



БАНК РОССИИ



Bank of Russia

The Central Bank of the Russian Federation

# ANNUAL REPORT 2017



Bank of Russia

The Central Bank of the Russian Federation

**BANK OF RUSSIA  
ANNUAL REPORT  
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## LIST OF ABBREVIATIONS

<b>ACCC</b>	– agricultural consumer credit cooperative
<b>AFI</b>	– Alliance for Financial Inclusion
<b>AML/CFT</b>	– anti-money laundering and countering the financing of terrorism
<b>APEC</b>	– Asia-Pacific Economic Cooperation
<b>API</b>	– application programming interface
<b>Bank of Russia PS</b>	– Bank of Russia payment system
<b>BCBS</b>	– Basel Committee on Banking Supervision
<b>BESP</b>	– banking electronic speedy payment system
<b>BIS</b>	– Bank for International Settlements
<b>BPM6</b>	– the 6th edition of the IMF's Balance of Payments and International Investment Position Manual
<b>BRICS</b>	– Brazil, Russia, India, China, South Africa
<b>CC</b>	– Bank of Russia cash centre
<b>CCC</b>	– consumer credit cooperative
<b>CCCH</b>	– Central Catalogue of Credit Histories
<b>CCP</b>	– central counterparty
<b>CD</b>	– central depository
<b>CDO</b>	– commodity delivery operator
<b>CHB</b>	– credit history bureau
<b>CI</b>	– credit institution
<b>CIS</b>	– Commonwealth of Independent States
<b>CMTPLI</b>	– compulsory motor third party liability insurance
<b>CSC</b>	– Bank of Russia cash settlement centre
<b>DIA</b>	– State Corporation Deposit Insurance Agency
<b>EAEU</b>	– Eurasian Economic Union
<b>ECB</b>	– European Central Bank
<b>ELA</b>	– emergency liquidity assistance mechanism
<b>EME</b>	– emerging market economies
<b>EU</b>	– European Union
<b>EXIAR</b>	– Russian Agency for Export Credit and Investment Insurance
<b>FAO</b>	– UN Food and Agriculture Organisation
<b>FAS</b>	– Federal Antimonopoly Service
<b>FBSC</b>	– Fund of Banking Sector Consolidation
<b>FMIO</b>	– financial market infrastructure organisation
<b>FMS</b>	– financial messaging system
<b>FSAP</b>	– Financial Sector Assessment Program
<b>FSB</b>	– Financial Stability Board
<b>FSS Conso File</b>	– functional sub-system Supervised Institution Consolidated File
<b>FSUE</b>	– federal state unitary enterprise

**FTS** – Federal Tax Service  
**GDP** – gross domestic product  
**GKO** – government short-term bonds  
**GSO** – government savings bonds  
**HML** – housing mortgage lending  
**HSC** – housing savings cooperative  
**IAIS** – International Association of Insurance Supervisors  
**IBL** – loans, deposits and other funds placed (raised) in the interbank market  
**IBRD** – International Bank for Reconstruction and Development  
**ICAAP** – internal capital adequacy assessment process  
**IFRS** – International Financial Reporting Standards  
**IFX-Cbonds** – Russian corporate bond index (calculated by Interfax and Cbonds.ru news agencies)  
**IMF** – International Monetary Fund  
**IOSCO** – International Organization of Securities Commissions  
**IOSCO MMoU** – IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information  
**IRB approach** – internal ratings-based approach to calculating credit risk  
**IT** – information technology  
**JSC RNRC** – Joint-stock Company Russian National Reinsurance Company  
**JSC SPCEX** – Joint-stock Company Saint Petersburg Currency Exchange  
**LIBOR** – London Interbank Offered Rate  
**MC** – management company  
**MCC** – microcredit company  
**MFC** – microfinance company  
**MFME** – microfinance market entities  
**MFO** – microfinance organisation  
**MIACR** – Moscow Interbank Actual Credit Rate  
**MOEXREPO** – MOEX CCP Bond Repo Rate  
**MOEXREPOEQ** – MOEX CCP Equity Repo Rate  
**NAV** – net asset value  
**NCI** – nonbank credit institution  
**NCI JSC NSD** – Nonbank Credit Institution Joint-stock Company National Settlement Depository  
**NCI NCC (JSC)** – Nonbank Credit Institution – Central Counterparty National Clearing Centre (Joint-stock Company)  
**NFI** – nonbank financial institution  
**NPCS** – national payment card system  
**NPF** – non-governmental pension fund  
**NPS** – national payment system  
**NRU HSE** – National Research University Higher School of Economics  
**NSD PS** – NSD payment system  
**NSFR** – net stable funding ratio  
**OBR** – Bank of Russia bonds  
**OECD** – Organisation for Economic Cooperation and Development  
**OFZ** – federal government bonds  
**OFZ-AD** – debt depreciation federal government bonds  
**OFZ-IN** – inflation-indexed federal government bonds  
**OFZ-PD** – permanent coupon-income federal government bonds  
**OFZ-PK** – variable coupon-income federal government bonds

**OPEC** – Organisation of the Petroleum Exporting Countries  
**OVOZ** – MinFin bonds  
**PIF** – unit investment fund  
**PJSC Moscow Exchange** – Public Joint-stock Company Moscow Exchange MICEX-RTS  
**PSMP** – professional securities market participant  
**RGBEY** – Russian Government Bonds Effective Yield to Redemption  
**RTS** – Russian trading system  
**RUONIA** – Ruble OverNight Index Average  
**SAS** – sectoral accounting standards  
**SD** – specialised depository  
**SDR** – special drawing rights  
**SICI** – systemically important credit institution  
**SME** – small and medium-sized enterprise  
**SRO** – self-regulatory organisation in the financial market  
**SWIFT** – Society for Worldwide Interbank Financial Telecommunications  
**TCL** – total cost of loan  
**UN** – United Nations  
**US Fed** – US Federal Reserve System

# Board of Directors

of the Central Bank  
of the Russian Federation

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**First Deputy Governor  
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**First Deputy Governor  
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## OPENING REMARKS BY THE GOVERNOR OF THE BANK OF RUSSIA

In 2017, the Russian economy returned to a growth path, and, which is most important, growth rested upon macroeconomic stability.

Inflation had already declined to its target of 4% by mid-2017. A favourable combination of such factors as the harvest and oil prices ensured the decline of inflation to 2.5% by the end of 2017. A sustainably low inflation rate is the backbone of healthy economic growth, positive structural changes in the economy, and protection of retail savings from depreciation and a key condition for business planning and forming an internal resource of long-term investment.

In 2018, as inflation stabilises around the target, the Bank of Russia's monetary policy will become neutral.

The Bank of Russia is responsible for the state of the financial system of the Russian Federation and ensures its stability and health by stimulating competition. Our goal is for the financial system to effectively perform its function of transforming savings into investment, thus supporting economic growth. Among other things, we pay great attention to the development of the debt and equity securities market as an alternative to bank financing: we are working to increase the quality of corporate governance, protect investors' rights, and facilitate the securities issuance mechanism.

Banking system indicators testify to its recovery after the developments of 2014–2015. Lending is growing at a pace which exceeds that of GDP growth, while loan rates are decreasing following the decline of inflation and the Bank of Russia key rate. The overwhelming majority of banks are increasing their profits, and the number of loss-making credit institutions is gradually declining. The capitalisation of the banking system is consistently on the rise.

The policy pursued by the Bank of Russia over the past few years to purge the market of weak and unscrupulous players is paying off: the number of licence revocations in 2017 almost halved as compared with 2016. We can say that most of the work of purging the banking sector has been performed, and it will be fully completed within the next two to three years.

One of the key events of the past year was the introduction of a new bank resolution mechanism through the Fund of Banking Sector Consolidation. Thanks to this mechanism, financial rehabilitation requires much fewer financial resources and becomes several times quicker than when involving private investors in bank resolution.

Development of competition in the financial sector is one of the priorities of the Bank of Russia policy. The Bank of Russia has stepped up using an incentive-based regulation approach – that is, supporting those areas of activity of financial institutions which supply financial resources to the real sector and ensure growth in domestic production, non-commodity exports, and economy diversification. Measures to develop fair competition in the financial market include a transition to proportionate regulation in the banking system and implementation of a conduct supervision system. In the near future, we plan to launch a marketplace – a platform which will give financial institutions new opportunities to interact with consumers and provide consumers with convenient conditions to choose the best offer.

Financial inclusion of all categories of consumers is one of the key objectives of the Bank of Russia. For a long time small business remained the most vulnerable consumer segment in the field of lending. In order to increase its coverage with financial services, the Bank of Russia has developed a set of incentive-based regulation measures,

including a uniform small business lending standard. Access to financial services for disabled citizens is often complicated; to remove the barriers, the Bank of Russia has created a special working group and has already adopted a number of joint resolutions with banks regarding services delivery formats. Additional possibilities for remote identification of disabled people are being developed.

Financial consumer protection and financial education are another important area of the Bank of Russia's activities. In 2017, the Financial Culture financial literacy web portal was opened, financial literacy programmes at educational establishments were expanded, and a programme of seminars for various population groups was implemented at a federal level.

In 2017, the Bank of Russia continued to improve its governance and organisational structure. Key changes are associated with the centralisation of supervisory functions, the development of a uniform standard for supervisory activity, and establishment of regional hubs for certain areas of activity. The Bank of Russia also continued to optimise personnel numbers, re-engineer business processes, and implement project management.

The Bank of Russia's work in 2017 on a whole range of activities was aimed at increasing the quality and accessibility of financial services for the population and businesses, ensuring the soundness and stability of financial institutions, and strengthening people's confidence in the financial system. The Bank of Russia will continue implementing this policy in the future.

Governor of the Bank of Russia



Elvira S. Nabiullina

## SUMMARY

The main purposes of the Bank of Russia under Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' are to protect the ruble and ensure its stability, to develop and strengthen the Russian banking system, and to develop and ensure stability of the financial market and the national payment system. To meet these requirements as effectively as possible, the Bank of Russia organises its activity on the basis of medium-term strategic goal-setting.

The Bank of Russia set five strategic mid-term goals:

- Ensuring price stability;
- Ensuring financial market resilience;
- Expanding financial inclusion;
- Developing the national payment system; and
- Developing financial technology and supporting financial market innovations.

Achievement of these goals will be conducive to sustainable and high-quality economic growth and will raise the prosperity of Russian citizens.

The prosperity of society depends to a large extent on **price stability**. For this purpose, the Bank of Russia set a mid-term target for the annual inflation rate, close to 4%. In 2017, the objective was to reduce inflation and anchor it near the target. As of year-end, annual inflation stood at 2.5%.

The Bank of Russia implemented its monetary policy in 2017 in more favourable external economic conditions compared to the previous year. The rate of economic growth in Russia's major trading partners increased significantly. Owing to the recovery of global demand and the effective agreement on oil production cut by OPEC and some non-OPEC countries global energy prices grew. Investors became more interested in investing in EME assets, and the inflow of portfolio investments into these markets was on the rise.

2017 saw the continuation of the recovery of the Russian economy that began in the second half of 2016. The GDP growth rate in 2017 was 1.5%<sup>1</sup> which, according to Bank of Russia estimates, is close to the level corresponding to the long-term potential of the economy considering its current structure.

The recovery of economic activity was conducive to higher labour demand. Unemployment remained low and did not exceed its natural level. The end of the year saw a trend towards growth in household real income following wage growth. The slowdown of inflation played an important role in this process. Furthermore, a smooth increase in wages facilitated the gradual recovery of consumer demand in the course of the year and did not incur any proinflationary risk.

2017 saw a successful finish to the first stage of ensuring price stability. Inflation declined and remained close to the target throughout most of the year. Inflation expectations of the population, businesses, banks, and analysts went down, thus creating a basis for anchoring inflation at the target level. The inflation expectations of the population and the observed inflation rate had reached record lows by the end of the year. This is indicative of the fact that the citizens of Russia really felt a slowdown of consumer price growth. Maintaining inflation close to the target will become the next stage of the monetary policy.

The inflation slowdown was primarily caused by the moderately tight monetary policy pursued by the Bank of Russia. Positive energy market dynamics, a record-breaking harvest, and the development of the agricultural market infrastructure contributed to the slowdown of consumer price growth.

In 2017, the Bank of Russia cut the key rate from 10% to 7.75% per annum. This decrease was gradual. When making its key-rate decisions the Bank of Russia took into account the dynamics of various aggregate inflation indicators, the slowdown of inflation expectations, the situation in the lending market, economic growth factors, external conditions, and other aspects.

The key rate reduction had an impact on loan rates and, accordingly, made loans more accessible throughout the year. In 2017, the amount of lending to the real sector grew by 6.2%.

Transparent and comprehensible decisions in the field of monetary policy were among its priorities. This is one of the key principles of inflation targeting. Press conferences by the Governor of the Bank of Russia in

<sup>1</sup> Here and below, the GDP data updated by Rosstat (as of 3 April 2017) are used.

connection with the key-rate decisions, press releases, monetary policy reports, various information and analytical materials published on the Bank of Russia website have become effective information policy tools. In 2017, the Bank of Russia continued to expand its communications with various audiences in order to improve the comprehension of its decisions in the field of monetary policy. An extensive information campaign was launched in the regions, including regular meetings and experience sharing with representatives of regional businesses, banks, authorities, expert and scientific communities.

The situation in the domestic financial market in 2017 was relatively stable. The beginning of 2017 saw a structural liquidity surplus in the banking sector. Owing to Bank of Russia operations to absorb excess liquidity, overnight ruble rates in the money market were close to the key rate.

