'.

From 17 February 2014, fine-tuning liquidity-absorbing operations in the form of one- to six-day deposit auctions have been added to the Bank of Russia's system of monetary policy instruments. The maximum rate on these operations was set as equal to the Bank of Russia key rate.

From 8 September 2014, pursuant to the decision of the Bank of Russia, together with banks and non-bank credit institutions categorised under the first or second classification groups, banks included in the third classification group (in accordance with Bank of Russia Ordinance No. 2005-U, dated 30 April 2008, 'On Assessing Banks' Economic Situation') received access to deposit operations.

### Special-purpose refinancing instruments

To incentivise certain segments of the economy whose development had been held back by structural factors, the Bank of Russia continued to use special-purpose refinancing programmes for credit institutions.

On loans secured by receivables under interbank loan agreements provided by JSC SME Bank, the interest rate was 4.00% p.a. as of the beginning of 2014, 5.50% p.a. from 5 November 2014, and 6.50% p.a. from 12 December 2014.

On loans secured by receivables under loan agreements secured by the insurance agreements of JSC EXIAR, the interest rate was 6.50% p.a. as of the beginning of 2014, 7.00% from 28 July 2014, 8.00% p.a. from 5 November 2014, and 9.00% p.a. from 12 December 2014.

In 2014, the Bank of Russia created additional special-purpose refinancing mechanisms.

On 25 April 2014, the Bank of Russia introduced loans which were secured by receivables under loans obtained to finance investment projects which were selected in accordance with the rules approved by the Government of the Russian Federation. On 29 May 2014, the Bank of Russia added loans which were secured by the pledge of bonds placed to finance investment projects. The interests rate on these operations were set at 6.50% p.a., 7.00% p.a. from 28 July 2014, 8.00% p.a. from 5 November 2014, and 9.00% p.a. from 12 December 2014.

On 9 December 2014, the Bank of Russia decided to set up a new refinancing mechanism for credit institutions, i.e. loans secured by mortgage bonds issued under the Military Mortgage programme. From 9 to 15 December 2014, the rate on this instrument was set at 0.25 percentage points above the Bank of Russia key rate (10.75% p.a.), and from 16 December 2014 it was set at 6.25 percentage points below the key rate (10.75% p.a.).

### Exchange rate policy measures

In 2014, as part of the transition to the floating exchange rate regime, the Bank of Russia made the following changes to the parameters of its exchange rate policy mechanism:

- from 13 January 2014, the volume of targeted foreign exchange interventions was reduced from \$60 million to zero per day;
- from 3 March 2014, the cumulative volume of interventions triggering a 5-kopeck shift in the floating operational band was set at \$1.5 billion;
- from 22 May 2014, the volume of Bank of Russia foreign exchange interventions aimed at smoothing fluctuations in the ruble exchange rate within the floating operational band was reduced by \$100 million;
- from 17 June 2014, the cumulative volume of interventions triggering a 5-kopeck shift in the floating operational band was reduced from \$1.5 to \$1.0 billion;
- from 17 June 2014, the volume of Bank of Russia foreign exchange interventions aimed at smoothing fluctuations in the ruble exchange rate within the floating operational band was reduced by \$100 million. As a result of these adjustments within the floating operational band, the band in which the Bank of Russia did not conduct foreign exchange interventions to smooth out fluctuations in the national currency exchange rate widened from 3.1 to 5.1 rubles (adjusted by fluctuation range);
- from 18 August 2014, the cumulative volume of interventions triggering a 5-kopeck shift in the floating operational interval was reduced from \$1.0 billion to \$350 million;
- from 18 August 2014, the volume of Bank of Russia foreign exchange interventions aimed at smoothing fluctuations in the ruble exchange rate within the floating operational band was set at \$0;
- from 18 August 2014, the floating operational interval was expanded symmetrically from 7 to 9 rubles;
- from 5 November 2014, the volume of Bank of Russia foreign exchange interventions at the borders of the floating operational band, aimed at smoothing fluctuations in the ruble exchange rate, did not exceed \$350 million per day.

On 10 November 2014, the Bank of Russia abandoned the previous exchange rate policy, repealing the floating operational interval and foreign exchange interventions aimed at smoothing fluctuations in the ruble exchange rate. However, the Bank of Russia retained the possibility to conduct foreign exchange interventions should any threat to financial stability arise.

### **Instruments for providing foreign currency on a reverse basis**

In 2014, in order to improve the capabilities of short-term FX liquidity managements at credit institutions, the Bank of Russia decided to provide foreign currency on a reverse basis.

From 17 September 2014, the Bank of Russia carried out USD/RUB sell/buy one-day FX swaps with credit institutions using exchange instruments. These FX swaps were conducted on terms of today/tomorrow and tomorrow/spot settlements. The Bank of Russia Board of Directors decided to set the interest rate on the US dollar leg of these operations at 1.50% p.a. and the interest rate on the ruble leg – at 1 percentage point below the Bank of Russia key rate. The maximum allotment amount on FX swaps with today/tomorrow settlements was set at \$1 billion and on FX swaps with tomorrow/spot settlements – at \$2 billion.

From 27 October 2014, the Bank of Russia held regular seven-day and 28-day repo auctions for providing foreign currency to credit institutions. The Bank of Russia Board of Directors decided to set the minimum interest rates on US dollar and euro seven-day and 28-day repo auctions at LIBOR plus 2.00 and 2.25 percentage points respectively in the respective currencies and for comparable terms.

From 5 November 2014, the Bank of Russia held regular twelve-month repo auctions for providing foreign currency to credit institutions. From the same day, the Bank of Russia Board of Directors set the minimum interest rates on US dollar and euro seven-day, 28-day and twelve-month repo auctions at LIBOR plus 1.5 percentage points in the respective currencies and for comparable terms.

From 4 December 2014, the Bank of Russia Board of Directors decided to set the minimum interest rates on US dollar and euro seven-day, 28-day and twelve-month repo auctions at LIBOR plus 0.5 percentage points in the respective currencies and for comparable terms.

On 23 December 2014, the Bank of Russia Board of Directors decided to introduce regular auction-based 28-day and 365-day FX loans for credit institutions. Those operations were secured by receivables on US dollar and euro loans extended to large Russian export companies. The minimum interest rates on auction-based FX loans were set at LIBOR plus 0.75 percentage points in the respective currencies and for comparable terms.

The aggregate maximum amount of credit institutions' debt to the Bank of Russia on FX repos and FX loans secured by the pledge of receivables on FX loans was set in the amount equivalent of \$50 billion.

### **Foreign exchange regulation and foreign exchange control**

Within its mandate established by Federal Law No. 173-FZ, dated 10 December 2003, 'On Foreign Exchange Regulation and Foreign Exchange Control', in 2014, the Bank of Russia continued to improve foreign exchange control mechanisms in order to improve its efficiency.

The Bank of Russia issued Directive No. 3438-U, dated 6 November 2014, 'On Amending Bank of Russia Instruction No. 138-I, Dated 4 June 2012, 'On the Procedure for Submitting Documents and Information Related to Foreign Exchange Transactions to Authorised Banks by Residents and Non-residents, the Procedure for Executing Transaction Specifications, and the Procedure for Registering and Monitoring Foreign Exchange Transactions by Authorised Banks', which improves the procedure for reporting information on securities transferred by a non-resident to a resident as payment for goods (works, services, results of intellectual activity, including exclusive rights to such results) and on payment for such securities in bank control records registered under transaction specifications. The said document also clarified the procedure for residents to close such transaction specifications, and introduced new grounds for an authorised bank to refuse to register a transaction specification for a resident if the authorised bank's employees suspect, in implementing their internal control rules, that any of the resident's FX operations will be carried out to legalise (launder) criminally obtained income or to finance terrorism.

To improve the procedure for authorised banks (authorised bank branches) to electronically submit transaction specifications registered under foreign trade agreements (contracts) to the Federal Customs Service (hereinafter, the FCS of Russia), Bank of Russia Letter No. 45-T, dated 18 March 2014, 'On Exchanging Information Between

the FCS of Russia and Authorised Banks<sup>1</sup>, whereby authorised banks were recommended to send existing transaction specifications to the FCS of Russia which had not previously been sent due to the fact that they had not been changed after the entry into force of the procedure for authorised banks and Bank of Russia regional branches to provide the customs authorities with information on transaction specifications under foreign trade agreements (contracts)<sup>1</sup> in electronic form.

---

<sup>1</sup> Bank of Russia Regulation No. 364-P, dated 29 December 2010, 'On the Procedure for Transferring Electronic Information on Transaction Specifications under Foreign Trade Agreements (Contracts) by Authorised Banks and Bank of Russia Regional Branches to the Customs Authorities to Perform Their Functions as Foreign Exchange Control Agents'.

## IV.2. PRINCIPAL MEASURES TO UPGRADE BANKING REGULATION AND SUPERVISION IN 2014

### Measures to upgrade banking risk assessment, management and supervision methodologies

Alongside the implementation of internationally recognised approaches, including principles and standards proposed by the Basel Committee on Banking Supervision (BCBS) and measures to detail approaches to banking supervision as set out in section II.4, the Bank of Russia implemented the following regulatory measures.

Bank of Russia Ordinance No. 3174-U, dated 16 January 2014, 'On Defining the List of Systemically Important Credit Institutions', set out the approaches to defining Russian systemically important credit institutions, taking into account the recommendations of the BCBS and the Financial Stability Board. In line with the document, credit institutions are deemed systemically important according to quantitative criteria and further information on the activities of each specific credit institution.

The Bank of Russia tabled for discussion with the banking community core approaches to the regulation and supervision of systemically important credit institutions' activities. Following this work, proposals were made to establish a system of conditions governing the activity of corresponding credit institutions, combining enhanced regulatory requirements and more intensive supervision efforts.

As part of work to raise the effectiveness of banking supervision, in 2014 the Bank of Russia carried out the following measures in accordance with the new provisions set out in Russian banking legislation:

- it refined the methodology used to assess the indicator of the accessibility of information on entities controlling or exerting material influence over a bank (indicator PU2) for banks applying to the Bank of Russia for permission to take household deposits and to open and maintain household bank accounts, as well as for banks participating in the deposit insurance system (Bank of Russia Ordinance No. 3276-U, dated 11 June 2014, 'On Amending Annex 9 to Bank of Russia Ordinance No. 2005-U, Dated 30 April 2008, 'On Assessing Banks' Economic Situation');
- it established a procedure to be used by the Bank of Russia to inform banks – members of the deposit insurance system about certain features identified in their activities, the presence of which during the period specified by Part 1 of Article 48 of Federal Law No. 177-FZ, dated 23 December 2003, 'On the Insurance of Household Deposits with Russian Banks', deprived such banks of the right to take household deposits, and also to open and maintain household bank accounts (Bank of Russia Ordinance No. 3229-U, dated 5 April 2014, 'On the Procedure to Inform Banks About Certain Features Identified in Their Activities Which Deprive Them of the Right to Take Household Deposits and to Open and Maintain Household Bank Accounts');
- it refined the procedure governing the activities of supervision groups with regard to banking groups, including the procedure governing their collaboration with foreign banking supervision authorities (Bank of Russia Ordinance No. 3440-U, dated 7 November 2014, 'On Amending Bank of Russia Ordinance No. 3089-U, Dated 25 October 2013, 'On the Procedure for Supervising Banking Groups').

On 14 November 2014, while implementing its mandate granted by Federal Law No. 353-FZ, dated 21 December 2013, 'On Consumer Loans', the Bank of Russia made the first release of the average market values of effective annual percentage rate for consumer loans (borrowings) extended by credit institutions, microfinance organisations, and also credit (including agricultural) cooperatives and pawnbrokers in September 2014 in a specially created section of the Bank of Russia's website. Based on these data and taking into account the restrictions set by the federal law (the average market effective annual percentage rate of a consumer loan plus one third), the Bank of Russia calculated maximum values of effective annual percentage rates for consumer lending which were proposed for application from 1 January to 31 March 2015. However, amid the increase in interest rates in the financial markets, the decision was made to temporarily refrain from applying this restriction from 1 January to 30 June 2015.

## Licensing of credit institutions' activities

In 2014, the Bank of Russia continued its efforts to improve the regulatory framework for the state registration of credit institutions, licensing of banking activities and liquidation of credit institutions.

Improvements were made to the procedure and criteria used to assess the financial standing of founders (participants) of a credit institution, entities purchasing shares (stakes) in a credit institution, owners of shares (stakes) and (or) persons engaged in transactions aimed at establishing control over controlling shareholders (participants) of a credit institution (Bank of Russia Regulations No. 415-P, dated 18 February 2014, 'On the Procedure and Criteria for Assessing Financial Standing of Corporate Founders (Participants) of a Credit Institution and Legal Entities Performing Transactions to Purchase Shares (Stakes) in a Credit Institution and (or) to Control the Shareholders (Participants) of a Credit Institution', and No. 416-P, dated 18 February 2014, 'On the Procedure and Criteria for Assessing Financial Standing of Individuals – Founders (Participants) of a Credit Institution and Individuals Performing Transactions to Purchase Shares (Stakes) of a Credit Institution and (or) to Control Shareholders (Participants) of a Credit Institution'). The Bank of Russia issued Ordinance No. 3223-U, dated 1 April 2014, 'On the Requirements for Heads of Risk Management, Internal Control and Internal Audit Services of a Credit Institution'.

Measures were taken to develop electronic document workflow in dealings with credit institutions, in particular when obtaining authorisations from the Bank of Russia to create a subsidiary organisation in a foreign state, when paying up the authorised capital of credit institutions using budgets of all levels, government extra-budgetary funds and other property under the jurisdiction of state authorities and local governments, and when the Bank of Russia decides to register changes to a bank's charter and changes linked to a procedural increase in its capitalisation and obtaining a prior consent from the Bank of Russia for the bank to purchase privileged shares from the Russian Federation as part of a procedure to raise capitalisation (Bank of Russia Ordinances No. 3230-U, dated 9 April 2014, 'On Amending Bank of Russia Regulation No. 290-P, Dated 4 July 2006, 'On the Procedure for the Issuance of Authorisations by the Bank of Russia to Credit Institutions to Open Subsidiaries in Foreign Countries', No. 3418-U, dated 14 October 2014, 'On Amending Bank of Russia Ordinance No. 1186-U, Dated 14 August 2002, 'On Paying Up the Authorised Capital of Credit Institutions from Budgets of All Levels, Government Extra-budgetary Funds, Unallocated Funds and Other Property Owned by Federal and Local Government Bodies', and No. 3448-U, dated 20 November 2014, 'On Amending Bank of Russia Ordinance No. 2333-U, Dated 12 November 2009, 'On the Decision-making Procedure by the Bank of Russia on the State Registration of Changes and Amendments to a Bank's Charter and the Procedure for Obtaining Prior Authorisations from the Bank of Russia by a Bank to Acquire Russian Federal Government Preferred Shares for Recapitalisation Purposes').

The procedure was improved for the Bank of Russia's decision-making on the state registration of amendments to a credit institution's charter, on issuing banking licences due to a change in a credit institution's status from a bank to a non-bank credit institution, and on a non-bank credit institution becoming a bank (Bank of Russia Ordinances No. 3219-U, dated 31 March 2014, 'Decision-making Procedure by the Bank of Russia on the State Registration of Amendments to a Credit Institution's Charter and on Issuing a Banking Licence Due to a Change in a Credit Institution's Status from a Bank to a Non-bank Credit Institution or Due to a Change in the Type of a Non-bank Credit Institution', and No. 3222-U, dated 1 April 2014, 'Decision-making Procedure by the Bank of Russia on a Non-bank Credit Institution Obtaining Bank Status').

With regard to licensing household deposit activities, the procedure for banks to submit applications to have their right to take deposits terminated based on Bank of Russia requirement was clarified along with the procedure for invalidating Bank of Russia licences to accept household deposits (Bank of Russia Ordinance No. 3220-U, dated 31 March 2014, 'On the Procedure for Banks to File Applications to Have Their Right to Take Deposits Terminated Based on Bank of Russia Requirement Issued in Accordance with Part 3 of Article 48 of the Federal Law 'On the Insurance of Household Deposits with Russian Banks', and the Procedure for Invalidating Bank of Russia Licence to Take Household Ruble Deposits or Bank of Russia Licence to Take Household Ruble and Foreign Currency Deposits, or General Licence'). Additionally, due to the adoption of Federal Law No. 335-FZ, dated 2 December 2013, 'On Amending the Federal Law 'On the Insurance of Household Deposits with Russian Banks', the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and Invalidating Certain Provisions of Laws of the Russian Federation' (hereinafter, Federal Law No. 335-FZ), the Bank of Russia refined its procedure to impose a

ban on taking household deposits and opening household bank accounts in accordance with Article 48 of Federal Law No. 177-FZ, dated 23 December 2003, 'On the Insurance of Household Deposits with Russian Banks', and established a procedure for the Bank of Russia to place and delete information on its website on the application of this ban against banks (Bank of Russia Ordinance No. 3279-U, dated 11 June 2014, 'On Amending Bank of Russia Ordinance No. 2330-U, Dated 11 November 2009, 'On the Procedure for Prohibiting Banks from Taking Household Deposits and Opening Household Accounts').

Due to the amendments set out in Federal Law No. 335-FZ and by issuing its Ordinance No. 3287-U, dated 20 June 2014, 'On Amending Bank of Russia Regulation No. 345-P, Dated 27 October 2009, 'On the Procedure for Disclosing Information on the Bank of Russia Website about Persons Controlling or Exerting Material (Direct or Indirect) Influence on Decisions Made by the Management of Banks Participating in the Compulsory Household Deposit Insurance System', the Bank of Russia made changes to the above mentioned Regulation No. 345-P. These amendments clarified the procedure for using the indicator which describes a deposit insurance system participating bank's compliance with the procedure established by the Bank of Russia for making a public disclosure of information on entities controlling or exerting material influence on a bank. The said indicator was singled out from a set of indicators used to characterise financial sustainability of banks.

The Bank of Russia detailed requirements for opening and managing mobile cash offices of a bank, which involved making provisions for them to operate in the federal district in which the bank is situated as well as in other constituent territories of the Russian Federation, which are part of different federal districts and directly border with the territory of the given federal district; and outlined the specifics of such offices' operation in emergency zones (Bank of Russia Ordinance No. 3327-U, dated 18 July 2014, 'On Amending Bank of Russia Ordinance No. 3028-U, Dated 22 July 2013, 'On the Procedure for Opening (Closing) and Managing a Mobile Cash Office of a Bank (Branch)').

In relation to the next stage (from 1 January 2015) in raising credit institutions' minimum capital requirements to 300 million rubles, the Bank of Russia drafted a procedure for identifying signs in banks' activities that serve grounds for licence revocation and a procedure for the Bank of Russia to decide to revoke a licence if it receives documented proof that a credit institution's capital had failed to reach 300 million rubles as of 1 January 2015 and (or) it has been below this figure for three consecutive months after 1 January 2015 (Bank of Russia Ordinance No. 3466-U, dated 2 December 2014, 'On the Procedure for Establishing the Grounds Stipulated by Clauses 5 and 6 of Part 2 of Article 20 of the Federal Law 'On Banks and Banking Activities' for a Bank to Have Its Banking Licence Revoked').

In line with the adoption of Federal Law No. 189-FZ, dated 28 June 2014, 'On Amending the Federal Law 'On Credit Histories' and Certain Laws of the Russian Federation', the Bank of Russia established requirements for compiling the data part of a credit history (Bank of Russia Ordinance No. 3465-U, dated 1 December 2014, 'On the Composition and Procedure for Compiling the Data Part of the Credit History').

Bank of Russia Ordinance No. 3427-U, dated 30 October 2014, 'On Invalidating Certain Regulations of the Bank of Russia' repealed Bank of Russia Regulation No. 49-P, dated 19 August 1998, 'On the Procedure for Applying Sanctions and Other Enforcement Measures Against Credit Institutions for the Violation of Legislation on the Securities Market' and Bank of Russia Ordinance No. 319-U, dated 19 August 1998, 'On the Procedure for Considering Violations by Credit Institutions of Legislation on the Securities Market and Applying Sanctions and Other Enforcement Measures Against them for the Violation of Legislation on the Securities Market'.

With a view to implementing priority measures to set up a banking, and settlement and payment system in the Crimean Federal District, four Bank of Russia Orders were issued to streamline the conditions for creating banking infrastructure in the Crimean Federal District across all areas of activity.

### Measures to improve on-site inspections

In 2014, efforts continued to improve the regulatory and methodological framework underpinning the Bank of Russia's on-site inspections.

Due to the completion of the phased centralisation of the Bank of Russia's inspection activities, the Bank of Russia issued Instruction No. 149-I, dated 25 February 2014, 'On Organising Inspections by the Central Bank of the Russian Federation (Bank of Russia)' (hereinafter, Instruction No. 149-I), which sets out procedures for carrying

out on-site inspections of credit institutions in view of the centralisation of the Bank of Russia's inspection activities, and also taking into account the changes to legislation on the Bank of Russia's mandate to organise and conduct on-site inspections of banks – members of banking groups and bank holding companies, including banks which are cross-border establishments.

To increase the efficiency and productivity of inspections of credit institutions (their branches):

- requirements were set out for credit institutions to provide structured information based on current registers and accounting documents kept by them in accordance with the laws of the Russian Federation and Bank of Russia regulatory acts (Bank of Russia Ordinance No. 3462-U, dated 30 November 2014, 'On the Content and Formats of Accounting, Operational and Other Information Submitted by a Credit Institution (its Branch) Electronically');
- amendments were made to Bank of Russia Instruction No. 147-I, dated 5 December 2013, 'On the Procedure for Inspecting Credit Institutions (their Branches) by Authorised Representatives of the Central Bank of the Russian Federation (Bank of Russia)' (hereinafter, Instruction No. 147-I). These take into account changes to the organisational structure of the Bank of Russia, including the creation of Bank of Russia main branches and divisions operating within them (divisions – national banks), as well as the change to the name of the Bank of Russia's Chief Inspectorate (Bank of Russia Ordinance No. 3325-U, dated 17 July 2014, 'On Amending Bank of Russia Instruction No. 147-I, Dated 5 December 2013, 'On the Procedure for Inspecting Credit Institutions (their Branches) by Authorised Representatives of the Central Bank of the Russian Federation (Bank of Russia)');
- changes were made to Bank of Russia Ordinance No. 1542-U, dated 13 January 2005, 'On the Specifics of Conducting Inspections of Banks with the Participation of Deposit Insurance Agency Employees', to bring the procedure governing the involvement of Deposit Insurance Agency employees in the inspections of banks in line with the procedure set out by Bank of Russia Instructions No. 147-I and No. 149-I (Bank of Russia Ordinance No. 3339-U, dated 23 July 2014, 'On Amending Bank of Russia Ordinance No. 1542-U, Dated 13 January 2005, 'On the Specifics of Conducting Inspections of Banks with the Participation of Deposit Insurance Agency Employees').

In order to enact the provisions set out in Article 73 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 elaborated a procedure for selecting audit organisations to conduct inspections of credit institutions (their branches) at the instruction of the Bank of Russia Board of Directors, and also specifics of arranging and conducting inspections of credit institutions (their branches) by audit organisations at the instruction of the Bank of Russia Board of Directors (Bank of Russia Regulation No. 442-P, dated 30 November 2014, 'On the Procedure for Selecting Audit Organisations to Conduct Inspections of Credit Organisations (their Branches) at the Instruction of the Bank of Russia Board of Directors', and Bank of Russia Ordinance No. 3463-U, dated 30 November 2014, 'On the Specifics of Arranging and Conducting Inspections of Credit Institutions (their Branches) by Audit Organisations at the Instruction of the Bank of Russia Board of Directors').

### **Countering the legalisation (laundering) of criminally obtained incomes and the financing of terrorism**

In 2014, the Bank of Russia took further steps to implement its mandate envisaged by Federal Law No. 115-FZ, dated 7 August 2001, 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'. As part of this work, the Bank of Russia implemented the following measures.

The procedure was refined for credit institutions to identify customers and beneficiaries (Bank of Russia Ordinance No. 3179-U, dated 21 January 2014, 'On Amending Bank of Russia Regulation No. 262-P, Dated 19 August 2004, 'On the Identification by Credit Institutions of Customers and Beneficiaries for the Purpose of Countering the Legalisation (Laundering) of Criminally Obtained Income and the Financing of Terrorism') together with the content of programmes included in the internal control rules of a credit institution (Bank of Russia Ordinance No. 3186-U, dated 31 January 2014, 'On Amending Bank of Russia Regulation No. 375-P, Dated 2 March 2012, 'On the Requirements for a Credit Institution's Internal Control Rules Designed to Counter the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'). Moreover, the Bank of Russia made additions to the list of characteristic features signaling the unusual character of a transaction (Ordinance No. 3315-U, dated

10 July 2014, 'On Amending Bank of Russia Regulation No. 375-P, Dated 2 March 2012, 'On the Requirements for a Credit Institution's Internal Control Rules Designed to Counter the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'), and the list of codes for types of operations about which information must be submitted to the authorised body (Bank of Russia Ordinances No. 3371-U, dated 26 August 2014, 'On Amending Appendix 8 to Bank of Russia Regulation No. 321-P, Dated 29 August 2008, 'On the Procedure for Credit Institutions to Submit to the Authorised Body Information Stipulated by the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism', and No. 3464-U, dated 1 December 2014, 'On Amending Appendix 8 to Bank of Russia Regulation No. 321-P, Dated 29 August 2008, 'On the Procedure for Credit Institutions to Submit to the Authorised Body Information Stipulated by the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Income and the Financing of Terrorism').

The Bank of Russia established a procedure for non-bank financial institutions to identify customers, customer representatives, beneficiaries, and beneficiary owners (Bank of Russia Regulation No. 444-P, dated 12 December 2014, 'On Identifying by Non-bank Financial Institutions Customers, Customer Representatives, Beneficiaries and Beneficiary Owners for the Purpose of Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'), and a procedure for submitting information to the authorised body (Bank of Russia Ordinance No. 3484-U, dated 15 December 2014, 'On the Procedure for Non-bank Financial Institutions to Submit to the Authorised Body Information Stipulated by the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'). It also formalised requirements for internal control rules (Bank of Russia Regulation No. 445-P, dated 15 December 2014, 'On the Requirements to Internal Control Rules of Non-bank Financial Institutions for the Purpose of Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'), qualification requirements for special officials responsible for implementing internal control rules (Bank of Russia Ordinance No. 3470-U, dated 5 December 2014, 'On the Qualifying Requirements for Special Officials Responsible for Implementing 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'), and requirements for personnel training in non-bank financial institutions (Bank of Russia Ordinance No. 3471-U, dated 5 December 2014, 'On the Requirements for Personnel Training in Non-bank Financial Institutions').

In addition, in 2014, the Bank of Russia issued letters No. 168-T, dated 3 October 2014, 'On Enhancing Attention of Credit Institutions to Certain Operations by their Customers', No. 191-T, dated 10 November 2014, 'On Submitting Information to Rosfinmonitoring on Certain Operations by Customers', No. 216-T, dated 22 December 2014, 'Addition to Bank of Russia Letter No. 168-T, Dated 3 October 2014', and No. 236-T, dated 31 December 2014 'On Enhancing Attention of Credit Institutions to Certain Operations by their Customers', all of which focused credit institutions' attention on certain customer operations bearing the signs of dubious operations, with recommendations on how to identify them and mitigate the associated risks of laundering criminally obtained incomes and the financing of terrorism.

## IV.3. PRINCIPAL MEASURES TO IMPROVE REGULATION IN THE NATIONAL PAYMENT SYSTEM IN 2014

To improve the regulation of the national payment system, the Bank of Russia issued the following regulatory documents:

- Regulation issued by the Bank of Russia and the Ministry of Finance No. 414-P/8n, dated 18 February 2014, ‘On the Specifics of Settlement and Cash Servicing of Regional Federal Treasury Bodies, the Financial Bodies of Constituent Territories of the Russian Federation (Municipal Entities) and Government Extra-budgetary Fund Administration Bodies of the Russian Federation’;
- Regulation No. 419-U, dated 17 April 2014, ‘On Paying for Bank of Russia Services in the Bank of Russia Payment System’;
- Regulation No. 422-P, dated 11 June 2014, ‘On the Procedure for the Bank of Russia to Qualify a Payment System as a Nationally Important Payment System’;
- Regulation No. 423-P, dated 12 June 2014 ‘On the Security Deposits of Operators of Not Nationally Important Payment Systems’;
- Regulation No. 440-P, dated 6 November 2014, ‘On the Procedure for Tax Authorities to Send Documents to Banks, and for Banks to Send Documents to Tax Authorities in Electronic Form in Instances Stipulated by the Russian Legislation on Taxes and Duties’;
- Ordinances No. 3180-U, dated 23 January 2014, No. 3271-U, dated 31 May 2014, No. 3310-U, dated 7 July 2014, and No. 3530-U, dated 31 December 2014, ‘On Amending Bank of Russia Regulation No. 406-P, Dated 29 August 2013, ‘On the Procedure for Administering Certain Types of Budget Revenues by the Central Bank of the Russian Federation’;
- Ordinance No. 3185-U, dated 31 January 2014, ‘On Amending the Preamble to Bank of Russia Ordinance No. 2547-U, Dated 24 December 2010, ‘On Accounts Opened for Federal Treasury Regional Branches, Financial Authorities of Constituent Entities of the Russian Federation and Municipalities to Record the Funds of Organisations, which are not Budgetary Process Participants, with Subdivisions of the Bank of Russia’s Settlement Network or with Credit Institutions (Branches), and Accounts of Autonomous Institutions with Credit Institutions (Branches)’;
- Ordinance No. 3204-U, dated 3 March 2014, ‘On Amending Bank of Russia Ordinance No. 2844-U, Dated 29 June 2012, ‘On the Procedure for the Bank of Russia to Register Payment System Operators’;
- Ordinance No. 3211-U, dated 11 March 2014, ‘On Amending Bank of Russia Regulation No. 15-P, Dated 13 January 1998, ‘On the Procedure for Bank of Russia Establishments and Divisions Located in the Russian Federation to Send Letters of Advice, Requests to Confirm the Validity of Letters of Advice and Confirmations Thereof, and Settlement Documents of Claimants’;
- Ordinance No. 3228-U, dated 18 March 2014, ‘On Amending Bank of Russia Ordinance No. 2961-U, Dated 29 December 2012, ‘On the Procedure for Accepting Paper-based Orders and Orders on Removable Data Storage Devices at the Bank of Russia’;
- Ordinance No. 3235-U, dated 21 April 2014, ‘On Amending Bank of Russia Regulation No. 225-P, Dated 6 May 2003, ‘On the Directory of Bank Identification Codes of Settlement Participants Effecting Payments through the Bank of Russia Settlement System, and Cash and Settlement Centres of the Bank of Russia’;
- Ordinance No. 3248-U, dated 29 April 2014, ‘On Amending Bank of Russia Regulation No. 383-P, Dated 19 June 2012, ‘On Funds Transfer Rules’;
- Ordinance No. 3255-U, dated 7 May 2014, ‘On Amending Bank of Russia Ordinance No. 2594-U, Dated 14 March 2011, ‘On Submitting Information to Federal Treasury Regional Branches on Accounts Opened for Government and Budget-financed Organisations, and for Financial Bodies with the Establishments of the Central Bank of the Russian Federation and with Credit Institutions’;