The fiscal policy measures facilitated macroeconomic stabilisation and the decline of inflation. The mechanism of operations in the domestic FX market which was launched in the beginning of 2017 (transitional fiscal rules) made it possible to mitigate the sensitivity of the Russian economy and the ruble exchange rate to fluctuations in global oil prices. Furthermore, the Russian Ministry of Finance continued to pursue the strategy of gradual substitution of the funds from the sovereign wealth fund with internal borrowings to finance the budget deficit.

Transactions to purchase foreign exchange in the domestic FX market for the Russian Ministry of Finance were one of the key factors in the increase of the Bank of Russia's assets in foreign currency and gold. Other factors in their growth included the revaluation of foreign currency assets in US dollar terms and the purchase and revaluation of gold in US dollar terms.

Oil price elasticity of the ruble exchange rate continued to decline. Its volatility decreased moderately and was close to the level of summer 2014. In the FX market the drivers of the ruble's appreciation were the growing energy prices, recovered interest of foreign investors in Russian assets, and the retention of a positive interest rate differential in respect of the rates abroad.

**Ensuring financial market resilience** is currently a difficult and multifaceted task. To achieve this goal a wide range of activities will be required to be performed, from the comprehensive assessment of financial stability in the country and setting general rules for regulation of financial institutions and markets to ensuring the financial resilience of each particular financial institution.

Another important area of activity is the resolution of weak financial institutions and the withdrawal of unsound financial institutions from the market.

The Bank of Russia is implementing a large-scale regulation and supervision reform in the financial sector. Furthermore, the Bank of Russia tries to ensure a reasonable combination of implementing the international regulatory standards and national approaches towards regulation of financial institutions.

The new system is currently based on proportionate regulation of financial institutions and the consolidated and cross-sectoral ideology in supervision.

Proportionate regulation involves simplified regulation for small financial institutions performing a limited scope of operations, on the one hand, and sets proportionally higher requirements for large financial institutions comprising a considerable share of the Russian financial market and using complex financial ties, structures, and products, on the other hand. The financial resilience of these institutions, the transparency of their activity, fair practice, and strict compliance with federal laws are crucially important for financial stability in the country.

The implementation of new supervision approaches required the restructuring of the whole Bank of Russia supervisory unit, which consisted in the centralisation of supervisory activity. The reform started in 2016 and was being implemented actively throughout 2017. The reform will provide for the implementation of risk-based and proactive supervision based on unified supervision approaches and standards and the improvement of supervisory technology.

In 2017, the Core Standard of Banking Supervision and the supervisory activity standard with regard to nonbank financial institutions (NFI) were approved; the requirements for creating a Supervised Institution Consolidated File to automate off-site supervision processes implemented by credit institution (CI) supervisors and NFI supervisors were developed; and the first release of this system ensuring automation of supervision business processes was installed.

The Bank of Russia is developing the practice of interaction in the field of supervision with self-regulatory organisations in the financial market. In 2017, a number of core standards of supervision over microfinance organisations and consumer credit cooperatives through their self-regulatory organisations were approved.

In 2017, the Bank of Russia continued its work to prevent the bankruptcy of credit institutions and to financially rehabilitate the Russian banking sector.

A new financial rehabilitation mechanism was created which provides for the direct participation of the Bank of Russia in the equity of resolved banks using funds from the Fund of Banking Sector Consolidation (FBSC). Its implementation is aimed at reducing government expenditures and the time for bank rehabilitation as well as increasing the effectiveness of monitoring of the use of the respective funds and creating equal competitive conditions for the activity of credit institutions. In 2017, the Bank of Russia carried out the resolution of Bank FC Otkritie PJSC, B&N BANK PJSC, and Promsvyazbank PJSC based on the new mechanism. The application of this mechanism in 2017 made it possible to prevent losses on the part of economic agents considerably exceeding the funds allocated for resolution. The target goal of using the new mechanism is to develop competition in the financial services market through selling banks which have undergone financial rehabilitation to new effective owners. The Bank of Russia will also apply a similar approach to insurance companies.

The Bank of Russia works consistently to identify weak and unscrupulous banks. Withdrawal of such banks from the market improves the conditions for fair competition of credit institutions which comply with regulatory and legislative requirements. It increases the accessibility of banking services for all economic agents throughout the country, ensures the protection of the rights of consumers of these services, and creates conditions for the effective financing of economic activity.

Consistent work on the regulation, supervision, and rehabilitation of the banking sector is yielding results: 2017 saw a considerable improvement in the qualitative aspects of the activity of Russian banks, a significantly decreased involvement of banks in the shadow (scheme) operations, the declined volumes of fictitious transactions, and upward trends in asset quality and transparency. Moreover, a large-scale rehabilitation of the banking sector increased its stability, which is generally confirmed by the dynamics of key banking sector indicators.

The Bank of Russia is improving the practice of regulation and supervision of nonbank financial institutions, bringing it closer to the level and principles of regulation and supervision of credit institutions. In 2017, the Bank of Russia prepared for implementing in the long term a risk-based approach towards the Russian insurance market regulation on the basis of Solvency II. The Concept of the Risk-Based Approach to Insurance Sector Regulation was developed. The procedure for calculating the value of net assets comprising pension

savings and the cumulative market value of pension reserves was established for non-governmental pension funds. The procedure for making loan loss provisions and the materiality criteria of unreliable reporting data submitted to the Bank of Russia were determined for microfinance organisations. The procedure for calculating financial ratios for agricultural consumer credit co-operatives was set. Work was performed to determine the risk profile of professional securities market participants. While implementing proportionate regulation of microfinance market participants, the Bank of Russia introduced economic ratios with due regard to permitted operations.

In the field of foreign exchange regulation and foreign exchange control the Bank of Russia simplified considerably the procedure for authorised banks to register foreign trade contracts (in effect from 1 March 2018).

For the purpose of improving the living standards of Russian citizens and creating the conditions for economic growth, the Bank of Russia worked **to expand financial inclusion**, systemically develop and enhance the functions of financial consumer protection, and improve financial literacy. Financial products and services should be diversified, comprehensible, reliable, and acceptable in terms of their price and shall be in direct proximity to their consumers. The Bank of Russia considers it to be a priority area of activity, and it is included in the list of its strategic goals.

Among the significant results in this area there are increased accessibility of CMTPLI through concluding insurance agreements in the form of electronic documents, limitations on interest yield accruals on short-term (up to one year) consumer loans, and mitigation of social tensions in the field of housing mortgage lending in foreign currency.

The Bank of Russia is implementing a set of measures to launch a remote identification of banks' retail customers. The mechanism will increase financial inclusion for all categories of citizens, including those living in remote regions and people with disabilities.

The Bank of Russia, together with the Government of the Russian Federation, took measures to increase financial inclusion for small- and medium-sized enterprises (SMEs). They agreed on uniform SME lending standards for the partner banks of SME Corporation JSC, completed work to recognise the guarantees and sureties of SME Corporation JSC of quality category 1, and adjusted regulatory ratios for banks servicing SMEs. These measures will help expand the opportuni-

ties for SMEs to receive loans and will contribute to the growth of this sector of the economy.

The Bank of Russia is working to develop the bonds market for the purpose of creating the conditions for Russian economic agents to raise long-term borrowed funds. In 2017, major attention was paid to improving laws simplifying the procedure and reducing the time for issuance of debt securities and establishing the possibility of state registration of electronic bonds issues.

As regards increasing the financial literacy of citizens, special attention is being paid to children, youth, and senior citizens. The financial literacy project is being implemented in 450 pilot and hub schools. For senior citizens, the Bank of Russia developed the training course 'Promoting Financial Culture', which tells how to use banking services safely and effectively and how to use modern online technologies and avoid fraudsters. The information and educational web resource 'Financial Culture' ([fincult.info](http://fincult.info)) was launched. The website is intended for a wide audience with varying amounts of economic knowledge and various financial possibilities.

A **payment system** resistant to various challenges is the key to the effective operation of all economic agents. The quality criteria in this area are the safe, quick, and stable functioning of all payment system elements.

The National Payment System in 2017 ensured uninterrupted provision of funds transfer services. Development and implementation of high-tech remote payment services and products continued to make payment services more accessible, including online services, and increased the volumes of cashless operations.

In 2017, Mir cards, the national payment instrument, were promoted actively. As of the end of 2017, 31.2 million Mir cards were issued, which was more than double the number planned.

The Bank of Russia payment system continued to improve the services and functions provided to customers, including financial market participants. This work was aimed at reducing the time for access to payment services and to speed up money transfers.

In order to **develop financial technology and support financial market innovations**, under the aegis of the Financial Technology Development Association established by the Bank of Russia together with financial market participants, work is underway in the following areas: development of distributed ledger technology, development of the retail payments space, development of open interfaces (Open API) in the financial markets, and digital identity management. Development of the Masterchain platform based on distributed ledger technology was completed.

The Bank of Russia started interacting with credit institutions via an information resource on the Bank of Russia website in the form of a personal account. Currently all banks are connected to personal accounts. A concept for storing and using electronic documents and ensuring their legal effect for the financial market was approved.

The Bank of Russia laid special emphasis on ensuring cyber resilience of credit and financial institutions. The mechanisms for interaction with law-enforcement agencies in investigation of cybercrimes were improved. In 2017, the Bank of Russia developed information security standards which set technical requirements for information protection at financial institutions and defined the methodology for evaluating the conformity of information protection at financial institutions to the technical requirements of national standards. Employment of the new standards will enable financial institutions to increase their level of protection from cybercrimes and provide stable and uninterrupted services to their customers.

In 2017, the Bank of Russia moved ahead in achieving its strategic goals. However, a lot of important issues are yet to be resolved, and their successful resolution will be a decisive factor for the macroeconomic stability of the state and the prosperity of Russian society. Public confidence is crucial to effective activity of the Bank of Russia. Therefore, the Bank of Russia pays much attention to the transparency of its actions. The Bank of Russia's Annual Report is an example of such transparency.

# **I. THE STATE OF THE RUSSIAN FEDERATION ECONOMY**

*The Bank of Russia conducts its activity under the existing economic and political conditions, in a certain institutional environment and economic structure. In order to accomplish its mission most successfully, adopt effective decisions in pursuing its policy, and coordinate it with other areas of government policy, the Bank of Russia analyses the state of the global economy and financial markets, the economic and financial sector of Russia, and specific aspects of the functioning of the national payment system.*

*Some indicators of macroeconomic conditions, for example, inflation, are in turn a result of the Bank of Russia's policy. The Bank of Russia, as a mega-regulator, was empowered to take measures to develop and adjust the financial sector structure and its institutional environment. The comprehensive evaluation of independent factors and the effectiveness of the earlier made decisions helps the Bank of Russia develop ways to achieve its goals, formulate development strategies for various areas of its activity, and identify the most important problems requiring urgent solution.*

*Chapter I 'The State of the Russian Federation Economy' contains a brief analysis of the economic environment the Bank of Russia relied on when making decisions in 2017.*

## I.1. THE MACROECONOMIC SITUATION

### I.1.1. External economic conditions

In 2017, the external conditions for the Russian economy improved slightly. Growth in global production accelerated in 2017. Prices for the main Russian exports in the world markets were above expectations. Investors became more interested in investing in the assets of emerging market economies (EMEs), and the inflow of portfolio investments into these markets increased. The extension of sanctions against Russia continued to be a factor containing capital inflow.

Growth in global output of goods and services in 2017 increased to 3.8% (from 3.2% in 2016), as estimated by the International Monetary Fund (IMF). GDP growth in developed countries increased considerably to 2.3% from 1.7% in 2016. Economic growth in EMEs accelerated from 4.4% to 4.8%.

Among developed countries, the most significant increase was observed in US economic growth, to 2.3% (as compared to 1.5% in 2016), which was largely due to the dynamics of gross capital formation, including fixed capital investment and increased finished product inventories, along with the continued growth in consumer spending. Economic growth rates in the euro area increased to 2.3% (vs. 1.8%) mostly due to the contribution of net exports resulting from the expansion of external demand. Low growth rates of real wages slowed down the increase in consumption and favoured the decline of its contribution to GDP growth. The economic growth rate in Japan also accelerated, to 1.7% (0.9%), as it did in Canada and a number of other developed countries. GDP growth in the United Kingdom decreased slightly following the decline in the consumer spending's contribution caused by the unfavourable wage dynamics.

Despite the gradual tightening of monetary policy, economic growth in China did not slow down as expected. Owing to increased consumer spending, the economic growth rate even rose somewhat (from 6.7% to 6.9%). GDP of Brazil grew by 1.0% following a 3.5% decline in 2016. This contributed to a 1.3%

increase in GDP of Latin American and Caribbean countries (after a 0.7% decline in 2016). The economic growth rates of the Commonwealth of Independent States (CIS) (excluding Russia) and European EMEs went up. GDP growth in India slowed down to 6.7% (vs. 7.1% in 2016).

Economic growth in Russia's major trading partners, as estimated by the Bank of Russia, increased to reach slightly above 3%.

The increase in global economic growth was accompanied by the accelerated growth of international trade. Growth in the volume of international trade in goods and services, as estimated by the IMF, accelerated to 4.9% (vs. 2.3% in 2016). Furthermore, an increased growth rate of exports and imports was observed both in developed countries and EMEs.