- Ordinance No. 3280-U, dated 11 June 2014, 'On the Procedure for Bank of Russia Payment System Operator to Inform Payment System Participants About Instances of and Reasons for the Suspension (Discontinuation) of Payment Infrastructure Services';
- Ordinance No. 3284-U, dated 17 June 2014, 'On Amending Bank of Russia Ordinance No. 1822-U, Dated 25 April 2007, 'On the Procedure for Making Payments and Settlements in the Real-time Gross Settlement System of the Bank of Russia';
- Ordinance No. 3288-U, dated 20 June 2014, 'On Amending Bank of Russia Regulation No. 303-P, Dated 25 April 2007, 'On the Real-time Gross Settlement System of the Bank of Russia';
- Ordinance No. 3294-U, dated 25 June 2014, 'On the Procedure for Imposing Penalties Stipulated by Articles 824 and 825 of Federal Law No. 86-FZ, Dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)', on Payment System Operators';
- Ordinance No. 3295-U, dated 25 June 2014, 'On Amending Bank of Russia Regulation No. 381-P, Dated 9 June 2012, 'On the Procedure to Oversight Compliance by Non-credit Institutions – Payment System Operators and Payment Infrastructure Service Operators with the Requirements of Federal Law No. 161-FZ, Dated 27 June 2011, 'On the National Payment System' and with Relevant Bank of Russia Regulations';
- Ordinance No. 3296-U, dated 25 June 2014, 'On Amending Bank of Russia Ordinance No. 2959-U, Dated 29 December 2012, 'On the Procedure for the Bank of Russia to Oversight Compliance by Non-credit Institutions – Payment System Operators and Payment Infrastructure Service Operators with the Requirements of Federal Law No. 161-FZ, Dated 27 June 2011, 'On the National Payment System' and with Relevant Bank of Russia Regulations';
- Ordinance No. 3297-U, dated 26 June 2014, 'On Amending Bank of Russia Ordinance No. 2958-U, Dated 28 December 2012, 'On the Procedure for the Bank of Russia to Implement the Requirements of Federal Law No. 161-FZ, Dated 27 June 2011, 'On the National Payment System';
- Ordinance No. 3304-U, dated 27 June 2014, 'On Reporting by Payment System Operators Regarding Payment Systems Used to Make Funds Transfers in Organised Trading';
- Ordinance No. 3314-U, dated 8 July 2014, 'On Amending Bank of Russia Ordinance No. 2815-U, Dated 2 May 2012, 'On Setting Criteria Values for Qualifying Payment Systems as Important';
- Ordinance No. 3317-U, dated 10 July 2014, 'On Amending Bank of Russia Regulation No. 379-P, Dated 31 May 2012, 'On the Uninterrupted Functioning of Payment Systems and on Analysing Payment Systems Risks';
- Ordinance No. 3323-U, dated 14 July 2014, 'On Amending Appendix 9 to Bank of Russia Regulation No. 384-P, Dated 29 June 2012, 'On the Bank of Russia Payment System';
- Ordinance No. 3324-U, dated 14 July 2014, 'On Amending Clause 4 of Bank of Russia Ordinance No. 2390-U, Dated 29 January 2010, 'On the Procedure for Transferring Unused Balances of Accounts with Federal Treasury Branches';
- Ordinance No. 3330-U, dated 21 July 2014, 'On Amending Bank of Russia Regulation No. 377-P, Dated 28 April 2012, 'On the Procedure for a Bank to Electronically Inform Tax Authorities about Acquiring or Losing the Right to Use Corporate Electronic Payment Instruments to Transfer Electronic Money and about Changes to Corporate Electronic Payment Instrument Details';
- Ordinance No. 3342-U, dated 25 July 2014, 'On the Requirements for Information Technologies Used by Payment Infrastructure Service Operators for the Payment System to be Recognised as Nationally Important';
- Ordinance No. 3361-U, dated 14 August 2014, 'On Amending Bank of Russia Regulation No. 382-P, Dated 9 June 2012, 'On the Requirements to Protect Information Related to Funds Transfers and on the Procedure for the Bank of Russia to Control the Compliance with the Requirements to Protect Information Related to Funds Transfers';
- Ordinance No. 3362-U, dated 15 August 2014, 'On Amending Bank of Russia Ordinance No. 2844-U, Dated 29 July 2012, 'On the Procedure for the Bank of Russia to Register Payment System Operators';
- Ordinance No. 3439-U, dated 6 November 2014, 'On the Procedure for Recognising Credit Institutions' Importance in the Payment Services Market by the Bank of Russia';
- Ordinance No. 3441-U, dated 9 November 2014, 'On Amending Clause 3.2 of Bank of Russia Regulation No. 380-P, Dated 31 May 2012, 'On the Procedure for Overseeing the National Payment System';

- Ordinance No. 3493-U, dated 16 December 2014, 'On Cooperation and Obtaining Operational and Payment Clearing Services for Funds Transfers Using International Payment Cards';
- Ordinance No. 3527-U, dated 31 December 2014, 'On Amending Bank of Russia Regulation No. 423-P, Dated 12 June 2014, 'On the Security Deposits of Operators of Not Nationally Important Payment Systems';
- Order issued by the Ministry of Finance and the Bank of Russia No. 169n/3507-U, dated 25 December 2014, 'On Amending Ministry of Finance and Bank of Russia Regulation No. 127n/328-P, Dated 12 November 2008, 'On the Procedure for Completing Operations on Federal Budget Accounts Opened with Divisions of the Bank of Russia and Credit Institutions (Branches) in the Current Fiscal Year'.

## IV.4. PRINCIPAL MEASURES TO DEVELOP THE FINANCIAL MARKETS IN 2014

In order to achieve stable development of the financial markets and increase their investment appeal, in 2014, the Bank of Russia performed comprehensive work to improve the regulation and development of the Russian financial market.

To improve the regulation of certain segments of the financial markets, in 2014 the Bank of Russia assisted in drafting federal laws and analysed law enforcement practices in the financial market segments (excluding banking and auditing activities), on the basis of which new regulatory documents were issued.

With a view to developing the **institution of financial intermediaries**, in 2014 steps were made to differentiate the capital adequacy requirements of professional securities market participants. In particular, for customer's brokers, Bank of Russia Ordinance No. 3329-U, dated 21 July 2014, 'On the Capital Requirements for Professional Securities Market Participants and Management Companies of Investment Funds, Unit Investment Funds and Non-governmental Pension Funds', laid down requirements for the minimum capital at three million rubles. Bank of Russia Ordinance No. 3349-U, dated 25 July 2014, 'On Unified Requirements Regarding Rules for Broker Activities When Engaging in Operations with the Property of the Broker's Customer', set out restrictions on customer broker activities in terms of the procedure and time frames for executing customer instructions.

In order to enact the provisions set out in Federal Law No. 325-FZ, dated 21 November 2011, 'On Organised Trading', and harmonise approaches to the regulation of organised trading through purchase and sale agreements for goods, currency, securities and agreements constituting derivative financial instruments, the Bank of Russia adopted Regulation No. 437-P, dated 17 October 2014, 'On Conducting Organised Trading'.

With a view to developing **securitisation** through special financial companies acquiring debtors' property rights and special project financing companies funding long-term investment projects, the Bank of Russia adopted Ordinance No. 3309-U, dated 7 July 2014, 'On the Forms and Methods for Assuming Risks on Bonds Secured by Collaterals of Special Financial Companies and Special Project Financing Companies'.

In addition, in 2014, the Bank of Russia prepared new and improved existing regulatory acts governing the following areas:

- the activities of bond holders' representatives; the preparation, convening and holding of general bond holders' meetings; bond programmes; the procedure for issuing bonds secured by receivables and bonds with different priorities for the performance of obligations, the issuers of which may include special financial companies (engaged in the securitisation of financial assets) and special project financing companies (engaged in project financing);
- accrediting information agencies whose work involves disclosing information in the financial market;
- a list of insider information from insider organisations, including securities issuers;
- granting shareholders access to joint-stock company documents, including obtaining copies of such documents;
- recording rights and placing shares with a nominal value in rubles from issuers registered in the Republic of Crimea and the federal city of Sevastopol;
- the issue of Bank of Russia permits to non-financial organisations registered or established in the Republic of Crimea and the federal city of Sevastopol to engage in respective activities;
- granting access to the financial market for responsible actuaries, self-regulatory organisations of actuaries, and the officials of trading organisers and clearing houses.

In addition, with a view to encouraging the expansion of a correspondent network of central counterparties (hereinafter, CC) in order to provide Russian financial market participants with central clearing services in operations involving the currencies of CIS countries, and expanding the list and improving the quality of assets accepted by CCs as collateral for clearing participants' obligations, the Bank of Russia issued Ordinance No. 3367-U, dated 21 August 2014, 'On Amending Bank of Russia Ordinance No. 2919-U, Dated 3 December 2012, 'On Assessing the Management Quality of a Credit Institution Acting as a Central Counterparty'.

To improve the regulation of **non-governmental pension funds' and investment funds' activities**, the Bank of Russia issued the following regulatory documents:

- Ordinance No. 3258-U, dated 17 May 2014, 'On Instances and Procedure for the Partial Redemption of Investment Units in a Closed-end Unit Investment Fund Without the Investment Units Owner's Request to Redeem Them';
- Ordinance No. 3364-U, dated 18 August 2014, 'On the Procedure and Timeframes for the Bank of Russia to Compensate the Pension Fund of the Russian Federation for any Shortfall in Pension Savings';
- Ordinance No. 3415-U, dated 7 October 2014, 'On the Procedure for Calculating Capital by Non-governmental Pension Funds';
- Regulation No. 441-P, dated 24 November 2014, 'On Assessing the Conformity of Non-governmental Pension Funds with the Requirements for Participation in the System of Guaranteeing Insured Persons' Rights';
- Ordinance No. 3506-U, dated 24 December 2014, 'On the List of Expenses Linked to Trust Management of Property Constituting the Assets of a Joint-stock Investment Fund or Property Constituting a Unit Investment Fund';
- Bank of Russia Regulation No. 451-P, dated 25 December 2014, 'On Additional Restrictions on Investing Pension Savings Placed with a Non-governmental Pension Fund Providing Compulsory Pension Insurance, Additional Requirements for Credit Institutions with which Servicemen Pension and Housing Savings are Placed, and Additional Requirements for Management Companies under a Pension Savings Funds Trust Management Agreement'.

The Bank of Russia also improved the procedure for its collaboration with the authorised registering body regarding the state registration of non-governmental pension funds.

As part of fulfilling the objectives of the Strategy for the Development of **Insurance Activity** in the Russian Federation up to 2020, the Bank of Russia took steps to create environment conducive to the development of voluntary forms of insurance, mutual insurance, and new approaches to insurance aimed at satisfying mass demand for insurance services.

While implementing the core measures to develop the **microfinance and credit cooperation market**, work was carried out to compile draft regulatory and legal acts with the following objectives:

- outlining special requirements on access to the pawnbroker market, obligations for a pawnbroker to receive the status of a pawnbroker by registering information in a state pawnbroker register;
- improving supervision over microfinance organisations and consumer credit cooperatives;
- improving regulation of and supervision over agricultural consumer credit cooperatives;
- establishing numerical values and procedure for calculating the capital adequacy ratios and liquidity ratios of microfinance organisations taking household and corporate funds in the form of loans and microfinance organisations issuing and placing bonds;
- decisions made by self-regulatory organisations of consumer credit cooperatives on compensation payments from the compensation fund;
- setting procedures for microfinance organisations and consumer credit cooperatives to create loan loss provisions.

The Bank of Russia also prepared draft 'road maps' aimed at developing the microfinance and credit cooperative markets.

With the purpose of **protecting the rights of financial consumers and minority shareholders**, the Bank of Russia carried out work to increase the efficiency of reviewing communications containing complaints or declarations pertaining to the activities of non-financial organisations or securities issuers. In 2014, roughly 30,000 such communications were processed. If any violations of Russian Federation legislation were identified in the activities of non-financial organisations or issuers, compulsory orders were sent to the relevant organisations, instructing them to eliminate the violations identified. In some cases the relevant legal entities and officials had administrative proceedings initiated against them.

In addition, work was carried out to collect, process and analyse questions sent to the Bank of Russia by financial consumers and investors. Based on this analysis, a list of the most frequently asked questions of financial consumers and investors and responses to these questions was compiled. This list, which includes more than

200 responses to questions, was forwarded to Bank of Russia regional branches for further use, in particular during the period of the All-Russian Citizen Reception Day, and was also sent to support the work of the Bank of Russia's call centre.

In order to formulate recommendations on topical issues relating to protecting the rights of financial consumers and minority shareholders, and to bolster its expert advisory efforts aimed at regulating financial sphere and ensuring the rights of financial consumers and minority shareholders, the Bank of Russia set up the Experts Board for Financial Consumers and Minority Shareholders Protection<sup>1</sup>.

A bilateral agreement was signed between the Federal Service for the Oversight of Consumer Protection and Welfare (Rosпотребнадзор) and the Bank of Russia to organise effective cooperation within their vested authorities to protect financial consumers<sup>2</sup>.

---

<sup>1</sup> Bank of Russia Order No. OD-3528, dated 17 December 2014, 'On the Creation of the Bank of Russia Experts Board for Financial Consumers and Minority Shareholders Protection'.

<sup>2</sup> Agreement between the Bank of Russia and Rosпотребнадзор No. BR-D-59/535/27, dated 10 December 2014.

## IV.5. STATISTICAL TABLES

Table 1

### Key macroeconomic indicators (percent of previous year)

	2012	2013	2014
Gross domestic product <sup>1,2</sup>	103.4	101.3	100.6
of which:			
– agriculture, hunting and forestry	96.4	104.3	101.5
– hydrocarbon production and mining	101.6	96.2	100.7
– manufacturing	102.8	103.9	102.5
– production and distribution of electricity, gas and water	101.2	97.8	99.9
– construction	102.6	98.6	94.9
– wholesale and retail trade, and other	103.4	100.5	100.6
– transport and communications	104.1	103.0	100.3
GDP deflator index <sup>2</sup>	107.4	105.0	107.2
Consumer price index (December on previous December) <sup>2</sup>	106.6	106.5	111.4
Fixed capital investment <sup>1,2</sup>	106.8	100.8	97.3
Retail trade turnover <sup>1,2</sup>	106.3	103.9	102.5
Unemployment rate according to ILO methodology (annual average), percent of economically active population <sup>2</sup>	5.5	5.5	5.2
External trade (per balance of payments methodology) <sup>3</sup>			
– export of goods	102.3	99.2	95.1
– import of goods	105.4	101.7	90.2
– export of services	107.4	112.5	93.8
– import of services	119.1	117.9	94.3

<sup>1</sup> In constant prices.

<sup>2</sup> Rosstat data as of 6 April 2015.