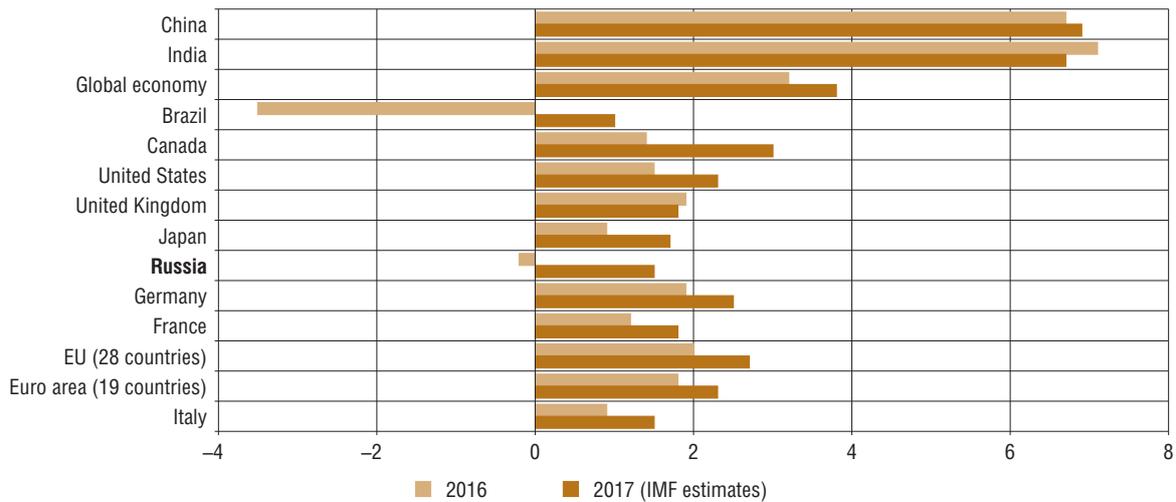
Given the recovery of global demand and the effective agreement on oil production cut by OPEC and some non-OPEC countries<sup>1</sup> global energy prices grew. In 2017, the price of Urals crude grew by 26.9% on average against the average price of 2016, to \$53.2 per barrel (while in 2016 it declined by 18.4% against the previous year).

The average level of prices for food products in the global markets (FAO index) in December 2017 decreased by 0.3% against December of the previous year (while in December 2016 it increased by 11%). A considerable drop in prices for vegetable oils and sugar was observed after their growth in the previous year, which was explained by an increase in their production (the greatest stocks of palm oil for the past two years were accumulated in Malaysia and Indonesia). Prices for dairy products also declined. Cereal prices rose amid expectations of drought, and meat prices increased given the heightened demand in some countries of Asia, Africa, and Latin America due to reduced production in China in previous years.

The recovery of demand and energy price growth contributed to a moderate surge of inflation in developed countries. According to IMF estimates, in this group of countries it went up from 0.8% in 2016 to 1.7%

<sup>1</sup> This agreement was extended twice during 2017: in May, until the end of March 2018; and in late November, until the end of 2018.

### Growth in output of goods and services in the global economy and certain countries\* (percent)



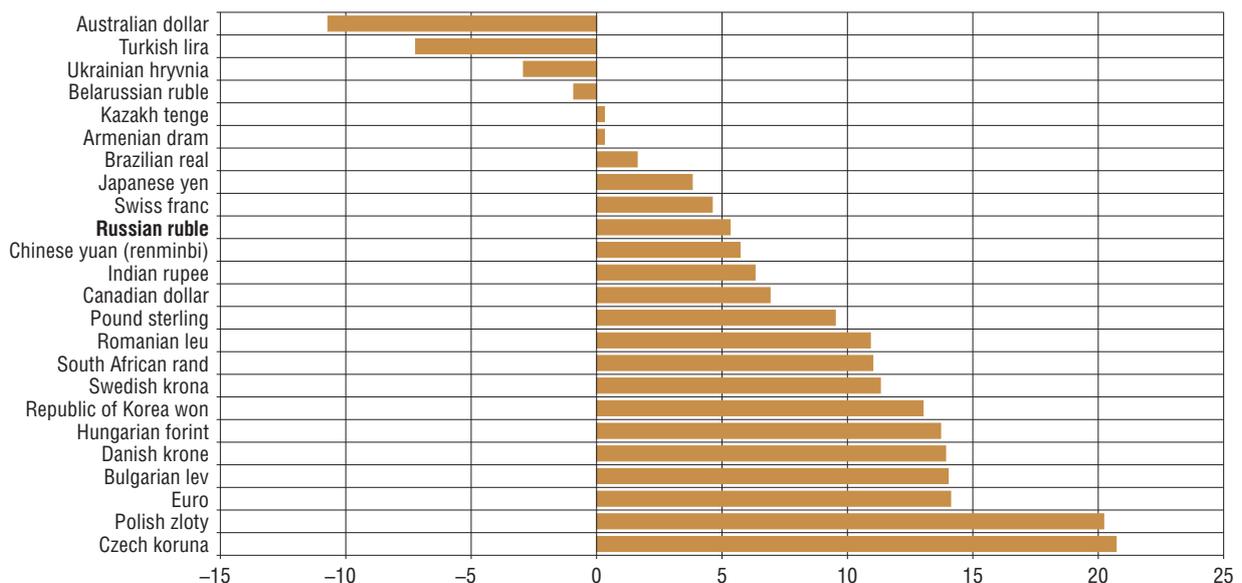
\* Based on official statistics published by the corresponding countries, Eurostat and the IMF.

in 2017. In the US, inflation was 2.1% in December 2017, just as in December 2016<sup>1</sup>; in the euro area it was 1.4% (vs. 1.1% in December 2016), in the UK it was 2.9% (vs. 1.6%), and in Japan it was 1.1% (vs. 0.3%). In EMEs inflation slowed down slightly, from 4.3% to 4.0%. In China, inflation declined from 2.1% in December 2016 to 1.8% in December 2017. Weighted average inflation in the group of Russia's major trading partners was low. Therefore, the overall external inflation background and food price dynamics did not ex-

ert any additional pressure on inflation in the Russian Federation.

Against the backdrop of low inflation developed countries continued to pursue easy monetary policy. The US Federal Reserve System (US Fed) proceeded with its gradual tightening started in December 2015. In October 2017, the US Fed started reducing the amount of Treasury bonds and bonds of federal mortgage agencies on its balance sheet by cutting reinvestment of payments to repay the principal debt

### Growth in exchange rates of certain currencies against the US dollar in 2017\* (December 2017 as a percentage of December 2016)



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

<sup>1</sup> Headline inflation data (consumer price index for all urban consumers, CPI-U). The target inflation used by the US Fed is calculated as the personal consumption expenditures price index (PCE Price Index). It remained below 2% (1.7% on average from January to December 2017).

which have been gained from possession of these assets. The US Fed increased its key rate<sup>1</sup> in March, June, and December 2017, as a result of which it rose from 0.50–0.75% as of the end of 2016 to 1.25–1.50% as of the end of 2017.

The European Central Bank (ECB) maintained an accommodative policy stance. Official interest rates established in 2016 remained at their historical lows: a zero key rate and the deposit rate at –0.40%. The quantitative easing programme was cut back gradually but continued throughout the year. The monthly volume of asset purchases was €80 billion until March 2017 (inclusive) and €60 billion in April–December (reduced to €30 billion starting from January 2018).

Volatility in the global financial markets decreased as compared with 2016. The VIX volatility index was at its lowest for the entire period after the crisis of 2008–2009. Its local peaks were registered in April and August, which was largely due to geopolitical developments.

In 2017, the inflow of portfolio investments into EMEs increased significantly as global economic growth ac-

celerated, China showed more favourable economic dynamics compared to the forecasts, and the promising prospects opened for commodity exports. According to Emerging Portfolio Fund Research Global (EPFR), the cumulative net capital inflow into funds that invest in EMEs reached over \$188 billion (as compared to about \$35 billion in 2016).

Amid the increase in energy prices, the relevant increase in current account surplus, the nominal effective exchange rate of the ruble was registered to grow on average during the year. Ultimately, despite decreased inflation, the average real effective exchange rate of the ruble in 2017 rose by 15.9% as compared to 2016 (in 2016, it fell by 0.5%). The ruble appreciation in January–April was followed by its depreciation in May–August, which was due, in particular, to the overall appreciation of the US dollar against EME currencies. In 2017 Q4, the ruble strengthened slightly. As a result, in December 2017 the real effective exchange rate of the ruble against foreign currencies decreased by 1.1% as compared to December 2016.

<sup>1</sup> The US Fed uses the federal funds rate (on overnight interbank loans) as a key rate.

## I.1.2. Inflation and economic activity

In 2017, the Russian economy continued a recovery that began in the second half of 2016. Its growth rates approximated the level estimated by the Bank of Russia as corresponding to the long-term economic potential considering its current structure.

External conditions produced a mixed effect on the Russian economy. On the one hand, an international treaty to cut oil production restrained Russia's oil exports. On the other hand, a favourable situation in the global commodity markets ensured export volume growth and facilitated the trade surplus increase and the current account stability.

The decline of uncertainty and improved sentiments of the population and businesses were the drivers of economic growth in 2017. The situation in the labour market remained stable. Unemployment stayed low (5.2% of the total workforce) and did not exceed its natural level. GDP growth in 2017 was 1.5% (in 2016 a 0.2% decline was observed). The recovery of domestic consumer demand was gradual and did not hinder the slowdown of consumer price growth. Annual inflation decreased to a level close to 4% already in the first half of 2017. In the second half of the year, its slowdown continued, including under the influence of temporary factors which were primarily associated with the situation in individual food markets. In December, the year-on-year inflation stood at 2.5% (5.4% in December 2016).

The recovery processes in the dynamics of internal demand, both consumer and investment, became stable. The recovery of consumer activity contributed to growth in consumer product manufacturing, including durable goods (furniture, household appliances, motor cars). The expansion of consumer goods output was also supported by the import substitution process, including in the manufacture of home care products, foodstuffs, some durable goods, and in pharmaceuticals. However, the potential for import substitution went down: some imported consumer goods, primarily foodstuffs, had been almost fully replaced with domestic analogues.

Gradual substitution of imports also supported some investment-oriented manufacturing, in particular, the manufacture of motor cars and agricultural machines and equipment. However, low production activity in construction continued to limit the dynamics of investment goods output.

The production dynamics of intermediate consumption goods were also heterogeneous. For example, oil production increased because its stabilisation under agreements with oil exporting countries was secured at the fairly high level achieved in late 2016. Gas production also went up, supported in 2017 H1 by growing demand from Europe and Turkey. The output of metals declined throughout 2017 amid the slowing growth of demand in China.

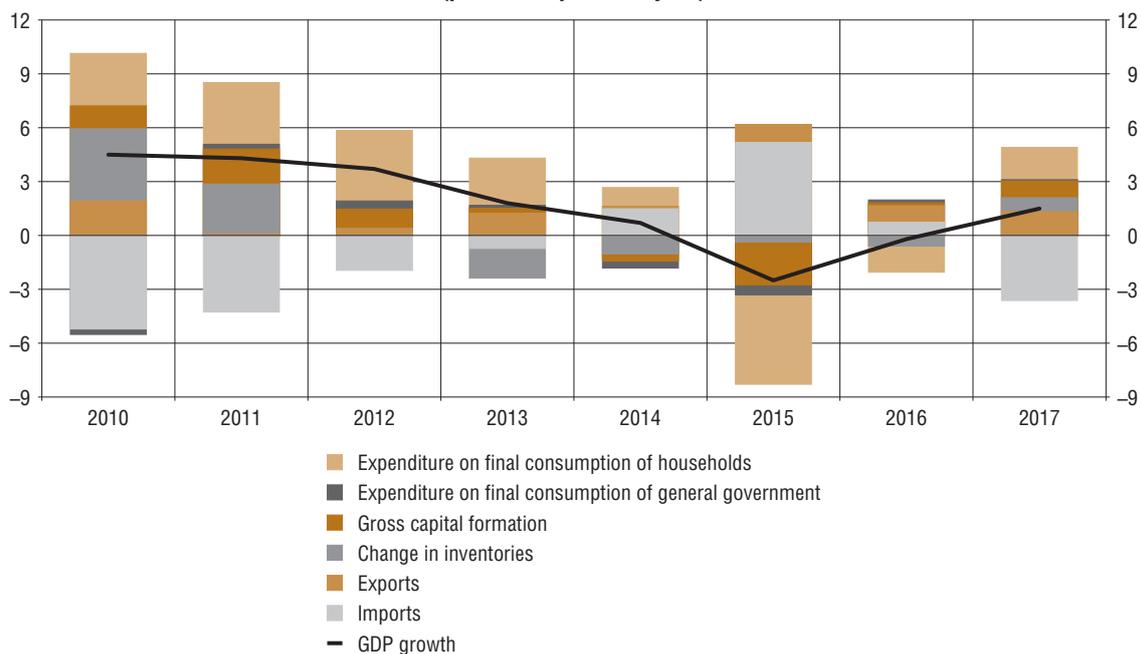
Overall, the contribution of growth in industrial goods manufacturing to GDP growth in 2017 was 0.1 pp.

The recovery of internal investment and consumer activity and growth in external demand for domestic products supported wholesale and retail trade, which made the most significant contribution to the GDP increase in 2017. It amounted to 0.4 pp (compared to -0.5 pp in 2016). Gross value added in the sector of intermediary services (operations with real estate, financial and insurance services), transportation and storage, and IT and communications services continued to grow. The aggregate contribution of these activities to GDP growth was 0.6 pp.

High indicators of the main crops harvest and growth in animal product output ensured the positive contribution (less than 0.1 pp) of agricultural output to GDP growth. The implementation of a complex of government programmes contributed to the increased technological level of the sector and growth of its production potential. The expansion of government support was also conducive to the development of hothouse farms and agrologistic complexes, which influence the slowdown of price growth in the consumer market.

The stable situation in the labour market ensured increased consumer confidence and household demand. The recovery of economic activity was conducive to heightened demand for labour and wage growth. The unemployment rate remained low and was close to the level estimated by the Bank of Russia as natural, i.e., not exerting additional pressure on inflation (either towards its acceleration or slowdown). Real wage growth rates on a year-on-year basis increased, while its nominal growth rates remained close to the level of 2016 and inflation slowed. Real wage growth corresponded to a large extent to the increase in labour productivity: in 2017 it was somewhat higher than productivity growth but was rather of a catch-up nature and continued to offset a more considerable decline in real wages com-

**GDP growth by expenditure  
(percent of previous year)**



pared to labour productivity in 2015. Furthermore, real disposable money income remained on the whole below the 2016 level following the decline in other components, such as income from entrepreneurial activity and from ownership, which suppressed the acceleration of consumer demand growth.

Consumer activity recovered amid the gradual increase in credit accessibility and a certain decline in the propensity to save against the backdrop of falling interest rates in 2017. Monetary policy remained moderately tight throughout the year, real interest rates remained positive, and banks were still cautious and careful about choosing borrowers and areas of lending. As a result, ruble-denominated investments remained highly attractive, and growth of retail lending was to a large extent restorative in nature and corresponded on the whole to the household income dynamics (see Subsection I.2.1). Therefore, the transition from the model of household saving behaviour to increased consumption was smooth without exerting any additional pressure on prices.

As of year-end 2017, the contribution of the increase in household final consumption expenditure to GDP was again in the black and amounted to 1.8 pp (compared to -1.5 pp in 2016). Given the conservative fiscal policy (see Subsection I.1.3) and the decline in the budget deficit, the contribution of government final consumption expenditure to GDP growth in 2017 was not great (0.1 pp). Overall, final consumption expenditure in 2017 grew by 2.6% (vs. a 1.9% decline in 2016),

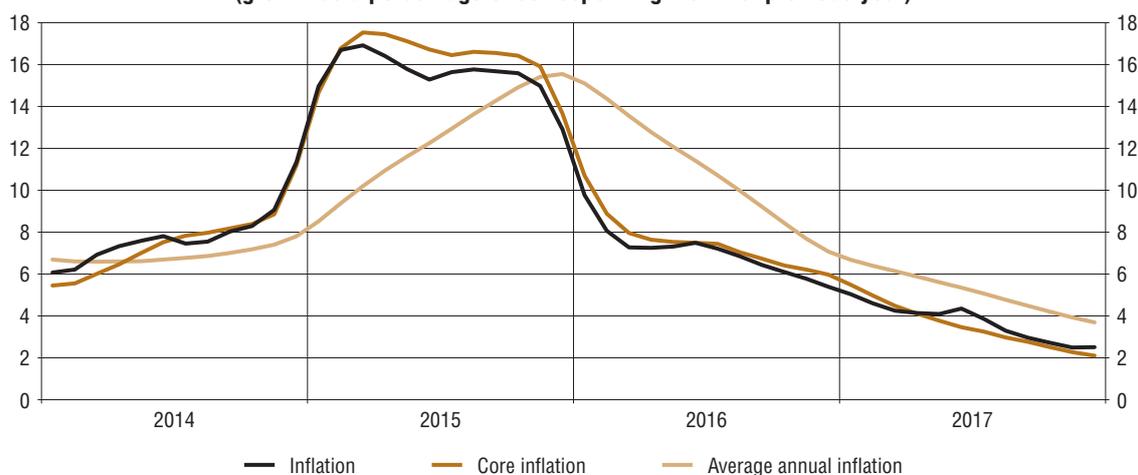
which did not exert significant inflationary pressure and did not hinder inflation reduction in 2017.

The recovery of investment demand made a notable contribution to GDP growth in 2017. Implementation of large investment projects with government support was conducive to investment growth. The increase in private sector fixed capital investments also remained fairly stable making a positive contribution to the investment activity dynamics. Growth in fixed capital investments in 2017 amounted to 4.4%. The contribution of gross fixed capital formation to GDP growth in 2017 rose to 0.9 pp from 0.2 pp in 2016. Changes in inventories also made a positive contribution to GDP growth. Companies built up their inventories in anticipation of increased demand for their products particularly actively in the first half of the year, according to estimates. As a result, the overall gross capital formation increased by 7.4% (in 2016, it reduced by 1.9%), and its contribution to GDP growth was in the black reaching 1.7 pp (as compared to -0.4 pp in 2016).

Amid the ruble appreciation and the expansion of domestic demand in 2017, growth in import quantities of investment and consumer goods and services accelerated considerably (by 17.4%, following a 3.6% decline in 2016). Growth in imports was also facilitated by the increased volume of online purchases from abroad by the population.

Exports in 2017 also showed the more prominent dynamics than in 2016. Export quantities of goods

**Inflation, core inflation, and average annual inflation\***  
(growth as a percentage of corresponding month of previous year)



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

and services increased by 5.1% (vs. 3.2% in 2016). Agreements with OPEC countries to cut oil production had a certain restraining influence on the export dynamics. Exports expanded due to increased demand for other primary commodities (except oil) and non-commodity goods, in particular, food products (cereals, sunflower oil, sugar, fish, and fish products), medical equipment, machine tools, and motor cars.

Given the faster growth in imports of goods and services compared to their exports, the contribution of net exports to GDP growth in 2017 was negative and amounted to -2.3 pp (vs. 1.7 pp in 2016).

The GDP growth rate in 2017, which amounted to 1.5%, is assessed by the Bank of Russia as appropriate for the long-term potential of the Russian economy, considering its current structure (1.5–2.0%). This did not hinder a further slowdown in price growth.

In 2017, inflation continued to slow down. Annual inflation in December 2017 decreased to 2.5%. The average annual inflation<sup>1</sup> as of year-end reached 3.7% (vs. 6.5% in 2016). Both permanent and temporary factors contributed to inflation slowdown. A permanent factor which facilitated a stable decline in inflationary pressure was the consumer demand dynamics. It recovered smoothly against the backdrop of moderately tight monetary conditions and the reduction in inflation expectations.

Under the impact of the ongoing inflation slowdown and the consistent implementation of a moderately tight monetary policy inflation expectations continued to decline. The expectations of professional economists and

financial market participants stabilised at the level close to 4%. Inflation expectations of households and businesses reached their historical lows. Direct quantitative assessments of inflation expected by the population in the next 12 months (based on the survey data of inFOM LLC) decreased by 3.7 pp over the year. However, they still remained high (8.7% in December 2017) and significantly exceeded the level of 4%; they also remained sensitive to one-off factors, including short-term fluctuations of prices for individual goods.

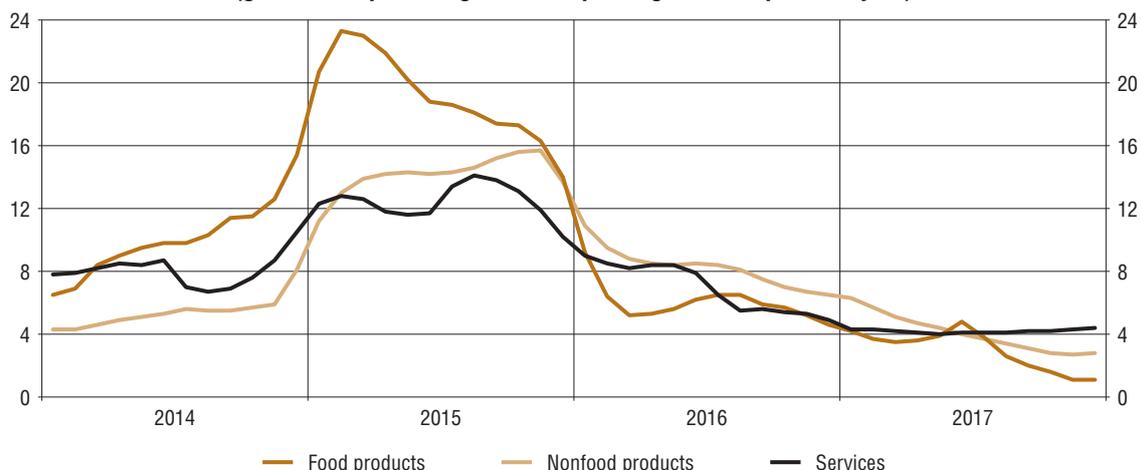
The exchange rate dynamics in 2017 (see Subsection I.2.1) also contributed to the inflation slowdown. The disinflationary impact of this factor was the most pronounced in the first half of the year, but it declined gradually towards the end of the year as the impact of the ruble appreciation which took place in the first half of the year was exhausted. On the other hand, the increase in global energy prices affected the acceleration of producer price growth in oil production and refining, which led to a certain acceleration of growth in consumer prices for motor fuel on a year-on-year basis. This made a positive, though small, contribution to overall annual inflation.

Indexation of cumulative utility payments in 2017 corresponded to the inflation target and thus had no impact on the rise or fall of inflationary pressure in the economy. Growth in prices and tariffs for housing and utility services in December 2017 slowed down to 4.6% (vs. 5.4% in December 2016).

The inflation slowdown in the second half of the year was promoted by the record-breaking crop of cereals

<sup>1</sup> Reflects the difference between the average price level for the last 12 months and the average price level for the previous 12 months.

**Prices of food products, nonfood products and tariffs of services  
(growth as a percentage of corresponding month of previous year)**



and leguminous plants amid their considerable stocks as well as sustainable growth in animal product output. The expanded supply of farm produce, along with the limited possibilities for a quick increase of their sales volumes, including for export, caused a downturn in producer prices in agriculture and the manufacture of food products. The accelerated sale of individual kinds of vegetables put additional downward pressure on consumer price growth at the end of the year under the influence of concerns about their potential shelf life due to the lower quality of the harvested crop.

Annual food price growth decreased to 1.1% in December 2017 (vs. 4.6% in December 2016), which was the minimum level for the entire monitoring period. Furthermore, the prices for some food products, including meat and poultry, eggs, sugar, pasta and cereals, and vegetable oils, at the end of 2017 were lower than a year before.

Annual growth in prices for nonfood goods slowed down throughout most of the year and by the end of the year had reached their historical lows, amounting to

2.8% in December 2017 (vs. 6.5% in December 2016). This was due, inter alia, to the expansion of internal production of consumer goods, including durables. The decline in services price growth was the least pronounced in 2017. Throughout most of the year they fluctuated around 4%, and in December 2017 they amounted to 4.4% (vs. 4.9% in December 2016).

Annual core inflation, which is calculated net of items with administered prices and items subject to the most significant fluctuations under the influence of one-off factors (including fruits and vegetables), slowed to 2.1% as of year-end 2017 (vs. 6.0% in December 2016).

Price dynamics throughout 2017 became more homogeneous for various types of goods and services and for regions. The annual price growth rates slowed down to 4% or less for most items in the consumer basket (in December 2017, over 70% of the total number of goods and services) and in almost all regions of Russia (in December 2017, in 80 out of 82 constituent territories of the Russian Federation).

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

In 2017, the fiscal policy was focused on the stabilisation of government finance through fiscal consolidation. The federal budget and budget system deficits were both cut back by increased revenues amid the improved foreign economic situation, economic activity growth and increased collectability of taxes, and through a balanced expenditure policy. A temporary mechanism for domestic FX market operations (transitional fiscal rules) was developed and launched in the beginning of 2017 as part of fiscal policy. It was designed to sterilise additional oil and gas revenues (with the price of Urals being above \$40 per barrel) to replenish the sovereign fund. This mechanism made it possible to reduce the sensitivity of the Russian economy and the ruble exchange rate to fluctuations in global oil prices and to make a gradual transition to the regular fiscal rule, which started functioning in 2018. Furthermore, the Ministry of Finance continued to pursue the strategy of gradual substitution of funds from the sovereign fund with internal borrowings to finance the budget deficit. These measures not only allowed to improve the balance of government finance but also facilitated macroeconomic stabilisation and lower inflation in 2017.

According to the Federal Treasury<sup>1</sup>, the revenues of the budget system of the Russian Federation in 2017 amounted to ₹30,640.0 billion (33.3% of GDP), having increased by 8.7% in nominal terms, or 0.6 pp of GDP, as compared to 2016 (see Table 5, Section V.4 Statistical Tables). The structure of revenues showed growth in both oil and gas revenues and nonoil and gas revenues. Oil and gas revenues in 2017 amounted to ₹5,971.9 billion (6.5% of GDP), having increased by 23.3% in nominal terms, or by 0.9 pp of GDP. Nonoil and gas revenues of the consolidated budget in 2017 amounted to ₹24,668.1 billion (26.8% of GDP), having increased by 5.7% in nominal terms as compared to the previous year and having decreased by 0.3 pp of GDP. Budget system expenditures in 2017 stood at ₹31,989.1 billion (34.8% of GDP), having increased by 2.1% in nominal terms and having decreased by 1.7 pp of GDP as compared to 2016. As a result, the budgets of the budget system of the Russian Federation in 2017 showed a deficit of ₹1,349.1 billion (1.5% of GDP),

which was ₹1,793.0 billion (2.2 pp of GDP) less than in 2016.