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

Table 2

**Consumer prices by group of goods and services  
(growth, December as a percentage of previous December)<sup>1</sup>**

	2012	2013	2014
Consumer prices, total	6.6	6.5	11.4
of which:			
– food prices	7.5	7.3	15.4
of which:			
– food prices exclusive of fruit and vegetables	7.1	7.1	14.7
– fruit and vegetable prices	11.0	9.3	22.0
– non-food prices	5.2	4.5	8.1
– paid services provided to the public	7.3	8.0	10.5
Prices of goods and services included in calculation of core consumer price index (CCPI)	5.7	5.6	11.2

<sup>1</sup> Rosstat data as of 6 April 2015.

Table 3

**Consumer price inflation structure<sup>1</sup>**

	2013		2014	
	growth in percentage points	contribution to growth, percent	growth in percentage points	contribution to growth, percent
<b>Headline inflation (December on December)</b>	<b>6.5</b>	<b>100.0</b>	<b>11.4</b>	<b>100.0</b>
Inflation growth due to:				
– change in prices of goods and services included in CCPI calculation	4.5	68.8	9.0	79.3
– change in prices of goods and services not included in CCPI calculation	2.0	31.2	2.4	20.7
of which:				
– change in fruit and vegetable prices	0.3	5.2	0.8	7.1
– change in administered service and fuel prices	1.2	18.9	1.2	10.5

<sup>1</sup> Rosstat data as of 6 April 2015, Bank of Russia calculations.

Table 4

**Balance of household money income and expenses  
(millions of rubles)<sup>1</sup>**

	2013	2014	2014 as a percentage of 2013
<b>Money income</b>	<b>44,650,448.6</b>	<b>47,900,334.4</b>	<b>107.3</b>
Wages and salaries	29,139,647.9	31,981,881.7	109.8
Share, percent	65.3	66.8	
Social allowances	8,295,727.7	8,718,700.9	105.1
Share, percent	18.6	18.2	
Income from entrepreneurial activities	3,848,310.0	3,730,651.6	96.9
Share, percent	8.6	7.8	
Income from property	2,473,758.1	2,520,878.6	101.9
Share, percent	5.5	5.3	
Other income	893,004.9	948,221.6	106.2
Share, percent	2.0	1.9	
<b>Money expenses</b>	<b>38,060,541.1</b>	<b>41,617,107.7</b>	<b>109.3</b>
– consumer expenses	32,847,905.9	35,945,338.5	109.4
– compulsory payments and contributions	5,212,635.2	5,671,769.2	108.8
<b>Growth in savings and cash on hand, purchase of foreign currency</b>	<b>6,589,907.5</b>	<b>6,283,226.7</b>	<b>95.3</b>
– savings <sup>2</sup>	4,383,543.4	3,363,359.2	76.7
of which:			
– deposits and securities	2,807,876.7	378,386.4	13.5
– foreign currency purchase	1,874,577.7	2,805,138.7	149.6
– cash on hand	331,786.40	114,728.80	34.6
<b>Memo item</b>			
<b>Share of money income, percent</b>			
– consumer expenses	73.6	75.0	
– compulsory payments and contributions	11.7	11.9	
– savings	9.8	7.0	
of which:			
– deposits and securities	6.3	0.8	
– foreign currency purchase	4.2	5.9	
– cash on hand	0.7	0.2	
<b>Disposable money income</b>	<b>39,512,770.6</b>	<b>42,305,985.5</b>	<b>107.1</b>
Share of, percent			
– consumer expenses	83.1	85.0	
– savings	11.1	7.9	
of which:			
– deposits and securities	7.1	0.9	
– foreign currency purchase	4.8	6.6	
– cash on hand	0.8	0.3	
– remittances	0.2	0.2	

<sup>1</sup> Rosstat data as of 24 April 2015, Bank of Russia calculations.

<sup>2</sup> Savings include increase (decrease) in deposits, purchase of securities, change in accounts of individual entrepreneurs, change in debt on loans, purchase of real estate and cattle and poultry.

Table 5

**Russia's domestic government debt as of 1 January 2015  
(at face value, billions of rubles)**

Debt instruments	Total within domestic government debt	Of these, traded on domestic securities market
Permanent coupon-income federal government bonds (OFZ-PD)	2,551.0	2,551.0
Debt depreciation federal government bonds (OFZ-AD)	1,038.6	938.6
Variable coupon-income federal government bonds (OFZ-PK)	1,000.0	–
Government savings bonds (GSO)	692.6	–
Non-coupon federal government bonds (BOFZ)	103.6	103.6
MinFin bonds (OVOZ)	90.0	–
Russian government guarantees in national currency	1,765.50	–
<b>Total</b>	<b>7,241.20</b>	<b>3,593.20</b>

Table 6

**Finance Ministry debt to the Bank of Russia as of 1 January 2015  
(millions of rubles)<sup>1</sup>**

	At face value
Russian government debt obligations	431,963
of which:	
– Russian government debt obligations available for sale, in national currency	254,639
– Russian government debt obligations available for sale, in foreign currency	177,325

<sup>1</sup> Exclusive of repo transactions.

Table 7

**Volume (turnover) of resident operations with non-residents  
to buy and sell Russian government outstanding foreign currency debt obligations in secondary market  
(at market prices, billions of US dollars)**

	Currency	Q1	Q2	Q3	Q4	2014
Eurobonds due in 2015	US dollar	0.28	0.49	0.80	0.75	2.33
Eurobonds due in 2017	US dollar	0.26	0.31	0.20	0.13	0.89
Eurobonds due in 2018 (issued in the course of restructuring GKO's)	US dollar	0.14	0.06	0.06	0.08	0.34
Eurobonds due in 2019	US dollar	0.54	0.46	0.22	0.15	1.36
Eurobonds due in 2020	US dollar	0.34	0.53	0.23	0.29	1.40
Eurobonds due in 2020	euro	0.14	0.43	0.05	0.02	0.63
Eurobonds due in 2022	US dollar	0.08	0.14	0.32	0.12	0.65
Eurobonds due in 2023	US dollar	0.47	0.43	0.25	0.16	1.31
Eurobonds due in 2028	US dollar	0.61	0.25	0.32	0.36	1.55
Eurobonds due in 2030 (issued in the course of the second restructuring of debt to the London Club of commercial bank creditors)	US dollar	5.27	6.37	8.40	5.46	25.49
Eurobonds due in 2042	US dollar	0.61	0.95	0.59	0.21	2.35
Eurobonds due in 2043	US dollar	0.17	0.20	0.06	0.02	0.45

Table 8

**Institutionalised financial intermediaries  
(units)**

	1.01.2014	1.01.2015
Credit institutions with the right to conduct banking operations, total	923	834
of which:		
– banks	859	783
– non-bank credit institutions	64	51
Credit institutions with foreign stakes in authorised capital	251	225
Branches of credit institutions operating in Russia	2,005	1,708
Representative offices of operating Russian credit institutions	344	318
Insurance market entities	597	567
of which:		
– insurance companies	420	404
– mutual insurance companies	12	12
– insurance brokers	165	151
Credit and non-credit institutions licensed as professional securities market participants, total	1,149	1,079
of which:		
– brokers	885	803
– dealers	887	817
– trust managers	782	706
– depositories	615	579
– register holders	37	39
Clearing organisations	6	5
Exchanges	8	8
Non-governmental pension funds	120	120
Unit investment funds <sup>1</sup> , total	1,571	1,654
of which:		
– open-end	466	430
– interval	58	59
– closed-end	1,047	1,165
Joint-stock investment funds <sup>2</sup>	7	6
Management companies of investment funds, unit investment funds and non-governmental pension funds	401	396
Specialised depositories of investment funds, unit investment funds and non-governmental pension funds	44	38
Microfinance organisations		
Microfinance organisations	3,860	4,200
Self-regulatory organisations of microfinance organisations	2	3
Housing savings cooperatives	88	88
Credit consumer cooperatives	3,602	3,545
Self-regulatory organisations of credit consumer cooperatives	10	10
Rating agencies	9	9

<sup>1</sup> Number of those established and those being established.

<sup>2</sup> According to the state register as of 1 January 2015.

Table 9

**Balance of payments of the Russian Federation<sup>1</sup>**  
**(analytical presentation, millions of US dollars)**

	Q1	Q2	Q3	Q4	2014	Memo item: 2013
<b>Current account</b>	<b>25,857</b>	<b>12,197</b>	<b>6,019</b>	<b>15,389</b>	<b>59,462</b>	<b>34,801</b>
Goods	50,508	51,693	45,267	42,269	189,737	181,939
<i>Export</i>	<i>123,012</i>	<i>132,323</i>	<i>125,746</i>	<i>116,681</i>	<i>497,763</i>	<i>523,275</i>
oil	38,825	42,257	40,302	32,504	153,888	173,670
oil products	27,534	30,550	31,812	25,979	115,875	109,335
natural gas	17,671	16,327	9,893	11,350	55,240	67,232
other	38,983	43,190	43,740	46,848	172,760	173,039
<i>Import</i>	<i>72,504</i>	<i>80,630</i>	<i>80,480</i>	<i>74,412</i>	<i>308,026</i>	<i>341,337</i>
Services	-11,072	-14,375	-18,585	-11,208	-55,240	-58,259
<i>Export</i>	<i>15,099</i>	<i>17,344</i>	<i>17,844</i>	<i>15,511</i>	<i>65,798</i>	<i>70,123</i>
transportation	4,612	5,582	5,742	4,605	20,542	20,747
travel	2,567	3,302	3,603	2,287	11,759	11,988
other services	7,920	8,460	8,499	8,619	33,497	37,387
<i>Import</i>	<i>26,172</i>	<i>31,719</i>	<i>36,429</i>	<i>26,719</i>	<i>121,039</i>	<i>128,382</i>
transportation	3,552	4,108	4,106	3,654	15,420	17,505
travel	10,338	13,592	17,796	8,701	50,428	53,453
other services	12,281	14,020	14,527	14,363	55,191	57,425
Compensation of employees	-2,670	-2,585	-2,684	-2,136	-10,074	-13,170
Investment income	-9,090	-21,826	-14,483	-11,839	-57,238	-66,515
Receivable	12,483	10,752	11,016	8,322	42,573	37,738
Payable	21,573	32,577	25,499	20,161	99,811	104,254
<i>Federal government</i>	<i>-470</i>	<i>-555</i>	<i>-468</i>	<i>-432</i>	<i>-1,925</i>	<i>-2,681</i>
Receivable	329	210	271	164	974	964
Payable	800	765	739	596	2,899	3,645
<i>Local government (payable)</i>	<i>4</i>	<i>4</i>	<i>3</i>	<i>28</i>	<i>39</i>	<i>56</i>
<i>Central bank</i>	<i>376</i>	<i>359</i>	<i>342</i>	<i>306</i>	<i>1,383</i>	<i>1,875</i>
Receivable	380	362	344	307	1,392	1,882
Payable	3	3	2	1	9	7
<i>Banks</i>	<i>-761</i>	<i>-2,288</i>	<i>-811</i>	<i>-19</i>	<i>-3,879</i>	<i>-7,326</i>
Receivable	3,298	3,308	3,263	3,248	13,117	11,187
Payable	4,059	5,596	4,074	3,267	16,995	18,513
<i>Other sectors<sup>2</sup></i>	<i>-8,231</i>	<i>-19,338</i>	<i>-13,544</i>	<i>-11,666</i>	<i>-52,779</i>	<i>-58,327</i>
Receivable	8,476	6,872	7,138	4,603	27,090	23,705
Payable	16,708	26,210	20,682	16,269	79,869	82,032
Rent	28	8	70	24	130	81
Secondary income	-1,847	-719	-3,566	-1,721	-7,853	-9,274
<b>Capital account</b>	<b>-178</b>	<b>-71</b>	<b>-9,974</b>	<b>-31,789</b>	<b>-42,012</b>	<b>-395</b>
<b>Balance from current and capital account</b> <b>(net lending (+) / net borrowing (-))</b>	<b>25,679</b>	<b>12,126</b>	<b>-3,955</b>	<b>-16,400</b>	<b>17,450</b>	<b>34,406</b>
<b>Financial account, excluding reserve assets</b> <b>(net lending (+) / net borrowing (-))</b>	<b>47,151</b>	<b>27,759</b>	<b>5,969</b>	<b>52,887</b>	<b>133,765</b>	<b>46,212</b>

End

	Q1	Q2	Q3	Q4	2014	Memo item: 2013
<b>Net incurrence of liabilities ('+' – increase, '-' – decrease)</b>	<b>2,634</b>	<b>7,807</b>	<b>-23,067</b>	<b>-38,041</b>	<b>-50,666</b>	<b>124,389</b>
<i>Federal government</i>	-6,550	1,825	-4,091	-577	-9,393	9,498
Portfolio investment	-6,342	2,016	-3,904	-509	-8,738	10,106
Issue	0	0	0	0	0	6,503
Redemption	-1,839	-535	-1,535	-492	-4,400	-4,780
principal	-700	0	-399	-58	-1,157	-1,176
coupons	-1,139	-535	-1,135	-434	-3,243	-3,604
Interest reinvestment	790	753	731	586	2,861	3,586
Secondary market	-5,293	1,798	-3,100	-603	-7,198	4,797
Loans	-203	-185	-179	-106	-673	-677
Other liabilities	-6	-6	-8	38	18	70
<i>Local government</i>	17	-86	8	0	-62	-150
<i>Central bank</i>	-2	462	697	-3,870	-2,713	440
<i>Banks</i>	912	-7,459	-11,507	-19,293	-37,347	20,426
Direct investment	2,395	1,158	338	468	4,359	9,158
Loans and deposits	1,700	-5,985	-7,286	-9,201	-20,772	17,167
Other liabilities	-3,183	-2,632	-4,559	-10,560	-20,935	-5,900
<i>Other sectors<sup>2</sup></i>	<i>8,258</i>	<i>13,065</i>	<i>-8,174</i>	<i>-14,300</i>	<i>-1,151</i>	<i>94,176</i>
Direct investment	10,469	10,973	-946	-3,898	16,599	60,061
Portfolio investment	-5,648	-1,804	-3,301	-1,499	-12,252	-11,093
Loans	3,601	383	-498	-9,204	-5,719	44,657
Other liabilities	-164	3,514	-3,429	301	221	551
<b>Net acquisition of financial assets, excluding reserve assets ('+' – increase, '-' – decrease)</b>	<b>49,786</b>	<b>35,566</b>	<b>-17,098</b>	<b>14,846</b>	<b>83,099</b>	<b>170,602</b>
<i>General government</i>	36	543	-8,818	-31,225	-39,464	4,188
Loans	-25	-214	-5,912	-28,374	-34,524	337
Other assets	60	757	-2,906	-2,851	-4,940	3,851
<i>Central bank</i>	-517	-24	6	6	-529	-634
<i>Banks</i>	21,887	7,762	-29,865	9,769	9,554	27,894
Direct investment	771	785	176	146	1,878	1,288
Loans and deposits	9,590	13,608	-31,588	-2,539	-10,930	25,586
Other assets	11,527	-6,631	1,547	12,163	18,606	1,020
<i>Other sectors<sup>2</sup></i>	<i>28,379</i>	<i>27,284</i>	<i>21,579</i>	<i>36,296</i>	<i>113,538</i>	<i>139,153</i>
Direct investment	13,627	13,775	11,436	15,688	54,526	85,210
Portfolio investment	1,295	1,547	649	2,062	5,553	2,153
Cash foreign currency	10,198	3,383	1,772	15,022	30,375	-266
Trade credits and advances	-2,074	-509	6,807	3,025	7,248	7,646
Indebtedness on supplies according to intergovernmental agreements	-702	2,259	-52	-2,819	-1,315	1,070
Fictitious transactions <sup>3</sup>	2,848	3,705	1,610	444	8,607	26,504
Other assets	3,188	3,126	-643	2,875	8,545	16,837
<b>Net errors and omissions</b>	<b>-5,878</b>	<b>5,288</b>	<b>4,241</b>	<b>5,118</b>	<b>8,768</b>	<b>-10,270</b>
<b>Change in FX reserve assets ('+' – increase, '-' – decrease)</b>	<b>-27,351</b>	<b>-10,345</b>	<b>-5,683</b>	<b>-64,169</b>	<b>-107,547</b>	<b>-22,077</b>

<sup>1</sup> The balance of payments is compiled on the basis of the methodology set out in the 6<sup>th</sup> edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6). The use of signs corresponds to the BPM6.