Federal budget revenues in 2017 amounted to ₹15,088.9 billion (16.4% of GDP), having increased by 12.1% in nominal terms, or by 0.8 pp of GDP, as compared to 2016. Nonoil and gas revenues of the federal budget grew despite significant one-off receipts in 2016, including receipts from the privatisation of Rosneft. In particular, this was prompted by the redistribution of 1 pp of the profit tax rate from the budgets of the constituent territories of the Russian Federation to the federal budget. Federal budget expenditures in 2017 amounted to ₹16,420.3 billion (17.8% of GDP), which slightly exceeded the expenditures in 2016. However, federal budget expenditures were underperformed by ₹308.0 billion against the target approved by Federal Law No. 415-FZ, dated 19 December 2016 (as amended on 14 November 2017), 'On the Federal Budget for 2017 and the Plan Period of 2018 and 2019' (hereinafter, Federal Law No. 415-FZ). As a result, the deficit turned out to be less than ₹2,008.1 billion (2.2% of GDP) as predicted by the Ministry of Finance of Russia. As of year-end 2017, the federal budget deficit stood at ₹1,331.4 billion (1.4% of GDP), which was ₹1,625.0 billion (2.0 pp of GDP) less than in 2016.

Notwithstanding the conservative performance of expenditures, the Government of the Russian Federation implemented the planned measures in the field of social policy, including a one-off payment of ₹5,000 to pensioners and indexation of pension benefits and allowances.

The consolidated budget of the constituent territories of the Russian Federation and the budgets of the government extra-budgetary funds were performed with a near-zero balance.

As of 1 January 2018, the aggregate volume of funds from the sovereign funds amounted to ₹3,752.9 billion (4.1% of GDP). In 2017, ₹1,000.4 billion was allocated from the Reserve Fund to finance the federal budget deficit, as a result of which the Fund was depleted completely. In 2018, the Reserve Fund is to be abolished. In 2017, funds from the National Wealth Fund in the amount of ₹ 609.7 billion were allocated to cover the

<sup>1</sup> The figures showing the performance of the consolidated and federal budgets of the Russian Federation and the performance of the consolidated budget of the constituent territories of the Russian Federation and government extra-budgetary funds in 2017 are presented in accordance with the monthly report on the consolidated budget performance as of 1 January 2018 published by the Federal Treasury.

deficit of the Pension Fund of the Russian Federation; ₹124.1 billion were allocated to replenish the balance of the federal budget account in rubles; and ₹5.5 billion were allocated to co-finance the voluntary pension savings of citizens. The negative exchange rate revaluation was also conducive to the decline in the ruble funds of sovereign funds in 2017.

In 2017, the Ministry of Finance of Russia purchased foreign currency in the amount of additional oil and gas revenues to further replenish the sovereign funds under a temporary mechanism of operations in the domestic FX market involving the Bank of Russia. In 2017, when the actual price of Urals crude continuously exceeded the basic price of \$40 per barrel, the Ministry of Finance of Russia purchased foreign currency in the amount of ₹829.2 billion (in the ruble equivalent), thus replenishing the balances of the federal budget FX accounts, to transfer these funds subsequently to the National Wealth Fund in February 2018.

According to the Ministry of Finance of Russia, the aggregate government and municipal internal debt of the Russian Federation as of 1 January 2018 amounted to ₹14,243.1 billion (15.5% of GDP), having increased by 3.0% in absolute terms over the year but having decreased by 0.6 pp of GDP. The share of internal debt in the total government and municipal debt was 79.9%, which was 2.4 pp above this indicator as of 1 January 2017. This trend corresponds to the strategy of gradual substitution of external debt with internal borrowings, which was announced earlier by the Russian Ministry of Finance.

The internal federal debt as of 1 January 2018 stood at ₹8,689.6 billion (9.4% of GDP, which is 0.1 pp of GDP higher than its volume as of 1 January 2017). About 83.4% of the internal federal debt is accounted for by government securities, the volume of which was ₹7,247.1 billion (18.8% above the level as of 1 January 2017); the remaining portion is accounted for by government guarantees, the volume of which stood at ₹1,442.5 billion (₹460.6 billion, or 24.2%, less than as of 1 January 2017). In pursuance of Article 13 (Part 6) of Federal Law No. 415-FZ, the Bank of Russia concluded Agreement No. 01-01-06/04-221, dated 17 August 2017, with the Ministry of Finance of Russia, under which they exchanged government securities of the Russian Federation owned by the Bank of Russia with a par value of ₹58.4 billion for government securities of

other issues with a par value of ₹54.9 billion. Amid moderately tight monetary conditions and a significant positive difference in real interest rates between Russia and the rest of the world, an inflow of foreign investments in government securities was observed. In 2017, the federal government bond (OFZ) portfolio of nonresidents increased almost 1.5-fold, and their share in the OFZ market grew from 26.9% to 33.1%. An inflow of foreign capital in Russian Eurobonds and private assets of the stock market was also observed. Amid the increased internal federal debt due to a positive net placement of OFZs and growth in the volume of government guarantees, the ruble value of the external debt decreased mainly due to the exchange rate revaluation. Despite significant OFZ placements to finance the budget deficit, the aggregate government debt to GDP ratio remains stable and does not exceed the level registered at the end of 2014 (about 15–16% of GDP).

In 2017, within the framework of the privatisation programme, blocks of shares of major Russian companies, such as VTB Bank (PJSC), NCSP PJSC and Sovcomflot PJSC, were not sold as expected.

The debt of the Russian Ministry of Finance to the Bank of Russia in the currency of the Russian Federation at the par value of government securities, including securities acquired by the Bank of Russia through repos, decreased by 98.3% in 2017 to ₹1.5 billion, which was caused by the sale and redemption of government securities. The debt of the Russian Ministry of Finance to the Bank of Russia in foreign currency in the ruble equivalent in 2017, including Bank of Russia repos, decreased by 10.3% and stood at ₹184.1 billion as of 1 January 2018 at the par value of government securities.

At the end of 2017, Guidelines for the Fiscal, Tax and Customs Tariff Policy for 2018 and the Plan Period of 2019 and 2020 were published. The document announced budget plans for 2018–2020 which assumed the completion of fiscal consolidation and the introduction of a regular fiscal rule which would make it possible to achieve and maintain the balance of government finance in the medium term and ensure the replenishment of the sovereign fund and the stability of the government debt path. These measures may facilitate the decline in economic uncertainty, further macroeconomic stabilisation, and an increase in the sovereign credit rating.

## I.1.4. Balance of payments, international investment position, and external debt

### Balance of payments

In 2017, the current account strengthened against the backdrop of an improved price situation for major Russian exports. Along with the termination of the outflow of previously attracted foreign investment, it enabled net lending to the rest of the world to be effected in the form of direct investment and international reserves (unlike 2016, when it was effected mostly in the form of decreasing liabilities).

The **current account** surplus in 2017 amounted to \$35.2 billion (against \$24.4 billion in 2016). Growth in the current account surplus resulted from the strengthening of the balance on trade amid a moderate increase in the deficit under other components.

Growth in the **external merchandise trade** surplus to \$115.0 billion (against \$90.3 billion in 2016) was caused by an increase in exports volumes outpacing that in imports volumes.

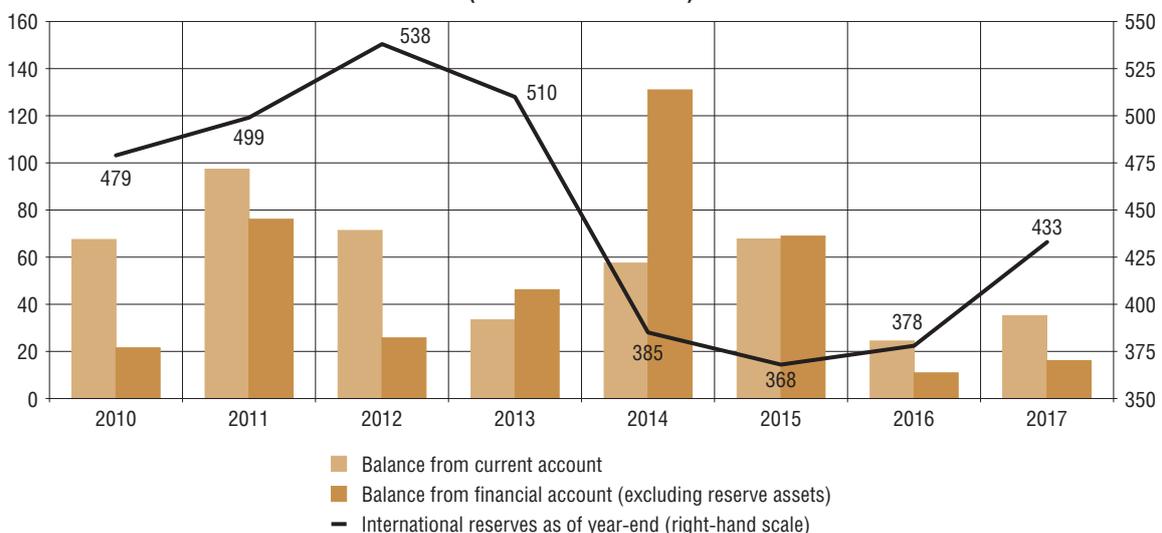
**Merchandise exports** increased to \$353.0 billion and exceeded the level of 2016 by one quarter. The exports' dynamics were largely influenced by the price factor. The export prices deflator was 1.23, with crude oil and petroleum products prices growing most rapidly (by 27.7% and 33.1% respectively). As a result, the price index of the four main fuel and energy products<sup>1</sup>

in 2017 reached 1.26. An 18.5% increase in global prices for other Russian export commodities was the main factor of growth in their export value. Merchandise exports in kind increased by 2.2% due to non-energy commodities, while the export quantities of hydrocarbons remained at a level close to that of 2016.

All consolidated merchandise export groups showed positive dynamics in terms of value. Exports of fuel and energy products grew the most (by 27.2%, to \$211.4 billion), as a result of which their share in merchandise exports reached 59.2% (against 58.2% in the preceding year). Exports of ferrous and non-ferrous metals, including products made thereof, increased by 29.4% to \$37.3 billion, and their share reached 10.4%. Exports of machinery and equipment grew by 14.9% to \$28.1 billion, and the share of the group represented 7.9% (8.6% in the preceding year). Exports of food products and raw materials for their production increased by 21.3% to \$20.7 billion, while their share in merchandise exports decreased to 5.8% (from 6.0%). Exports of chemicals grew by 15.0% reaching \$23.9 billion, while the share of the group declined to 6.7% (from 7.3%).

Despite a significant increase in the value of energy supplies, the share of their main consumers, the EU countries, in the geographical breakdown of Russian exports decreased by 1 pp to 44.7%. Meanwhile, the

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



<sup>1</sup>Crude oil, petroleum products, natural gas, and liquefied natural gas.

share of exports to APEC countries grew to 24.2% (from 23.6%). The share of exports to EAEU states also increased reaching 9.4% (from 9.0%). The largest export volumes of Russia's goods went to China (10.9%), the Netherlands (10.0%), Germany (7.2%), Belarus (5.2%), and Turkey (5.1%).

**Merchandise imports** in 2017 grew to \$238.0 billion, which is 24.2% higher than the 2016 outcome. Import dynamics were determined by both the increase in import quantities by 16.8% and the growth in prices for imported goods by 6.4%.

The recovery of the Russian economy ensured an increase in imports of investment goods – machines, equipment, and vehicles – by 28.1% to \$110.3 billion. The share of the group in the import composition grew to 48.6% (from 47.2% in 2016). An increase in supplies of equipment and ground means of transport made the biggest contribution. Imports of metals increased by 36.9% with their share rising to 6.9% (from 6.3%). Against the background of outpacing growth in machinery and metal imports the shares of other commodities in the import composition mostly declined. Thus, despite an increase in imports of chemicals and products of related industries by 19.0% to \$40.3 billion, the share of the group fell to 17.7% (from 18.6% in 2016). Imports of food products, including raw materials for their production, grew by 15.1% to \$28.8 billion, while the share of the group dropped to 12.7% (from 13.7%).

The geographical breakdown of merchandise imports did not change much from that in 2016, with APEC countries accounting for 40.4%, EU for 38.3%, and EAEU for 7.7%. Russia's most important trading partners were China (21.2%), Germany (10.7%), the USA (5.5%), Belarus (5.2%), and Italy (4.5%).

The deficit in the **balance on external trade in services** grew by 29.3% to \$31.1 billion due to a significant increase in the volume of imported services.

**Exports of services** increased to \$57.8 billion, or by 14.4%. The value of transport services grew to \$19.8 billion (from \$17.1 billion in 2016). The increase in the value of services rendered under the 'Travel' item by \$1.2 billion to \$8.9 billion was explained by growth in dollar terms of nonresidents' spending associated with their stay in Russia. Demand for other services provided to nonresidents expanded to \$29.1 billion (from \$25.6 billion in 2016) largely owing to construction and computer services.

**Imports of services** grew to \$88.9 billion, or by 19.2%. The aggregate's dynamics were shaped by the

outpacing recovery of residents' spending recorded under the 'Travel' item (growth by 29.7% to \$31.1 billion), mostly due to an increased number of trips abroad of Russian citizens. Imports of other services in 2017 expanded to \$43.4 billion (against \$38.8 billion in 2016), mainly in the segment of architectural, engineering, and other technical services, and charges for the use of intellectual property. The volume of services provided by foreign transport companies grew to \$14.5 billion (from \$11.8 billion) owing to residents' demand for air transport services.

The deficit in the **balance on compensation of employees** expanded by one quarter reaching \$2.3 billion. The value of compensation of nonresident employees changed from \$5.5 billion to \$6.4 billion following the increase in the dollar equivalent of their wages, despite the reduction in the number of migrants employed for less than one year in the economy of the Russian Federation. Compensation of employees receivable by Russian citizens working abroad reached \$4.1 billion (against \$3.7 billion in the preceding year).

The deficit in the **balance on investment income** widened from \$33.7 billion to \$37.3 billion. The deficit in other sectors' investment income reached \$37.7 billion in 2017 from \$36.9 billion a year earlier as a result of a predominant growth in income payable. The surplus in the balance on investment income of the banking sector fell to \$0.9 billion from \$3.4 billion in 2016 due to the reduction of receipts from nonresidents.

The deficit in the balance on secondary income in 2017 expanded by \$2.9 billion reaching \$9.2 billion as a result of growth in personal transfers paid to nonresidents.

**The capital account** was virtually balanced.

**Net lending to the rest of the world (combined balances from current and capital accounts)** in 2017 grew to \$34.9 billion (from \$23.6 billion in 2016). The net lending-to-GDP ratio increased from 1.8% in 2016 to 2.2% in 2017.

**Net lending to the rest of the world as reflected in the financial account** (excluding reserve assets) totalled \$16.1 billion in 2017 growing from \$10.9 billion in 2016.

**External liabilities** increased by \$1.2 billion (compared to a decline by \$6.2 billion in 2016).

General government's foreign liabilities increased by \$15.1 billion (against \$4.5 billion in 2016) mainly due to the acquisition by nonresidents of sovereign securities denominated in Russian rubles in the secondary market.

External liabilities of central bank increased by \$1.3 billion (against \$0.4 billion in 2016) as a result of repo transactions with nonresident banks.

The net reduction in private sector liabilities in 2017 amounted to \$15.2 billion (\$11.1 billion a year earlier).

Foreign liabilities of the banking sector declined by \$29.3 billion (against a reduction by \$27.1 billion in 2016).

In contrast, external liabilities of other sectors grew by \$14.1 billion (by \$16.0 billion in 2016). Direct investment grew by \$26.4 billion (against a gain of \$30.9 billion in 2016). As a result of transactions with the financial instruments of Russian issuers, their volume in foreign investors' portfolios contracted by \$4.5 billion, while the value of the aggregate was close to zero in 2016. Net repayment of external loans by other sectors shrank to \$8.6 billion (from \$13.6 billion in 2016).

**Financial assets**, excluding reserve assets, grew by \$17.3 billion in 2017 (from \$4.6 billion in 2016).

Foreign claims of general government and central bank increased by \$3.1 billion (against \$0.9 billion in 2016).

The net increase in private sector's financial assets<sup>1</sup> in 2017 totalled \$13.4 billion (\$2.8 billion in 2016).

Foreign assets of banks dropped by \$4.4 billion against a reduction by \$28.3 billion in 2016.

Net acquisition of financial assets by other sectors fell to \$17.8 billion (from \$31.1 billion in 2016)<sup>1</sup>. An al-

most twofold increase in investment in foreign assets in the form of direct investment to \$37.8 billion was shaped primarily by contributions to the equity of foreign companies. The volume of cash foreign currency as a result of transactions of other sectors with nonresidents decreased by \$6.0 billion (against a decline by \$4.7 billion in 2016), which was associated, inter alia, with the increased imports under the 'Travel' item. The amount of fictitious transactions<sup>2</sup> continued to decline not exceeding \$0.4 billion.

**Net private capital outflows** in the reporting year totalled \$24.8 billion (\$18.4 billion in 2016), which was due to the reduction in foreign liabilities by the banking sector while the influence of other sectors' transactions remained neutral.

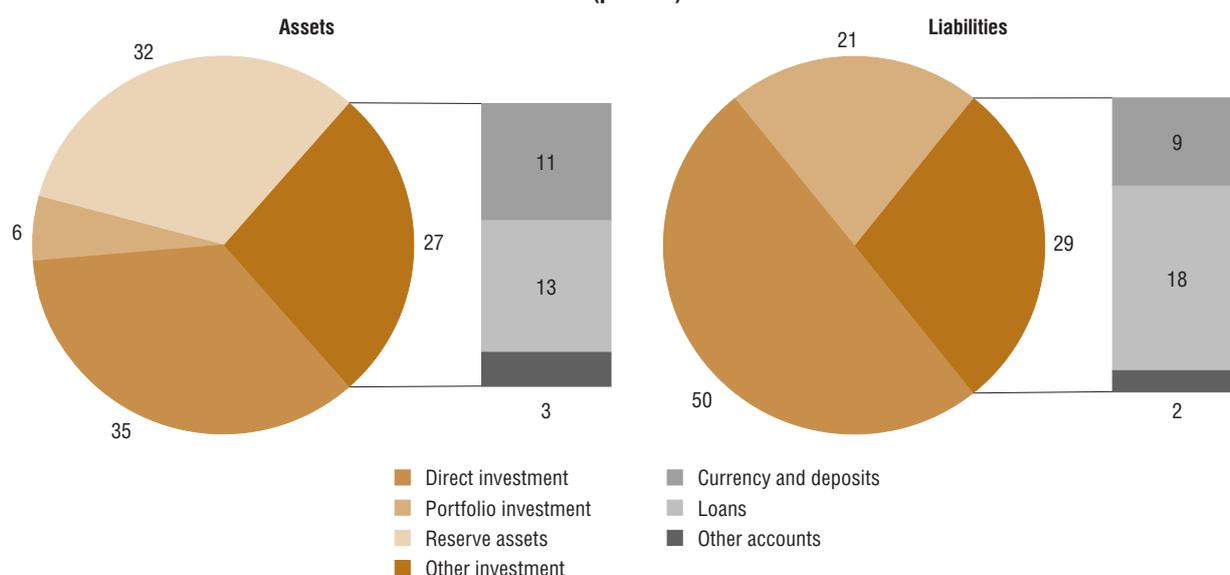
### International investment position

The volume of foreign assets of the Russian Federation as of 31 December 2017 totalled \$1,341.2 billion, gaining in the course of 2017 \$108.4 billion, or 8.8%.

The changes were mostly determined by a positive revaluation in the amount of \$53.0 billion against the background of the weakening exchange rate of the US dollar vis-a-vis other currencies. External assets grew by \$39.9 billion as a result of transactions.

Reserve assets increased by \$55.0 billion reaching \$432.7 billion, and direct investment abroad gained

International investment position as of 31 December 2017  
(percent)



<sup>1</sup> Excluding debt for supplies under intergovernmental agreements.

<sup>2</sup> Fictitious transactions include those with the attributes of fictitious transactions related to foreign trade in goods and services, securities trading, lending to nonresidents, and money transfers to residents' own accounts abroad for the purpose of cross-border money transferring.

\$52.8 billion totalling \$470.9 billion. Portfolio investment grew insignificantly (by \$1.8 billion) and amounted to \$73.9 billion. Within other investment, totalling \$358.8 billion as of 31 December 2017, growth in other sectors' balances on deposit and in cash foreign currency compensated lower claims on nonresidents under other financial instruments.

External liabilities of the Russian Federation totalled \$1,073.4 billion as of 31 December 2017, as compared with \$1,021.4 billion as of 31 December 2016. The increase was mostly due to a positive revaluation of \$54.0 billion.

Direct investment liabilities gained \$57.5 billion over the year reaching \$535.2 billion. The volume of portfolio investment from abroad grew by \$14.8 billion to \$230.8 billion, which was caused by foreign investment in Russian sovereign securities along with reduced liabilities under equity instruments. Other investment liabilities declined by \$18.4 billion to \$302.9 billion, resulting from the reduction of indebtedness of the banking sector to nonresidents on deposits.

In the course of 2017 the outpacing growth of foreign assets led to an increase of the net international investment position of the Russian Federation by \$56.3 billion, or by 26.6%, to \$267.8 billion.

### International reserves of the Russian Federation

International reserves of the Russian Federation in 2017 increased from \$377.7 billion to \$432.7 billion.

The increase in international reserves resulting from transactions recorded in the balance of payments totalled \$22.6 billion (against \$8.2 billion a year before), which was caused by both the acquisition of foreign currency in the domestic market within the framework of the fiscal policy mechanisms associated with the preparation for the transition to new budgetary rules and the repayment by Russian credit institutions of earlier received loans.

Positive exchange rate and market revaluations in the amount of \$24.8 billion were shaped as a result of the weakening of the US dollar in the international FX market and the respective increase in the dollar equivalent of reserve assets denominated in other currencies, and also as a result of increased gold prices.

The value of monetary gold as of 31 December 2017 amounted to \$76.6 billion. The stock of gold gained \$16.5 billion in terms of value, representing a 27.3% increase, which was determined by a cumulative effect of

positive revaluation (by \$7.4 billion) and a record-high replenishment of Bank of Russia holdings in physical terms (by \$9.0 billion). The share of gold in the international reserves grew from 15.9% as of the beginning of the year to 17.7% as of 31 December 2017.

As of 31 December 2017, the volume of international reserves was sufficient to finance the import of goods and services for 16 months (17 months as of 31 December 2016).

### External debt

The external debt of the Russian Federation as of 31 December 2017 totalled \$518.9 billion, increasing by \$7.2 billion, or by 1.4%, in the course of the year.

External liabilities of private sector stood at 86.5% of the total external debt of the Russian Federation (\$448.6 billion as of 31 December 2017). The share of liabilities of general government and central bank reached 13.5% (\$70.3 billion).

Indebtedness of the federal government grew by \$16.7 billion reaching \$55.6 billion. The liabilities assumed by the Russian Federation as a successor of the former USSR contracted by \$0.3 billion. Within the new Russian debt, growth was registered both in the segment of sovereign debt negotiable instruments denominated in Russian rubles (by \$13.7 billion) and in securities denominated in foreign currencies (by \$3.4 billion). External debt liabilities of local government of the Russian Federation remained virtually unchanged amounting to \$0.2 billion.

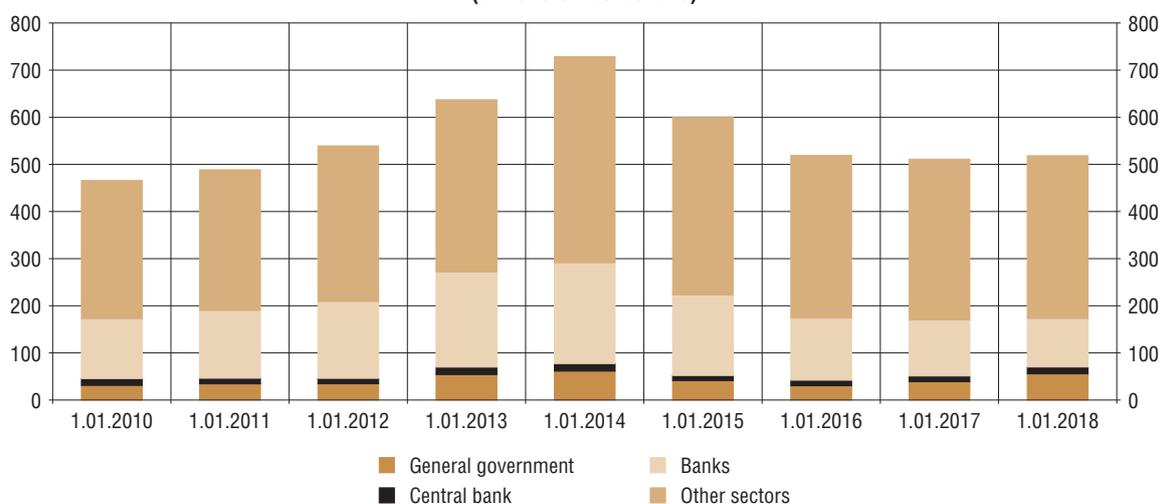
Payments to repay and service the external debt of general government grew to \$4.4 billion (from \$3.6 billion in 2016).

In the total, external debt of central bank amounting to \$14.5 billion, liabilities to the IMF under the special drawing rights (SDR) allocated to the Russian Federation represented 55.8%; indebtedness under repo transactions with nonresidents accounted for 31.0%; and Russian rubles in cash, accounts and deposits held by nonresidents contributed 13.2%.

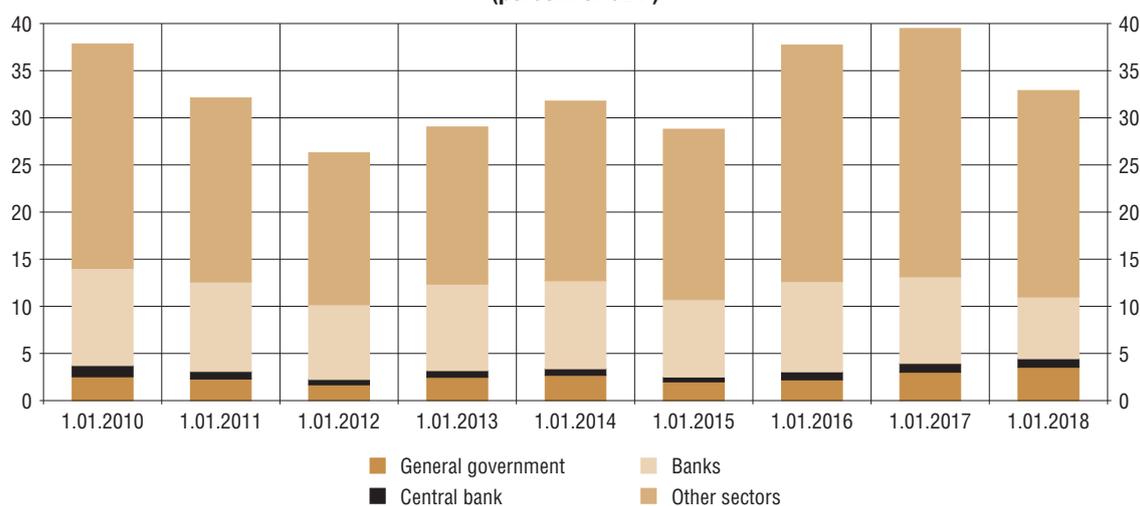
External debt liabilities of banks in 2017 contracted by \$16.0 billion, or by 13.4%, to \$103.4 billion. The external debt of other sectors decreased by \$4.1 billion to \$345.2 billion.