<sup>2</sup> Other sectors include other financial corporations (except banks), non-financial corporations, households, and non-profit institutions servicing households.

<sup>3</sup> Fictitious transactions include fictitious operations related to trade in goods and services, securities trading, lending to non-residents and fictitious transactions with money transfers to residents' accounts abroad aimed at keeping cross-border cash flow.

Table 10

**Private sector net capital inflow (outflow)  
(according to balance of payments data, billions of US dollars)**

	Private sector net capital inflow (outflow), total	Banks			Other sectors			
		net capital inflow (outflow)	net acquisition of financial assets	net incurrence of liabilities	net capital inflow (outflow)	net acquisition of financial assets <sup>1</sup>	net incurrence of liabilities	balance of payments net errors and omissions <sup>2</sup>
2013	61.6	7.5	27.9	20.4	54.2	138.1	94.2	-10.3
Q1	28.2	17.4	24.7	7.3	10.9	75	70.9	-6.8
Q2	5.5	4.4	13.6	9.2	1.1	12.8	9.8	1.9
Q3	10.9	-10.9	-15.3	-4.4	21.7	27.4	7.7	-2
Q4	17.1	-3.4	5	8.4	20.5	22.9	5.9	-3.4
2014	154.1	46.9	9.6	-37.3	107.2	114.9	-1.2	8.8
Q1	47.7	21	21.9	0.9	26.7	29.1	8.3	-5.9
Q2	21.9	15.2	7.8	-7.5	6.7	25	13.1	5.3
Q3	7.2	-18.4	-29.9	-11.5	25.6	21.6	-8.2	4.2
Q4	77.4	29.1	9.8	-19.3	48.3	39.1	-14.3	5.1

<sup>1</sup> Excluding debt for goods supplied under intergovernmental agreements.

<sup>2</sup> Net errors and omissions item fully relates to other sectors' operations. It is assumed that accounting for financial operations of these sectors is most complicated for balance of payments compilation.

Note. The use of signs corresponds to the BPM6: '+' signifies net capital outflow, '-' signifies net capital inflow.

Table 11

**Private sector net capital inflow (outflow) by type of investment  
(according to balance of payments data, billions of US dollars)**

	Q1	Q2	Q3	Q4	2014	Memo item: 2013
Direct investment	1.5	2.4	12.2	19.3	35.4	17.3
Net incurrence of liabilities	12.9	12.1	-0.6	-3.4	21.0	69.2
Banks	2.4	1.2	0.3	0.5	4.4	9.2
Other sectors	10.5	11.0	-0.9	-3.9	16.6	60.1
Net acquisition of financial assets	14.4	14.6	11.6	15.8	56.4	86.5
Banks	0.8	0.8	0.2	0.1	1.9	1.3
Other sectors	13.6	13.8	11.4	15.7	54.5	85.2
Portfolio investment	11.3	3.9	6.9	9.0	31.1	18.0
Net incurrence of liabilities	-6.0	-2.2	-4.2	-1.9	-14.3	-9.2
Banks	-0.4	-0.4	-0.9	-0.4	-2.1	1.9
Other sectors	-5.6	-1.8	-3.3	-1.5	-12.3	-11.1
Net acquisition of financial assets	5.3	1.6	2.8	7.1	16.8	8.8
Banks	4.0	0.1	2.1	5.0	11.2	6.6
Other sectors	1.3	1.5	0.6	2.1	5.6	2.2
Derivatives	0.6	-0.4	1.0	3.5	4.8	0.3
Net incurrence of liabilities	-3.8	-3.1	-3.4	-11.0	-21.4	-8.8
Banks	-3.4	-2.6	-3.2	-10.3	-19.5	-7.7
Other sectors	-0.4	-0.6	-0.3	-0.6	-1.9	-1.2
Net acquisition of financial assets	-3.2	-3.5	-2.4	-7.5	-16.6	-8.5
Banks	-3.0	-3.3	-2.2	-6.9	-15.3	-7.7
Other sectors	-0.3	-0.2	-0.2	-0.5	-1.2	-0.8
Other investment	28.4	21.3	-8.8	50.7	91.6	15.7
Net incurrence of liabilities	6.1	-1.2	-11.4	-17.3	-23.8	63.5
Banks	2.3	-5.6	-7.8	-9.0	-20.2	17.1
Other sectors	3.9	4.5	-3.7	-8.3	-3.6	46.4
Net acquisition of financial assets	34.5	20.1	-20.2	33.4	67.8	79.2
Banks	20.1	10.2	-30.0	11.5	11.8	27.7
Other sectors <sup>1</sup>	14.4	9.9	9.8	21.9	56.0	51.5
Balance of payments net errors and omissions	-5.9	5.3	4.2	5.1	8.8	-10.3
<b>Private sector net capital inflow (outflow), total</b>	<b>47.7</b>	<b>21.9</b>	<b>7.2</b>	<b>77.4</b>	<b>154.1</b>	<b>61.6</b>

<sup>1</sup> Excluding debt for goods supplied under intergovernmental agreements.

Note. The use of signs corresponds to the BPM6: '+' signifies net capital outflow, '-' signifies net capital inflow.

Table 12

**Cross-border transactions of individuals  
(residents and non-residents)<sup>1</sup>**

	Q1	Q2	Q3	Q4	2014	Memo item: 2013
<b>Total, millions of US dollars</b>						
<b>Money transfers from the Russian Federation by individuals</b>	<b>16,717</b>	<b>15,328</b>	<b>18,234</b>	<b>18,599</b>	<b>68,878</b>	<b>58,991</b>
– to non-CIS countries	13,146	10,082	11,872	14,725	49,825	37,264
– to CIS countries	3,572	5,246	6,362	3,874	19,054	21,726
<b>Money transfers to the Russian Federation for the benefit of individuals</b>	<b>4,784</b>	<b>4,545</b>	<b>4,790</b>	<b>5,081</b>	<b>19,200</b>	<b>19,798</b>
– from non-CIS countries	3,707	3,506	3,551	3,768	14,532	15,543
– from CIS countries	1,077	1,039	1,239	1,313	4,668	4,255
<b>Balance<sup>2</sup></b>	<b>-11,933</b>	<b>-10,783</b>	<b>-13,445</b>	<b>-13,518</b>	<b>-49,679</b>	<b>-39,193</b>
– with non-CIS countries	-9,439	-6,576	-8,321	-10,957	-35,293	-21,721
– with CIS countries	-2,494	-4,207	-5,124	-2,561	-14,386	-17,471
<b>Average amount of transaction, US dollars</b>						
<b>Money transfers from the Russian Federation by individuals</b>	<b>716</b>	<b>639</b>	<b>418</b>	<b>432</b>	<b>514</b>	<b>771</b>
– to non-CIS countries	1,265	1,146	451	505	667	2,604
– to CIS countries	275	345	367	279	321	350
<b>Money transfers to the Russian Federation for the benefit of individuals</b>	<b>2,434</b>	<b>2,445</b>	<b>1,111</b>	<b>887</b>	<b>1,386</b>	<b>3,163</b>
– from non-CIS countries	3,190	3,327	1,416	1,200	1,850	5,053
– from CIS countries	1,340	1,290	687	507	778	1,336

<sup>1</sup> Money transfers to Russia for the benefit of resident and non-resident individuals and money transfers from Russia of resident and non-resident individuals made via credit institutions (with or without opening an account), including remittances via money transfer systems.

<sup>2</sup> Negative balance reflects the excess of the amount of remittances from the Russian Federation over the amount of remittances to the Russian Federation.

Table 13

**Net incurrence of liabilities by Russian Federation residents by type of investment  
(according to balance of payments data, billions of US dollars)**

Type of investment	Q1	Q2	Q3	Q4	2014	Memo item: 2013
Direct	12.9	12.1	-0.6	-3.4	21.0	69.2
Portfolio	-12.4	-0.3	-8.1	-2.4	-23.1	0.7
Derivatives	-3.8	-3.1	-3.4	-11.0	-21.4	-8.8
Other	5.9	-0.9	-10.9	-21.2	-27.1	63.3
<b>Total</b>	<b>2.6</b>	<b>7.8</b>	<b>-23.1</b>	<b>-38.0</b>	<b>-50.7</b>	<b>124.4</b>

Note. Net incurrence of liabilities reflects a difference between increase in liabilities and their decrease; '-' signifies net decrease in residents' foreign liabilities.

Table 14

**Net acquisition of financial assets by Russian Federation residents, excluding reserve assets, by type of investment  
(according to balance of payments data, billions of US dollars)**

Type of investment	Q1	Q2	Q3	Q4	2014	Memo item: 2013
Direct	14.4	14.6	11.6	15.8	56.4	86.5
Portfolio	5.3	1.6	2.8	7.1	16.7	11.8
Derivatives	-3.2	-3.5	-2.4	-7.5	-16.6	-8.5
Other	33.3	22.9	-29.1	-0.6	26.5	80.8
<b>Total</b>	<b>49.8</b>	<b>35.6</b>	<b>-17.1</b>	<b>14.8</b>	<b>83.1</b>	<b>170.6</b>

Note. Net acquisition of financial assets reflects a difference between increase in assets and their decrease; '-' signifies net decrease in residents' foreign assets.

Table 15

**International investment position of the Russian Federation**  
(millions of US dollars)

	Position as of 1.01.2014	Transactions	Valuation changes	Other adjustments	Total changes	Position as of 1.01.2015
	1	2	3	4	5	6
<b>Net international investment position</b>	<b>131,736</b>	<b>26,218</b>	<b>177,026</b>	<b>1,281</b>	<b>204,525</b>	<b>336,262</b>
<b>Assets</b>	<b>1,474,598</b>	<b>-24,448</b>	<b>-150,848</b>	<b>8,262</b>	<b>-167,034</b>	<b>1,307,565</b>
<b>Direct investment</b>	<b>479,501</b>	<b>56,438</b>	<b>-102,140</b>	<b>-1,934</b>	<b>-47,636</b>	<b>431,865</b>
Equity and investment fund shares	400,397	35,913	-90,477	-2,356	-56,920	343,477
Debt instruments	79,104	20,525	-11,663	422	9,284	88,388
<b>Portfolio investment</b>	<b>53,743</b>	<b>16,744</b>	<b>-8,642</b>	<b>-1,193</b>	<b>6,909</b>	<b>60,652</b>
Equity and investment fund shares	3,232	1,023	52	1,063	2,138	5,369
Debt securities	50,511	15,721	-8,694	-2,256	4,771	55,283
<b>Financial derivatives (other than reserves) and employee stock options</b>	<b>5,932</b>	<b>-16,579</b>	<b>28,338</b>	<b>0</b>	<b>11,759</b>	<b>17,691</b>
<b>Other investment</b>	<b>425,827</b>	<b>26,497</b>	<b>-43,169</b>	<b>2,742</b>	<b>-13,930</b>	<b>411,897</b>
Other equity	4,201	72	-44	0	28	4,228
Currency and deposits	173,378	24,456	-13,248	-892	10,316	183,694
Loans	197,810	-19,644	-26,045	15,262	-30,427	167,384
Insurance, pension, and standardised guarantee schemes	2,251	1,305	-524	0	781	3,032
Trade credit and advances	28,163	5,936	-1,162	-759	4,015	32,179
Other accounts receivable	20,023	14,372	-2,145	-10,870	1,357	21,380
<b>Reserve assets</b>	<b>509,595</b>	<b>-107,547</b>	<b>-25,235</b>	<b>8,647</b>	<b>-124,135</b>	<b>385,460</b>
<b>Liabilities</b>	<b>1,342,862</b>	<b>-50,666</b>	<b>-327,874</b>	<b>6,981</b>	<b>-371,559</b>	<b>971,303</b>
<b>Direct investment</b>	<b>565,654</b>	<b>20,958</b>	<b>-211,600</b>	<b>3,532</b>	<b>-187,110</b>	<b>378,543</b>
Equity and investment fund shares	409,856	23,537	-189,315	1,067	-164,711	245,145
Debt instruments	155,798	-2,579	-22,286	2,465	-22,400	133,398
<b>Portfolio investment</b>	<b>273,736</b>	<b>-23,125</b>	<b>-102,334</b>	<b>8,147</b>	<b>-117,312</b>	<b>156,424</b>
Equity and investment fund shares	195,094	-12,888	-79,513	8,506	-83,895	111,199
Debt securities	78,642	-10,237	-22,821	-359	-33,417	45,225
<b>Financial derivatives (other than reserves) and employee stock options</b>	<b>4,355</b>	<b>-21,358</b>	<b>38,533</b>	<b>0</b>	<b>17,175</b>	<b>21,530</b>
<b>Other investment</b>	<b>499,116</b>	<b>-27,140</b>	<b>-52,473</b>	<b>-4,698</b>	<b>-84,311</b>	<b>414,806</b>
Other equity	1	-2	0	1	-1	0
Currency and deposits	201,947	-21,031	-18,208	-212	-39,451	162,496
Loans	278,410	-8,825	-32,500	-4,351	-45,676	232,734
Insurance, pension, and standardised guarantee schemes	531	345	-115	0	230	761
Trade credit and advances	3,115	354	0	0	354	3,469
Other accounts payable	6,376	2,020	-1,132	-136	752	7,128
Special drawing rights	8,736	-1	-517	0	-518	8,218

*Notes.*

1. The international investment position of the Russian Federation is compiled on the basis of the methodology set out in the 6<sup>th</sup> edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).

2. '+' in columns 2 to 5 signifies net increase in assets or liabilities, '-' signifies their net decrease.

3. Data on portfolio investment (including government securities) are presented at market value.

Table 16

**Russian banking sector international investment position statement  
(millions of US dollars)**

	Position as of 1.01.2014	Transactions	Valuation changes	Other adjustments	Total changes	Position as of 1.01.2015
	1	2	3	4	5	6
<b>International investment position, net</b>	<b>-11,914</b>	<b>46,902</b>	<b>13,549</b>	<b>1,015</b>	<b>61,466</b>	<b>49,552</b>
<b>Assets</b>	<b>273,110</b>	<b>9,554</b>	<b>-6,466</b>	<b>-204</b>	<b>2,885</b>	<b>275,994</b>
<b>Direct investment</b>	<b>12,697</b>	<b>1,878</b>	<b>-2,544</b>	<b>88</b>	<b>-578</b>	<b>12,119</b>
Equity and investment fund shares	11,151	1,953	-2,467	67	-446	10,705
Debt instruments	1,546	-75	-77	20	-132	1,414
<b>Portfolio investment</b>	<b>36,128</b>	<b>11,216</b>	<b>-7,321</b>	<b>-454</b>	<b>3,441</b>	<b>39,569</b>
Equity	1,814	367	35	-373	29	1,843
Debt securities	34,314	10,848	-7,355	-81	3,412	37,726
Short-term	350	501	-57	-7	437	787
Long-term	33,964	10,348	-7,299	-74	2,975	36,939
<b>Derivatives</b>	<b>5,929</b>	<b>-15,332</b>	<b>26,879</b>	<b>0</b>	<b>11,547</b>	<b>17,475</b>
Options	1,477	-660	2,044	0	1,384	2,861
Forward-type contracts	4,451	-14,672	24,835	0	10,163	14,614
<b>Other investment</b>	<b>218,356</b>	<b>11,792</b>	<b>-23,480</b>	<b>162</b>	<b>-11,525</b>	<b>206,831</b>
Foreign currency	5,826	11,439	238	-69	11,608	17,434
Current accounts and deposits	129,366	-25,850	-11,371	-1,194	-38,416	90,950
Short-term	86,055	-14,701	-8,077	-870	-23,647	62,408
Long-term	43,311	-11,150	-3,294	-324	-14,768	28,542
Loans	72,895	14,920	-10,386	3,716	8,250	81,145
Short-term	15,161	2,849	-1,294	-259	1,296	16,458
Long-term	57,734	12,071	-9,093	3,976	6,954	64,688
Other accounts receivable	10,269	11,283	-1,960	-2,291	7,032	17,301
Short-term	4,640	5,169	-946	-1,392	2,831	7,471
Long-term	5,630	6,114	-1,015	-899	4,200	9,830

End

	Position as of 1.01.2014	Transactions	Valuation changes	Other adjustments	Total changes	Position as of 1.01.2015
	1	2	3	4	5	6
<b>Liabilities</b>	<b>285,024</b>	<b>-37,348</b>	<b>-20,015</b>	<b>-1,219</b>	<b>-58,581</b>	<b>226,442</b>
<b>Direct investment</b>	<b>36,150</b>	<b>4,359</b>	<b>-19,138</b>	<b>-5</b>	<b>-14,784</b>	<b>21,366</b>
Equity	31,640	6,631	-18,708	-94	-12,171	19,469
Debt instruments	4,510	-2,272	-430	89	-2,613	1,897
<b>Portfolio investment</b>	<b>42,366</b>	<b>-2,074</b>	<b>-20,440</b>	<b>-611</b>	<b>-23,125</b>	<b>19,241</b>
Equity	34,636	-1,125	-19,171	-297	-20,593	14,044
Debt securities	7,729	-949	-1,269	-314	-2,532	5,197
Short-term	2,601	-893	30	-159	-1,023	1,579
Long-term	5,128	-56	-1,299	-154	-1,509	3,619
<b>Derivatives</b>	<b>4,354</b>	<b>-19,474</b>	<b>36,599</b>	<b>0</b>	<b>17,126</b>	<b>21,479</b>
Options	347	-453	4,125	0	3,672	4,020
Forward-type contracts	4,006	-19,020	32,474	0	13,454	17,460
<b>Other investment</b>	<b>202,154</b>	<b>-20,159</b>	<b>-17,035</b>	<b>-603</b>	<b>-37,798</b>	<b>164,357</b>
Current accounts and deposits	196,451	-20,033	-16,242	-167	-36,441	160,010
Short-term	49,487	-7,618	-6,454	-463	-14,535	34,952
Long-term	146,964	-12,415	-9,788	296	-21,906	125,058
Loans <sup>1</sup>	1,901	-739	-136	-318	-1,193	708
Short-term	1,901	-739	-136	-318	-1,193	708
Other accounts payable	3,803	612	-658	-119	-164	3,639
Short-term	2,756	553	-566	-117	-130	2,626
Long-term	1,047	60	-92	-2	-34	1,013

<sup>1</sup> Liabilities to non-residents which are not banks on reverse transactions, including securities repurchase agreements.

Notes.

1. The banking sector international investment position statement is compiled on the basis of the methodology set out in the 6<sup>th</sup> edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).

2. The table covers data compiled by credit institutions, excluding non-bank credit institutions, and Vnesheconombank.

3. Forward-type contracts include forwards, swaps and futures.

4. '+' in columns 2 to 5 signifies net increase in assets and liabilities, '-' signifies their net decrease.

5. Column 4 shows, inter alia, assets and liabilities of credit institutions that had their banking licences revoked in the period under review.

Table 17

**Currency structure of Russian banking sector foreign assets and liabilities  
(percent)**

	Foreign assets					Foreign liabilities				
	US dollar	euro	ruble	other currencies	total	US dollar	euro	ruble	other currencies	total
1.01.2013	59.1	14.0	20.4	6.5	100.0	66.1	7.0	20.2	6.7	100.0
1.04.2013	62.3	14.4	17.5	5.8	100.0	66.3	7.9	19.3	6.5	100.0
1.07.2013	67.0	11.4	16.0	5.6	100.0	67.0	8.1	18.5	6.4	100.0
1.10.2013	65.2	12.0	16.2	6.5	100.0	67.9	8.6	17.7	5.9	100.0
1.01.2014	65.8	11.2	17.0	6.0	100.0	69.2	9.1	17.9	3.8	100.0
1.04.2014	64.3	12.4	16.6	6.7	100.0	70.5	10.0	15.3	4.2	100.0
1.07.2014	63.7	13.3	16.9	6.2	100.0	67.5	11.3	17.1	4.2	100.0
1.10.2014	63.4	13.4	16.4	6.7	100.0	69.0	12.2	14.4	4.4	100.0
1.01.2015	67.8	15.6	10.8	5.8	100.0	71.6	12.6	11.7	4.2	100.0

Note. Excluding data on derivatives.

Table 18

**Russian banking sector foreign assets and liabilities by group of countries as of 1 January 2015**  
(millions of US dollars)

	Foreign assets						Foreign liabilities						Balance of foreign assets and liabilities	
	on interbank operations		on other operations		total		on interbank operations		on other operations		total		short-term	long-term
	short-term	long-term	short-term	long-term	short-term	long-term	short-term	long-term	short-term	long-term	short-term	long-term		
<b>Total</b>	<b>96,824.2</b>	<b>44,895.7</b>	<b>25,727.6</b>	<b>108,546.7</b>	<b>122,551.8</b>	<b>153,442.3</b>	<b>40,030.4</b>	<b>58,170.0</b>	<b>22,453.1</b>	<b>105,788.8</b>	<b>62,483.4</b>	<b>163,958.8</b>	<b>60,068.4</b>	<b>-10,516.5</b>
of which:														
<b>CIS countries</b>	<b>6,444.0</b>	<b>8,358.6</b>	<b>601.7</b>	<b>5,310.7</b>	<b>7,045.7</b>	<b>13,669.3</b>	<b>2,188.8</b>	<b>607.0</b>	<b>820.0</b>	<b>1,222.3</b>	<b>3,008.8</b>	<b>1,829.3</b>	<b>4,036.9</b>	<b>11,840.0</b>
of which:														
EurAsEC countries	2,970.6	3,372.4	524.7	2,587.4	3,495.3	5,959.8	1,747.9	378.4	420.5	434.2	2,168.4	812.7	1,326.9	5,147.2
of which:														
Customs Union countries	2,914.2	3,370.4	414.5	2,548.5	3,328.7	5,918.9	1,571.7	322.1	294.8	268.3	1,866.4	590.4	1,462.2	5,328.5
Other countries	3,473.4	4,986.2	77.1	2,723.3	3,550.4	7,709.5	440.9	228.6	399.5	788.0	840.4	1,016.6	2,710.0	6,692.9
<b>Non-CIS countries</b>	<b>90,380.0</b>	<b>36,537.1</b>	<b>25,092.7</b>	<b>102,348.5</b>	<b>115,472.7</b>	<b>138,885.6</b>	<b>37,841.6</b>	<b>57,563.0</b>	<b>21,312.3</b>	<b>103,051.5</b>	<b>59,153.9</b>	<b>160,614.5</b>	<b>56,318.8</b>	<b>-21,728.9</b>
of which:														
EU countries	55,845.4	29,641.3	19,607.9	88,295.4	75,453.3	117,936.7	31,503.3	39,467.8	12,523.7	94,991.3	44,027.0	134,459.1	31,426.3	-16,522.4
APEC countries	30,608.0	1,075.9	1,880.1	2,285.3	32,488.1	3,361.2	2,412.7	14,592.3	1,426.1	3,513.8	3,838.8	18,106.1	28,649.3	-14,744.9
Other countries	3,926.6	5,819.9	3,604.7	11,767.8	7,531.3	17,587.6	3,925.5	3,502.8	7,362.5	4,546.4	11,288.1	8,049.2	-3,756.7	9,538.4
<b>International organisations</b>	<b>0.3</b>	<b>-</b>	<b>33.1</b>	<b>887.4</b>	<b>33.4</b>	<b>887.4</b>	<b>-</b>	<b>-</b>	<b>320.8</b>	<b>1,515.0</b>	<b>320.8</b>	<b>1,515.0</b>	<b>-287.4</b>	<b>-627.6</b>

Table 19

**Russia's international reserves  
(billions of US dollars)**

	2014												2015
	1.01	1.02	1.03	1.04	1.05	1.06	1.07	1.08	1.09	1.10	1.11	1.12	1.01
Reserve assets	509.6	498.9	493.3	486.1	472.3	467.2	478.3	468.8	465.2	454.2	428.6	418.9	385.5
Foreign currency assets	469.6	457.2	448.7	442.8	428.0	423.8	432.0	422.7	419.2	409.2	383.3	373.7	339.4
Monetary gold	40.0	41.7	44.6	43.4	44.3	43.5	46.3	46.1	46.0	45.0	45.3	45.2	46.1

Table 20

**Return<sup>1</sup> on Bank of Russia foreign currency reserves in 2014<sup>2</sup>  
(percent p.a.)**

	Actual	Standard
US dollar	0.33	0.29
Euro	0.39	0.38
Pound sterling	0.99	0.94
Canadian dollar	1.21	1.18
Australian dollar	2.96	2.91

<sup>1</sup> Percentage change in the value of the portfolio during one business day.

The daily portfolio rate of return is calculated according to this formula:

$$R = \frac{MV_1 - MV_0 \pm CF}{MV_0},$$

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.

<sup>2</sup> Cumulative portfolio rate of return is calculated on the basis of the chained indices method. The rate of return over period is calculated according to this formula:

$$R = (1 + R_1) \times (1 + R_2) \times \dots \times (1 + R_n) - 1,$$

where  $R_i$  is the portfolio rate of return over day  $i$ .

Table 21

**Bank of Russia foreign exchange interventions in 2014**

Reporting period	Bank of Russia US dollar operations, millions of US dollars				Bank of Russia euro operations, millions of euros			
	purchases		sales		purchases		sales	
	total	target	total	target	total	target	total	target
January	0.00	0.00	7,816.77	216.20	0.00	0.00	586.32	17.50
February	0.00	0.00	6,158.34	0.00	0.00	0.00	678.69	0.00
March	0.00	0.00	22,296.84	0.00	0.00	0.00	2,268.29	0.00
April	0.00	0.00	2,401.86	0.00	0.00	0.00	247.87	0.00
May	1,437.64	0.00	365.60	0.00	123.29	0.00	28.29	0.00
June	1,356.52	0.00	0.00	0.00	113.70	0.00	0.00	0.00
July	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
August	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
September	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
October	0.00	0.00	27,207.52	0.00	0.00	0.00	1,616.21	0.00
November	0.00	0.00	773.91	0.00	0.00	0.00	221.56	0.00
December	0.00	0.00	11,901.75	0.00	0.00	0.00	0.00	0.00

Table 22

## Basic indicators of ruble's exchange rates in 2014

	January	February	March	April	May	June	July	August	September	October	November	December
Nominal exchange rate of US dollar against ruble, end of period	35.24	36.05	35.69	35.70	34.74	33.63	35.73	36.93	39.39	43.39	49.32	56.26
Nominal exchange rate of US dollar against ruble, period averages	33.46	35.22	36.21	35.66	34.93	34.41	34.64	36.11	37.87	40.76	45.86	55.41
Nominal exchange rate of US dollar against ruble, period averages from the start of the year	33.46	34.33	34.95	35.12	35.08	34.97	34.92	35.07	35.37	35.87	36.68	37.97
Nominal exchange rate of euro against ruble, end of period	48.10	49.35	49.05	49.51	47.27	45.83	47.90	48.63	49.95	54.64	61.41	68.34
Nominal exchange rate of euro against ruble, period averages	45.76	48.06	50.02	49.24	48.03	46.80	46.95	48.13	48.92	51.72	57.27	68.32
Nominal exchange rate of euro against ruble, period averages from the start of the year	45.76	46.89	47.91	48.24	48.20	47.96	47.82	47.86	47.97	48.33	49.09	50.46
<b>Percent change over December 2013<sup>1</sup></b>												
Index of nominal exchange rate of ruble against US dollar	-1.7	-6.6	-9.2	-7.8	-5.8	-4.4	-5.0	-8.9	-13.1	-19.3	-28.3	-40.6
Index of nominal exchange rate of ruble against euro	-1.6	-6.3	-10.0	-8.5	-6.2	-3.8	-4.1	-6.4	-7.9	-12.9	-21.4	-34.1
Index of nominal effective exchange rate of ruble vis-a-vis foreign currencies	-1.2	-5.3	-7.4	-5.2	-3.1	-1.0	-1.5	-3.9	-6.4	-11.9	-20.1	-32.7
Index of real exchange rate of ruble against US dollar	-1.5	-6.1	-8.3	-6.4	-3.9	-2.0	-2.2	-5.8	-9.6	-15.1	-23.2	-34.4
Index of real exchange rate of ruble against euro	-0.7	-5.0	-8.3	-6.1	-2.8	0.3	0.3	-1.9	-2.8	-7.3	-14.9	-26.7
Index of real effective exchange rate of ruble vis-a-vis foreign currencies	-0.7	-4.6	-6.2	-3.7	-1.1	1.6	1.4	-1.0	-3.3	-8.5	-15.8	-27.4
<b>Percent change over previous period<sup>1</sup></b>												
Index of nominal exchange rate of ruble against US dollar	-1.7	-5.0	-2.7	1.5	2.1	1.5	-0.7	-4.1	-4.6	-7.1	-11.1	-17.2
Index of nominal exchange rate of ruble against euro	-1.6	-4.8	-3.9	1.6	2.5	2.6	-0.3	-2.4	-1.6	-5.4	-9.7	-16.2
Index of nominal effective exchange rate of ruble vis-a-vis foreign currencies	-1.2	-4.1	-2.3	2.4	2.2	2.2	-0.5	-2.4	-2.6	-5.9	-9.3	-15.7
Index of real exchange rate of ruble against US dollar	-1.5	-4.7	-2.4	2.1	2.7	1.9	-0.1	-3.7	-4.1	-6.1	-9.5	-14.6
Index of real exchange rate of ruble against euro	-0.7	-4.4	-3.4	2.3	3.6	3.2	0.0	-2.2	-0.9	-4.6	-8.2	-13.9
Index of real effective exchange rate of ruble vis-a-vis foreign currencies	-0.7	-3.9	-1.7	2.7	2.7	2.7	-0.2	-2.4	-2.3	-5.4	-8.0	-13.7
<b>Percent change over corresponding period of 2013<sup>1</sup></b>												
	January	January–February	January–March	January–April	January–May	January–June	January–July	January–August	January–September	January–October	January–November	January–December
Index of nominal exchange rate of ruble against US dollar	-9.6	-12.0	-13.0	-12.8	-12.3	-11.3	-10.5	-10.3	-10.7	-11.8	-13.5	-16.2
Index of nominal exchange rate of ruble against euro	-12.0	-14.0	-16.1	-16.4	-16.2	-15.1	-14.2	-13.5	-13.2	-13.5	-14.4	-16.2
Index of nominal effective exchange rate of ruble vis-a-vis foreign currencies	-8.6	-10.7	-12.0	-11.7	-11.3	-10.1	-9.2	-8.7	-8.6	-9.1	-10.3	-12.4
Index of real exchange rate of ruble against US dollar	-5.6	-7.9	-8.7	-8.4	-7.9	-6.8	-5.9	-5.6	-5.9	-7.0	-8.6	-11.1
Index of real exchange rate of ruble against euro	-7.7	-9.6	-11.5	-11.7	-11.3	-9.9	-8.9	-8.1	-7.7	-7.8	-8.6	-10.3
Index of real effective exchange rate of ruble vis-a-vis foreign currencies	-5.2	-7.3	-8.5	-8.1	-7.7	-6.4	-5.5	-4.9	-4.8	-5.3	-6.4	-8.4

<sup>1</sup> '+' signifies appreciation of the Russian ruble vis-a-vis foreign currencies, '-' signifies depreciation of the Russian ruble vis-a-vis foreign currencies.