During 2017, the share of short-term liabilities in total external debt grew from 10.0% to 10.9% amounting to \$56.3 billion, while the share of long-term liabilities fell to 89.1% (\$462.5 billion). External debt denominated in Russia's currency was registered in the

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



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



amount of \$137.4 billion; its share grew from 21.6% to 26.5%, and debt denominated in foreign currencies totalled \$381.4 billion.

As of 31 December 2017, according to international criteria, the debt burden on the Russian economy

remained moderate with the external debt-to-GDP ratio declining to 33% (from 40% as of the beginning of 2017), while general government's external debt liabilities to GDP ratio rose to 4% (from 3% as of the beginning of 2017).

## I.2. THE FINANCIAL SECTOR

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

In 2017, given the expanded demand of the economy for funds, growth in lending and money supply accelerated somewhat amid the recovery of production, investment, and consumer activity. De-dollarisation<sup>1</sup> of bank deposits continued as a result of the growing attractiveness of ruble investments.

Over 2017, money supply in the national definition (the M2 aggregate) rose by 10.5% (by 9.2% over 2016). Growth in broad money in 2017 stood at 7.4% (vs. a decline by 0.9% in 2016 due to the revaluation of foreign currency deposits). Excluding the factor of foreign currency revaluation, the increase in the M2X monetary aggregate was 8.6% vs. 4.0% in 2016.

The main contribution to M2X growth was made by an increase in retail and corporate ruble deposits.

Ruble-denominated household deposits grew by 12.6%, while FX deposits in dollar terms decreased by 2.2%. The deposits dynamics were influenced by the

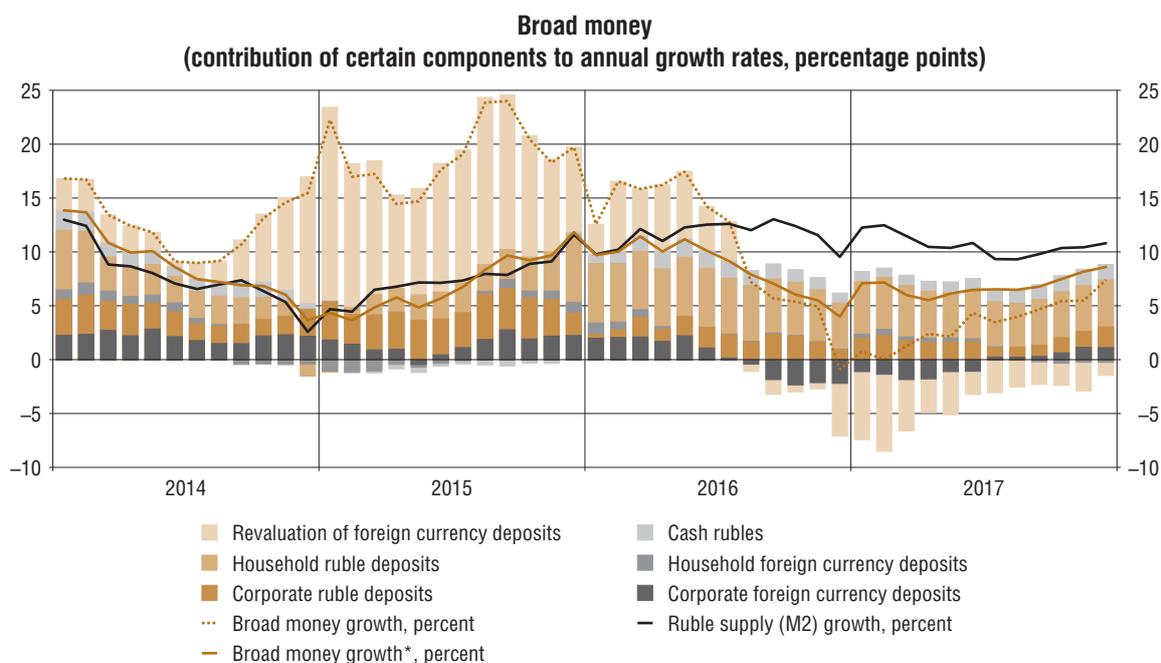
retention of rather attractive real interest rates on ruble-denominated deposits.

In 2017, corporate deposits, both in rubles and foreign currency, grew at a comparable pace: corporate FX deposits in dollar terms grew by 9.0%, and corporate deposits in rubles grew by 7.9%.

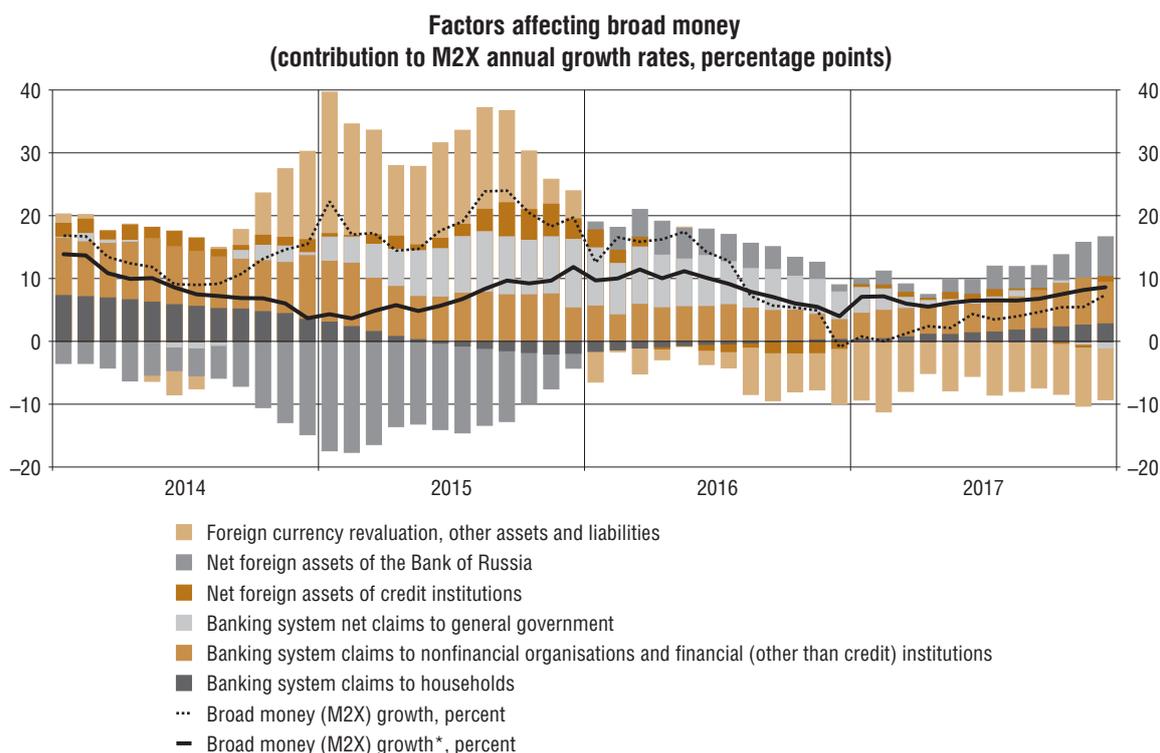
In 2017, the dollarisation of corporate and household deposits decreased from 28.1% to 25.8% as of 1 January 2018, including from 23.1% to 19.9% for household deposits and from 34.4% to 33.4% for corporate deposits. Dollarisation declined primarily due to the reduced balances of accounts denominated in foreign currency rather than foreign currency revaluation.

The replacement of foreign currency deposits with ruble deposits may, in particular, testify to increasing trust in the national currency.

Lending to the economy was the main source of broad money growth in 2017. Easy bank lending conditions, primarily due to the decline in interest rates, were



<sup>1</sup> The dollarisation of bank deposits (loans) means the share of deposits (loans) in foreign currency in the total amount of banking sector deposits (loans). Accordingly, dollarisation as a process means the increase in the share of deposits (loans) in foreign currency in the total amount of deposits (loans), while de-dollarisation means its decline.



conducive to lending growth. Lending to the economy by the banking system<sup>1</sup> increased by 8.2% from the beginning of the year (or by 9.1%, net of foreign currency revaluation). Ruble-denominated claims of the Russian banking system on corporates in 2017 grew by 13.6% (by 10.8% in 2016), and the increase in ruble-denominated claims on households amounted to 12.7% (compared to 2.1% in 2016). Furthermore, the total claims on households and corporates in foreign currency in dollar terms shrank by 10.5% (compared to 12.7% in 2016).

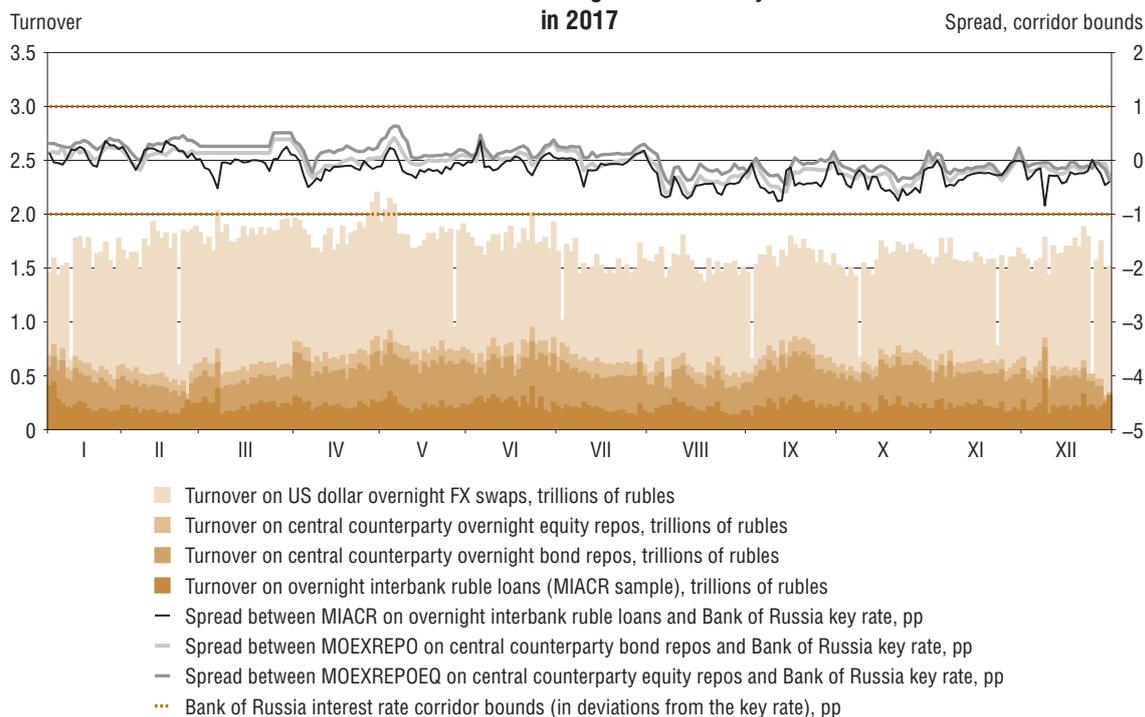
In the first half of the year, a contribution to the annual growth of the M2X aggregate was also made by the banking system's net claims on the general government amid federal budget deficit financing from the Reserve Fund. Starting from the second half of 2017, the contribution of Bank of Russia net foreign assets to M2X growth increased largely due to the replenishment of the National Wealth Fund (see Subsection I.1.3 for details).

The rates on overnight ruble-denominated interbank loans (IBLs) in the **money market** in 2017 were close to the Bank of Russia key rate. The factors behind a signif-

icant liquidity inflow in 2017 were expenditures from the Fund of Banking Sector Consolidation and the transfer of funds by the state corporation Deposit Insurance Agency (DIA) for bank resolution and to agent banks for compensation of insurance indemnity payments to the depositors of banks whose licences had been revoked and also as a result of the expenditures from sovereign funds to finance the federal budget deficit. The Bank of Russia absorbed the excess liquidity through holding deposit auctions and issuing Bank of Russia coupon bonds (see Subsection II.1.2). Nevertheless, a small negative spread between IBL rates and the key rate was registered in the second half of the year (the money market rates were in the lower bound of the interest rate corridor), which was due to the slow adaptation of banks to a significant liquidity inflow in the second half of the year. The situation with FX liquidity in 2017 H1 remained favourable. This was facilitated by the persistently high supply of foreign currency in the local market and by the inflow of funds to the current account. The repo auctions in foreign currency held by the Bank of Russia also supported the situation.

<sup>1</sup> A loan to the economy from the banking system means all claims of the banking system on nonfinancial organisations and financial institutions and households in the currency of the Russian Federation, foreign currency, and precious metals, including loans extended (including overdue loans), overdue interest on loans, investments of credit institutions in debt and equity securities and promissory notes, other forms of stakeholding in the capital of nonfinancial organisations and financial institutions, and other receivables under settlement operations with nonfinancial organisations and financial institutions and households.