Table 23

**External debt of the Russian Federation  
(millions of US dollars)**

	1.01.2014	1.04.2014	1.07.2014	1.10.2014	1.01.2015
<b>Total</b>	<b>728,864</b>	<b>715,892</b>	<b>732,777</b>	<b>680,857</b>	<b>597,254</b>
<b>General government</b>	<b>61,743</b>	<b>53,639</b>	<b>57,128</b>	<b>49,382</b>	<b>41,606</b>
<b>Federal government</b>	<b>60,962</b>	<b>52,867</b>	<b>56,446</b>	<b>48,748</b>	<b>41,027</b>
<b>New Russian debt</b>	<b>58,949</b>	<b>50,863</b>	<b>54,557</b>	<b>46,926</b>	<b>39,257</b>
Multilateral creditors	1,570	1,423	1,360	1,255	1,195
IBRD	1,210	1,071	1,029	933	894
Other	360	351	331	322	301
Other loans	157	120	109	61	46
Foreign currency bonds	27,821	24,736	23,367	21,534	21,484
Eurobonds due in 2015, 2017, 2018, 2019, 2020, 2022, 2023, 2028, 2042 and 2043	15,404	14,225	13,679	13,248	13,089
Eurobonds due in 2030 (issued in the course of the second restructuring of debt to the London Club of commercial bank creditors)	12,417	10,511	9,688	8,286	8,395
Ruble-denominated bonds	29,023	24,214	29,355	23,718	16,139
OFZ	27,325	22,847	28,093	22,794	15,594
Eurobonds due in 2018	1,699	1,367	1,262	924	545
Other	377	372	366	358	393
<b>Debt of the former USSR</b>	<b>2,012</b>	<b>2,004</b>	<b>1,888</b>	<b>1,821</b>	<b>1,770</b>
Paris Club member countries	0	0	0	0	0
Debt owed to former socialist countries	964	955	941	879	863
Other official creditors	1,026	1,026	925	921	887
Other	22	23	22	21	20
<b>Local government</b>	<b>781</b>	<b>771</b>	<b>682</b>	<b>635</b>	<b>580</b>
Loans	559	559	555	516	494
Ruble-denominated bonds	222	212	128	118	85
<b>Central bank</b>	<b>15,963</b>	<b>15,475</b>	<b>16,225</b>	<b>15,815</b>	<b>10,599</b>
Loans	1,827	1,742	2,349	3,510	0
Currency and deposits	5,400	4,965	5,106	3,896	2,381
Other (cumulative SDR allocations)	8,736	8,768	8,769	8,410	8,218
<b>Banks</b>	<b>214,394</b>	<b>214,044</b>	<b>208,859</b>	<b>192,250</b>	<b>171,450</b>
Debt liabilities to direct investors and to direct investment enterprises	4,510	5,031	4,078	2,794	1,897
Loans	1,901	3,800	2,113	1,599	708
Current accounts and deposits	196,451	193,443	190,498	177,239	160,010
Debt securities	7,729	7,550	7,556	6,672	5,197
Other	3,803	4,220	4,614	3,945	3,639
<b>Other sectors</b>	<b>436,764</b>	<b>432,734</b>	<b>450,565</b>	<b>423,410</b>	<b>373,599</b>
Debt liabilities to direct investors and to direct investment enterprises	151,288	150,093	160,076	149,967	131,502
Loans	268,402	266,109	269,256	255,669	226,214
Debt securities	9,155	8,386	8,703	8,828	6,145
Commercial loans	3,115	3,445	3,563	3,706	3,469
Financial leases	2,105	2,145	2,356	2,408	2,433
Other	2,700	2,557	6,611	2,832	3,836

## Notes.

- Included is the external debt in both domestic and foreign currencies.
- Government securities are accounted for in the part of the debt owed to non-residents at face value.
- The external debt data are compiled on the basis of the methodology set out in the 6<sup>th</sup> edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).
- Data on banks include Vnesheconombank data.

Table 24

**External debt of the Russian Federation**  
**(analytical presentation, millions of US dollars)**

	1.01.2014	1.04.2014	1.07.2014	1.10.2014	1.01.2015
<b>External debt of the Russian Federation</b>	<b>728,864</b>	<b>715,892</b>	<b>732,777</b>	<b>680,857</b>	<b>597,254</b>
Short-term	85,284	82,502	85,822	75,018	61,582
Long-term	643,580	633,390	646,954	605,839	535,672
<b>Public sector external debt<sup>1</sup></b>	<b>375,905</b>	<b>375,558</b>	<b>379,602</b>	<b>351,557</b>	<b>303,848</b>
Short-term	34,844	36,257	37,887	32,254	20,853
Long-term	341,061	339,300	341,715	319,303	282,995
General government	61,743	53,639	57,128	49,382	41,606
Short-term	370	364	359	344	379
Long-term	61,373	53,274	56,769	49,038	41,227
Central bank	15,963	15,475	16,225	15,815	10,599
Short-term	7,227	6,707	7,455	7,405	2,381
Long-term	8,736	8,768	8,769	8,410	8,218
Banks	133,037	137,766	135,367	123,127	107,049
Short-term	26,560	28,530	27,390	23,553	17,277
Long-term	106,478	109,236	107,977	99,574	89,772
Other sectors	165,162	168,678	170,882	163,233	144,593
Short-term	688	656	2,683	952	815
Long-term	164,474	168,022	168,199	162,282	143,778
<b>Private sector external debt<sup>1</sup></b>	<b>352,959</b>	<b>340,334</b>	<b>353,175</b>	<b>329,300</b>	<b>293,406</b>
Short-term	50,440	46,245	47,935	42,764	40,729
Long-term	302,519	294,089	305,239	286,536	252,677
Banks	81,356	76,277	73,492	69,123	64,401
Short-term	30,185	27,254	27,004	25,014	22,587
Long-term	51,171	49,023	46,488	44,109	41,814
Other sectors	271,603	264,057	279,682	260,177	229,005
Short-term	20,254	18,990	20,931	17,750	18,142
Long-term	251,348	245,066	258,751	242,427	210,863

<sup>1</sup> Public sector external debt covers liabilities of the general government, central bank, and banks and non-bank corporations in which the government and central bank hold, directly or indirectly, 50% or more of shares or control them through other means. Liabilities to non-residents owed by other residents, which do not fall under this definition, are classified as private sector external debt.

Note. Included is the external debt in both domestic and foreign currencies.

Table 25

**Money supply (national definition) and its structure**

	As of 1.01.2014		As of 1.01.2015		1.01.2015 as a percentage of 1.01.2014
	billions of rubles	percent	billions of rubles	percent	
<b>Money supply (M2), total</b>	<b>31,404.7</b>	<b>100.0</b>	<b>32,110.5</b>	<b>100.0</b>	<b>102.2</b>
of which:					
– cash in circulation (M0) <sup>1</sup>	6,985.6	22.2	7,171.5	22.3	102.7
– cashless funds	24,419.1	77.8	24,939.1	77.7	102.1
of which:					
– funds of non-financial and financial organisations <sup>2</sup>	10,564.6	33.6	11,503.9	35.8	108.9
– household deposits	13,854.5	44.1	13,435.2	41.8	97.0

<sup>1</sup> Cash in circulation outside the banking system.

<sup>2</sup> Except credit institutions.

Table 26

**Monetary base and its structure**

	As of 1.01.2014		As of 1.01.2015		1.01.2015 as a percentage of 1.01.2014
	billions of rubles	percent	billions of rubles	percent	
<b>Monetary base (broad definition)</b>	<b>10,503.9</b>	<b>100.0</b>	<b>11,332.0</b>	<b>100.0</b>	<b>107.9</b>
of which:					
– cash in circulation, including balances in credit institutions' cash vaults <sup>1</sup>	8,307.5	79.1	8,840.5	78.0	106.4
– credit institutions' correspondent accounts with the Bank of Russia <sup>2</sup>	1,270.0	12.1	1,215.5	10.7	95.7
– required reserves <sup>3</sup>	408.8	3.9	471.3	4.2	115.3
– credit institutions' deposits with the Bank of Russia	517.6	4.9	804.6	7.1	155.4

<sup>1</sup> Excluding cash in Bank of Russia establishments' cash vaults as well as coins made of precious metals in circulation.

<sup>2</sup> Balances of ruble-denominated accounts, including the average amount of required reserves.

<sup>3</sup> Balances of required reserve accounts deposited by credit institutions with the Bank of Russia on funds raised in rubles and foreign currency.

Table 27

**Bank of Russia interest rates in 2014  
(percent p.a.)**

Purpose	Type of instrument	Instrument	Maturity	As of 1.01.2014	Rate from						
					3.02.2014	3.03.2014	28.04.2014	28.07.2014	5.11.2014	12.12.2014	16.12.2014
Liquidity provision	Standing facilities	Overnight loans, Lombard loans, repos, FX swaps (ruble leg)	1 day	6.50	6.50	8.00	8.50	9.00	10.50	11.50	18.00
		Loans secured by gold <sup>1</sup>	1 day	6.50	6.50	8.00	8.50	9.00	10.50	11.50	18.00
			From 2 to 90 days	6.50	7.00	8.50	9.00	9.50	11.00	12.00	18.50
			From 91 to 180 days	7.00							
			From 181 to 549 days	7.25							
		Loans secured by non-marketable assets or guarantees <sup>1</sup>	1 day	6.50	6.50	8.00	8.50	9.00	10.50	11.50	18.00
			From 2 to 90 days	6.75	7.25	8.75	9.25	9.75	11.25	12.25	18.75
			From 91 to 180 days	7.25							
			From 181 to 549 days	7.50							
		Open market operations (minimum interest rates)	Auctions to provide loans secured by non-marketable assets	From 1 to 3 weeks <sup>2</sup> , 3 months <sup>3</sup> , 12 months <sup>2,3</sup> , 18 months <sup>2,3</sup>	5.75	5.75	7.25	7.75	8.25	9.75	10.75
Lombard loan auctions	36 months <sup>2,3</sup>							10.75	17.25		
Repo auctions	From 1 to 6 days <sup>4</sup> , 1 week		5.50 (key rate)	5.50 (key rate)	7.00 (key rate)	7.50 (key rate)	8.00 (key rate)	9.50 (key rate)	10.50 (key rate)	17.00 (key rate)	
Liquidity absorption	Open market operations (maximum interest rates)	Deposit auctions	From 1 to 6 days <sup>4</sup> , 1 week	5.50 (key rate)	5.50 (key rate)	7.00 (key rate)	7.50 (key rate)	8.00 (key rate)	9.50 (key rate)	10.50 (key rate)	17.00 (key rate)
	Standing facilities	Deposit operations	1 day, call	4.50	4.50	6.00	6.50	7.00	8.50	9.50	16.00
<b>Memo item</b>											
Refinancing rate				8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25

<sup>1</sup> Before 30 June 2014, loans had the maturity of 2 to 365 days, from 30 June 2014, loans have the maturity of 2 to 549 days.

From 30 June 2014, loans with maturity of 91 to 549 days have been issued at a floating interest rate pegged to the Bank of Russia key rate.

From 15 December 2014, loans with maturity of 2 to 90 days have also been provided at a floating interest rate pegged to the Bank of Russia key rate.

<sup>2</sup> Auctions are held irregularly.

<sup>3</sup> Loans are provided at a floating interest rate pegged to the Bank of Russia key rate.

<sup>4</sup> Fine-tuning operations. The minimum interest rate on fine-tuning repo auctions was set from 3 February 2014. The maximum interest rate on fine-tuning deposit auctions was set from 17 February 2014.

Table 28

**Bank of Russia operations to provide and absorb liquidity  
(billions of rubles)**

Purpose	Type of instrument	Instrument	Operations in		Change in debt in	
			2013	2014	2013	2014
Liquidity provision	Standing facilities	Intraday loans	57,733.1	60,742.9	–	–
		Overnight loans	146.5	203.9	0.0	0.0
		Repos	576.7	14,296.6	12.6	82.1
		Lombard loans	15.2	109.7	0.8	2.7
		FX swaps (ruble leg)	12,809.0	15,701.3	10.3	–157.0
		Loans secured by non-marketable assets or guarantees	1,097.3	5,325.7	52.1	1,353.8
		Loans secured with gold	2.1	2.8	–0.1	0.9
	Open market operations	Repo auctions	145,535.2	144,688.3	1,089.8	–155.8
		Lombard loan auctions	209.7	3.5	0.0	–5.6
		Auctions to provide loans secured by non-marketable assets	806.8	6,819.1	590.2	1,780.7
Operations to buy government securities		–	–	–	–	
Liquidity absorption	Standing facilities	Deposit operations	20,555.5	26,073.4	114.3	286.9
	Open market operations	Deposit auctions	0.0	964.4	0.0	0.0
		Operations to sell government securities	–	–	–	–

Table 29

**Banking sector survey  
(billions of rubles)**

	1.01.2014	1.01.2015	1.01.2015 as a percentage of 1.01.2014
Net foreign assets	18,180.0	25,250.9	138.9
Claims on non-residents	25,528.0	35,404.1	138.7
Obligations to non-residents	7,348.0	10,153.2	138.2
Domestic claims	32,234.1	37,400.2	116.0
Net claims on government	-5,006.7	-8,339.6	-
Claims on government	3,888.9	4,200.0	108.0
Obligations to government	8,895.6	12,539.6	141.0
Claims on other sectors	37,240.8	45,739.8	122.8
Other financial organisations	1,746.8	2,850.5	163.2
Non-financial government organisations	442.9	538.4	121.6
Other non-financial organisations	24,256.0	30,106.2	124.1
Households	10,795.2	12,244.6	113.4
Obligations included in broad money	37,272.0	43,032.1	115.5
Cash outside banking system	6,986.0	7,171.5	102.7
Transfer deposits	8,551.0	8,217.3	96.1
Other financial organisations	540.0	468.8	86.9
Non-financial government organisations	691.4	526.7	76.2
Other non-financial organisations	4,304.0	4,458.0	103.6
Households	3,016.0	2,763.8	91.6
Other deposits	21,735.0	27,643.4	127.2
Other financial organisations	1,398.0	1,711.7	122.4
Non-financial government organisations	174.0	288.7	165.6
Other non-financial organisations	6,477.0	10,262.4	158.4
Households	13,685.0	15,380.5	112.4
Deposits not included in broad money	853.8	1,989.3	233.0
Securities other than shares not included in broad money	1,411.0	1,610.1	114.1
Shares and other stakeholdings in capital	9,916.0	15,654.8	157.9
Other items (net)	961.0	364.8	38.0
Other liabilities	5,800.0	10,093.9	174.0
Other assets	4,350.2	8,575.9	197.1
Consolidating correction	-489.0	-1,153.2	-

Table 30

**Survey of credit institutions  
(billions of rubles)**

	1.01.2014	1.01.2015	1.01.2015 as a percentage of 1.01.2014
Net foreign assets	1,769.2	4,014.5	226.9
Claims on non-residents	8,769.7	13,704.0	156.3
Foreign currency	192.0	981.9	511.4
Deposits	4,391.9	5,284.9	120.3
Securities other than shares	1,179.3	2,242.4	190.2
Loans	2,470.8	4,605.2	186.4
Other	535.7	589.5	110.0
Obligations to non-residents	7,000.5	9,689.5	138.4
Deposits	6,717.9	9,357.6	139.3
Securities other than shares	210.1	288.9	137.5
Loans	70.3	40.0	56.9
Other	2.3	3.0	131.7
Claims on the central bank	3,516.4	4,538.6	129.1
Cash foreign currency	1,321.9	1,669.1	126.3
Deposits	2,194.5	2,869.5	130.8
Securities other than shares	0.0	0.0	–
Net claims on government	2,244.4	2,140.8	95.4
Claims on government	3,524.3	3,831.6	108.7
Securities	2,685.0	2,760.3	102.8
Other claims	839.2	1,071.2	127.6
Obligations to government	1,279.9	1,690.8	132.1
Deposits	1,252.0	1,661.6	132.7
Other obligations	27.9	29.2	104.9
Claims on other sectors	36,927.3	45,085.3	122.1
Other financial organisations	1,435.0	2,197.4	153.1
Non-financial government organisations	442.9	538.4	121.6
Other non-financial organisations	24,254.3	30,104.9	124.1
Households	10,795.2	12,244.6	113.4
Obligations to the central bank	4,744.6	9,543.3	201.1
Deposits included in broad money	30,177.8	35,806.4	118.7
Transfer deposits	8,442.4	8,164.5	96.7
Other financial organisations	461.8	432.8	93.7
Non-financial government organisations	661.2	510.6	77.2
Other non-financial organisations	4,303.6	4,457.4	103.6
Households	3,015.7	2,763.8	91.6
Other deposits	21,735.3	27,641.9	127.2
Other financial organisations	1,398.4	1,710.2	122.3
Non-financial government organisations	174.3	288.7	165.6
Other non-financial organisations	6,477.3	10,262.4	158.4
Households	13,685.3	15,380.5	112.4
Deposits not included in broad money	853.8	1,989.3	233.0
Securities other than shares not included in broad money	1,411.2	1,610.1	114.1
Shares and other stakeholdings in capital	6,764.3	6,600.7	97.6
Other items (net)	505.6	229.3	45.4
Other liabilities	4,978.4	9,362.4	188.1
Other assets	4,052.8	8,276.7	204.2
Consolidating correction	–420.0	–856.3	203.9

Table 31

## Corrective measures taken against credit institutions in 2014

No.	Description of measures	Number of credit institutions
<b>Preventive measures</b>		
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	873
2	Calling a meeting	444
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.)	133
<b>Punitive measures</b>		
4	Fines <sup>1</sup>	133
	of which:	
4.1	for non-compliance with reserve requirements	52
4.2	for breaches of federal laws and Bank of Russia rules and regulations issued in pursuance of these laws and for non-reporting, under-reporting, or false reporting	87
5	Restrictions on individual banking operations conducted by credit institutions <sup>1</sup>	209
	of which:	
5.1	taking household funds on deposit	100
5.2	settlements on behalf of corporate entities relating to transfer of funds to budgets of all levels and government extra-budgetary funds	17
5.3	opening bank accounts to corporate entities and households	109
5.4	interest rate on bank deposit agreements concluded (prolongated) in the restriction period	25
6	Prohibiting credit institutions from conducting certain banking operations <sup>1</sup>	64
	of which:	
6.1	taking household funds on deposit	37
6.2	opening bank accounts to households, including unallocated metal accounts (demand and time accounts)	39
6.3	other	56
<b>Memo item</b>		
	Bans on taking household funds on deposit and opening bank accounts to households imposed on credit institutions pursuant to Article 48 of Federal Law No. 177-FZ, dated 23 December 2003	6
7	Prescriptive orders <sup>1</sup>	546
	of which:	
7.1	orders to comply with Bank of Russia required ratios	8
7.2	orders to replace persons whose positions are indicated in Article 60 of Federal Law No. 86-FZ, dated 10 July 2002	43 <sup>2</sup>
7.3	orders to reclassify receivables	334
7.4	orders to build up loan loss provisions	370
8	Prohibiting credit institutions from opening branches	62
9	Appointing provisional administrations to credit institutions without revoking their licences	1 <sup>3</sup>
10	Banking licence revocation	86

<sup>1</sup> 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 corrective actions and placed under several sub-clauses.

<sup>2</sup> A year-on-year increase in the number of credit institutions is due to the entry into force on 31 January 2014 of Bank of Russia Regulation No. 408-P, dated 25 October 2013, 'On the Procedure for Assessing the Compliance with Qualifying Requirements and Requirements to Business Reputation of Entities Listed in Article 11.1 of the Federal Law 'On Banks and Banking Activities' and Article 60 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', and on the Procedure for Maintaining Databases Stipulated by Article 75 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'.

<sup>3</sup> In 2014, the Deposit Insurance Agency state corporation was vested with the powers of provisional administration at 11 banks.

As of 1 January 2015, the ban on carrying out settlements on behalf of corporate entities, such as transferring funds to budgets of all levels and government extra-budgetary funds, was in effect with regard to one credit institution.

As of 1 January 2015, there were no credit institutions with a backlog of non-executed settlement documents on payments to budgets of all levels.

Table 32

**Structure of Bank of Russia banknotes in circulation**

Denomination, rubles	Total in circulation, millions of rubles		Percent of 1.01.2014	Share, percent	
	as of 1.01.2014	as of 1.01.2015		as of 1.01.2014	as of 1.01.2015
5,000	5,523,593.7	6,018,753.7	109.0	67.0	68.6
1,000	2,163,714.2	2,184,705.9	101.0	26.2	24.9
500	403,241.7	403,495.6	100.1	4.9	4.6
100	118,483.8	126,509.3	106.8	1.4	1.4
50	32,310.5	32,195.8	99.6	0.4	0.4
10	5,202.9	4,805.9	92.4	0.1	0.1
5	35.6	35.6	100.0	0.0	0.0
<b>Total balance sheet number of banknotes of 1997</b>	<b>8,246,582.4</b>	<b>8,770,501.8</b>	<b>106.4</b>	<b>100.0</b>	<b>100.0</b>

Table 33

**Structure of Bank of Russia coins in circulation<sup>1</sup>**

Denomination	Total in circulation, millions of rubles		Percent of 1.01.2014	Share, percent	
	as of 1.01.2014	as of 1.01.2015		as of 1.01.2014	as of 1.01.2015
1 kopeck	72.7	72.7	100.0	0.1	0.1
5 kopecks	288.2	288.3	100.0	0.4	0.4
10 kopecks	2,298.1	2,435.0	106.0	3.4	3.1
50 kopecks	3,073.1	3,348.1	108.9	4.5	4.3
1 ruble	6,240.7	6,654.7	106.6	9.1	8.6
2 rubles	5,416.0	5,841.2	107.9	7.9	7.5
5 rubles	10,781.1	11,512.6	106.8	15.8	14.8
10 rubles	39,173.0	45,564.6	116.3	57.2	58.6
25 rubles	1,092.7	1,998.3	182.9	1.6	2.6
<b>Total balance sheet number of coins of 1997</b>	<b>68,435.6</b>	<b>77,715.5</b>	<b>113.6</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> Excluding coins made of precious metals.

Table 34

## National payment system key indicators

	2013	2014
<b>National payment system participants<sup>1</sup></b>		
Number of money transfer operators	922	833
of which:		
– Bank of Russia	1	1
– Vnesheconombank	1	1
– credit institutions	920	831
Number of payment system operators	30	33
of which:		
– Bank of Russia	1	1
– credit institutions	19	18
– organisations other than credit institutions	10	14
Number of operators of payment infrastructure services		
– operating centres	34	35
– payment clearing centres	31	36
– settlement centres	26	32
Number of e-money operators	82	97
FSUE Russian Post	1	1
<b>Memo item</b>		
Number of Bank of Russia establishments	439	365
Number of branches of credit institutions	2,005	1,708
Number of internal divisions of credit institutions (branches)		
– additional offices	24,486	23,306
– operations offices	8,436	9,273
– credit and cash offices	2,463	2,289
Number of post offices of FSUE Russian Post <sup>2</sup>	41,420	41,640
Number of payment systems operating in the Russian Federation	31	33
of which:		
– Bank of Russia payment system	1	1
– payment systems registered by the Bank of Russia	30	32
of which:		
– nationally important	–	10
– systemically important	2	2
– socially important	4	5
<b>Money transfer operators – credit institutions</b>		
Number of payments effected by credit institution customers other than credit institutions <sup>3</sup> , million	9,614.1	12,534.3
of which, by payment instrument:		
– credit transfers <sup>4</sup>	2,639.9	2,647.4
– direct debits <sup>5</sup>	84.8	84.6
– payment cards <sup>6</sup>	4,584.5	6,815.6
– e-money <sup>7</sup>	593.4	1,091.3
– other payment instruments <sup>8</sup>	1,711.5	1,895.4

End

	2013	2014
Volume of payments effected by credit institution customers other than credit institutions <sup>3</sup> , trillions of rubles	465.8	545.9
of which, by payment instrument:		
– credit transfers <sup>4</sup>	450.1	524.4
– direct debits <sup>5</sup>	1.6	1.8
– payment cards <sup>6</sup>	8.1	12.1
– e-money <sup>7</sup>	0.6	1.0
– other payment instruments <sup>8</sup>	5.4	6.6
Number of payments effected by credit institution customers being credit institutions, million	76.8	71.6
Volume of payments effected by credit institution customers being credit institutions, trillions of rubles	495.5	437.5
Number of payment cards issued by Russian credit institutions <sup>1</sup> , million	217.5	227.7
of which:		
– debit cards	188.3	195.9
– credit cards	29.2	31.8
Number of payment card operations in Russia and abroad <sup>9</sup> , million	7,744.7	10,120.4
of which:		
– debit cards	7,181.9	9,274.4
– credit cards	562.8	846.0
Volume of payment card operations in Russia and abroad <sup>9</sup> , trillions of rubles	29.6	36.2
of which:		
– debit cards	28.3	34.5
– credit cards	1.3	1.7
<b>E-money transfer operators<sup>10</sup></b>		
Number of electronic payment instruments to transfer e-money used since start of year, million	320.5	350.0
Number of operations using electronic payment instruments to transfer e-money <sup>11</sup> , million	594.7	1,100.6
Volume of operations using electronic payment instruments to transfer e-money <sup>11</sup> , billions of rubles	661.5	1,109.5
<b>FSUE Russian Post<sup>2</sup></b>		
Number of money orders and household payments accepted by FSUE Russian Post as a payment agent and bank payment agent, million	651.0	666.6
Volume of money orders and household payments accepted by FSUE Russian Post as a payment agent and bank payment agent, billions of rubles	582.2	564.8
<b>Payment agents and bank payment agents</b>		
Number of accounts opened with credit institutions for payment agents and bank payment agents <sup>1</sup> , thousand	32.1	29.7
of which:		
– payment agents	29.6	27.0
– bank payment agents	2.5	2.7
Volume of operations effected through payment agents and bank payment agents, billions of rubles	1,204.8	1,302.5
of which:		
– payment agents	1,063.3	1,118.1
– bank payment agents	141.5	184.4

<sup>1</sup> As of end of year.<sup>2</sup> According to data of FSUE Russian Post.<sup>3</sup> Including orders of credit institution customers – households and legal entities other than credit institutions and credit institutions' own payments.<sup>4</sup> Including payments effected using payment orders and letters of credit as well as household remittances without opening a bank account.<sup>5</sup> Including payments effected using payment requests and collection orders.<sup>6</sup> Including operations to 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. Excluding operations to withdraw cash.<sup>7</sup> Including operations to transfer e-money and also e-money balance (except for that withdrawn in cash).<sup>8</sup> Including payments effected using cheques and bank orders.<sup>9</sup> Including operations to withdraw cash, pay for goods and services, customs payments and other operations (for example, payments from one bank account to another) using payment cards issued by Russian credit institutions.<sup>10</sup> Excluding data provided by QIWI Bank, joint-stock company, for 2013 Q1 and Q2.<sup>11</sup> Including operations to transfer e-money and also e-money balance.

Note. Certain indicators are updated as compared with those published in the Bank of Russia Annual Report for 2013.

Table 35

**Bank of Russia payment system**

	2013	2014
Number of customers served <sup>1</sup>	6,495	4,422
of which:		
– credit institutions	931	843
– branches of credit institutions	1,760	1,500
– customers other than credit institutions	3,804	2,079
Number of remittances effected, million	1,341.2	1,370.6
of which:		
– by credit institutions (branches)	1,147.0	1,176.7
– by customers other than credit institutions	193.5	193.2
– by Bank of Russia divisions	0.7	0.7
including via settlement systems:		
– via intraregional settlement systems	934.6	919.7
– via the interregional settlement system	404.3	448.0
– via the BESP system	2.1	2.9
– settlements effected on paper using letters of advice	0.2	0.01
Volume of remittances effected, trillions of rubles	1,224.9	1,205.2
of which:		
– by credit institutions (branches)	955.4	966.4
– by customers other than credit institutions	107.4	116.4
– by Bank of Russia divisions	162.1	122.4
including via settlement systems:		
– via intraregional settlement systems	604.4	607.7
– via the interregional settlement system	116.3	121.9
– via the BESP system	504.1	475.6
– settlements effected on paper using letters of advice	0.1	0.002
Total number of customers exchanging electronic messages <sup>1</sup>	4,043	2,956
of which:		
– credit institutions (branches)	2,691	2,330
– Federal Treasury bodies	192	130
– customers other than credit institutions	1,160	496

<sup>1</sup> As of end of year.

Note. Certain indicators are updated as compared with those published in the Bank of Russia Annual Report for 2013.

Table 36

**Structure of Bank of Russia customers other than credit institutions and number of accounts opened for them  
(thousand)**

	Number of customers			Number of accounts		
	as of 1.01.2014	as of 1.01.2015	change over 2014	as of 1.01.2014	as of 1.01.2015	change over 2014
<b>Total</b>	<b>3.8</b>	<b>2.1</b>	<b>-1.7</b>	<b>56.5</b>	<b>53.6</b>	<b>-2.9</b>
Federal Treasury	0.4	0.2	-0.2	48.8	48.9	0.1
Regional and local budget management bodies	1.0	0.8	-0.2	4.3	3.2	-1.1
State-owned institutions financed from budgets of all levels	0.6	0.3	-0.3	0.6	0.4	-0.2
Government and other extra-budgetary funds	0.8	0.0	-0.8	1.4	0.0	-1.4
Election commissions (referendum commissions)	0.2	0.2	0.0	0.2	0.2	0.0
Other organisations	0.8	0.6	-0.2	1.2	0.9	-0.3

Published by Business News Agency PRIME

Printed by 'Tipografiya 'Vozrojdenie'  
Number of copies – 350. Order No. 1983



Bank of Russia

The Central Bank of the Russian Federation

BANK OF RUSSIA ANNUAL REPORT FOR 2014



**BANK OF RUSSIA  
ANNUAL REPORT  
FOR 2014**

Moscow