### Spreads between interest rates and Bank of Russia key rate and turnovers in certain segments of money market in 2017



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

In the second half of 2017, given the high demand for foreign currency in the domestic market, the foreign currency supply by individual market participants declined amid the outflow of foreign currency through customers' operations, which finally led to an increased value of dollar borrowings. In December 2017, the Bank of Russia raised the limits of USD/RUB FX swaps, which supported the rates in this segment of the money market.

In 2017, the official US dollar / ruble exchange rate in the **foreign exchange market** decreased by 5.0% relative to 31 December 2016, to ₴57.6002 per dollar; as of 31 December 2017, the euro/ruble exchange rate fell by 7.9% to ₴68.8668 per euro.

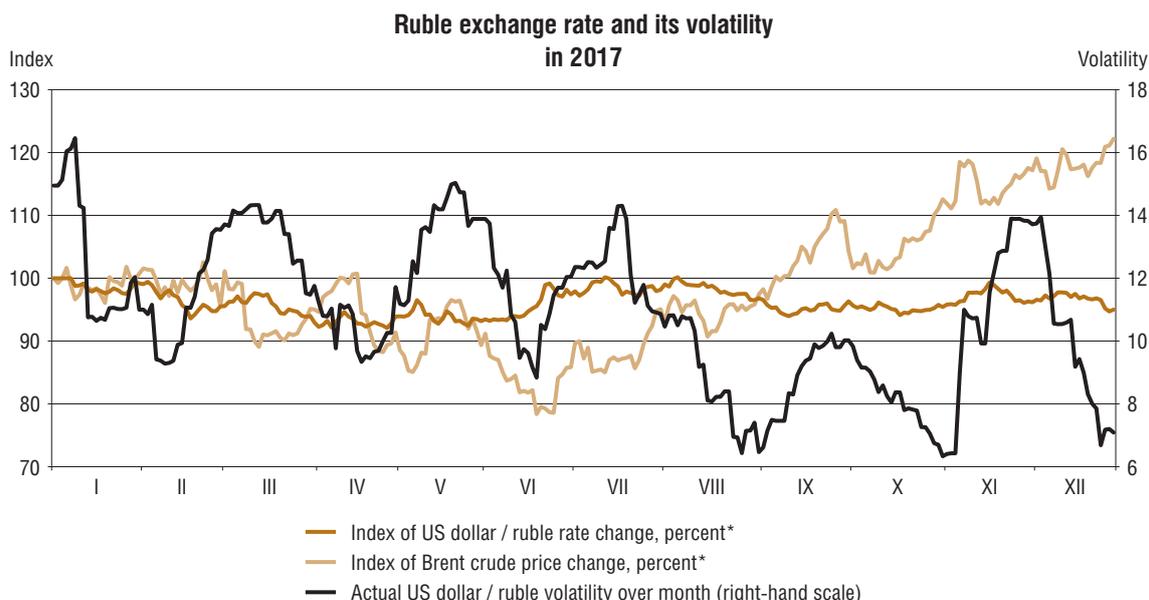
In the beginning of the year, the ruble appreciated against the dollar significantly following the increase in oil prices, which resulted from an agreement on oil production cut by OPEC and some non-OPEC countries. Summer saw a certain weakening of the ruble, which was caused by such factors as the decline in foreign currency sales by exporters and reverse conversion of dividends received by nonresidents to foreign currency. In autumn, the ruble strengthened and remained stable due to the weakening of the dollar against most global currencies. In December, the ruble continued to strengthen amid large purchases of OFZs by nonresidents and large sales of FX earnings by exporters.

Apart from the increase in energy prices and the recovery of foreign investors' interest in Russian assets, the strengthening of the ruble during the year was also facilitated by the retention of a positive interest rate differential against rates abroad and by the weakening of the US dollar against the major global currencies at certain periods. The increase of the federal funds rate by the US Fed in March, June, and December 2017 exerted a certain downward pressure on the ruble exchange rate.

Thanks to the introduction of the fiscal rule and the significant influence of factors not associated with commodity market conditions on the exchange rate (such as global demand for risk, actions of the US Fed, and uncertainty about sanctions), the ruble's resilience to oil prices continued to decline. The ruble exchange rate volatility decreased moderately and was close to the level of summer 2014.

Amid the decline in the exchange rate volatility, the activity of foreign exchange traders subsided a little. The average daily trading turnover in the spot segment of the FX market for the USD/RUB and EUR/RUB pairs decreased in 2017 by 15% compared to 2016, to \$5.1 billion.

In 2017, the **bond market** was characterised by the high activity of its participants amid the improved foreign economic environment, investors' growing risk



\* Indicators as of 3 January 2017 equal 100 percent.  
Source: Thomson Reuters.

appetite, the decreased ruble exchange rate volatility, the slowing inflation, and the reduced Bank of Russia key rate.

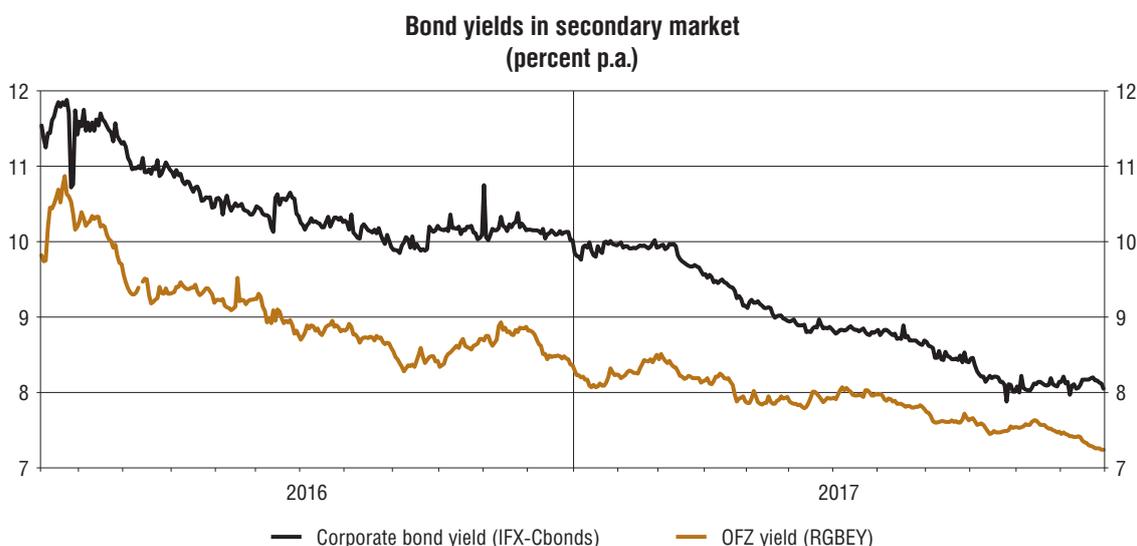
The Russian Ministry of Finance placed a record-breaking amount of various OFZs (with a par value of ₹1,688 billion) in the primary government securities market.

In 2017, despite geopolitical fluctuations, foreign investors' interest in OFZs rose. This was facilitated to a large extent by the stabilisation of the macroeconomic situation in Russia and by the implementation of a consistent monetary and fiscal policy. OFZ purchases by nonresidents in the primary market amounted to 64.0%

of OFZ portfolio growth. Household investments in OFZs became very popular. Their purchases reached ₹92.9 billion, having increased 3.3-fold as compared to 2016. This was associated with the improved availability of investments in bonds owing to the OFZ-n issue by the Russian Ministry of Finance and more attractive yields as compared to deposits.

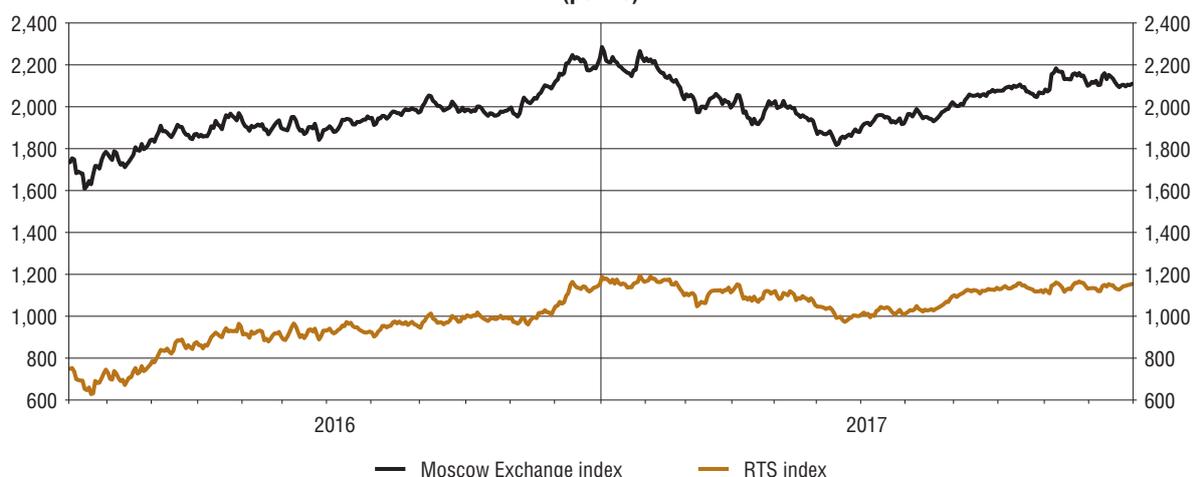
The market portfolio of outstanding OFZ issues increased by 20.0% in 2017 to ₹6.6 trillion<sup>1</sup> at face value.

The market portfolio of the corporate bond issues outstanding in the domestic market grew by 21.0% in 2017 as compared to 2016 and amounted to ₹11.4 trillion at face value.



<sup>1</sup> Including the OFZ issues (totalling ₹861.3 billion) transferred by the state corporation Deposit Insurance Agency (DIA) to 34 Russian banks in May 2015 – June 2017.

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



Secondary trading volumes in OFZs on PJSC Moscow Exchange rose by 30.4% to ₪6.5 trillion and those of corporate bonds decreased by 5.3% to ₪4.0 trillion.

The yields of government and corporate bonds continued to decline influenced by the implemented and expected decrease in the Bank of Russia key rate and the slowing of inflation. OFZ yields (RGBEY index<sup>1</sup>) decreased from 8.36% p.a. at the end of 2016

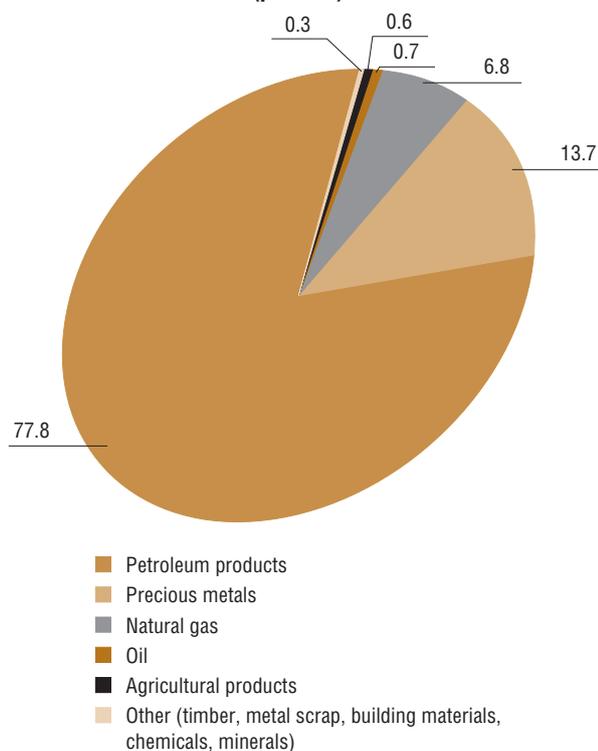
to 7.24% p.a. at the end of 2017, and corporate bond yields (IFX-Cbonds index<sup>2</sup>) fell from 10.02% p.a. to 8.05% p.a. respectively.

In April 2017, the Ministry of Finance fully repaid its external bonded loan maturing in 2017 (\$2.0 billion); in June 2017, a new issue of Russian sovereign Eurobonds maturing in 2027 and 2047 for a total of \$3.0 billion at face value was placed; in September, Eurobonds maturing in 2030 were partially repaid earlier through exchange for the new issues of Eurobonds maturing in 2027 and 2047 (the additional issue amounted to a total of \$3.9 billion at face value). At the end of 2017, the portfolio of outstanding Russian sovereign Eurobonds grew by 1.6% as compared to the end of 2016 to \$38.2 billion at face value. The issuers of corporate Eurobonds also took advantage of the favourable situation and stepped up placement of such securities in 2017.

Activity in the stock market was somewhat weaker than in the bond market. At the end of 2017, the RTS index (calculated based on the prices of shares denominated in US dollars) grew by 0.2% due to the ruble appreciation, and the MOEX index<sup>3</sup> (calculated based on the prices of shares denominated in rubles) decreased by 5.5%. The Russian indices declined in the first half of 2017, which was caused by a lower probability of softening of anti-Russian sanctions and a decline in investors' expectations of high dividends of public companies, while in the second half of the year they grew gradually due to the growing risk appetite and oil prices.

Stock market capitalisation on PJSC Moscow Exchange in ruble terms decreased by 5.0% over

### Structure of organised commodity trading in 2017 (percent)



<sup>1</sup> The indicator of the effective yields of government bonds calculated by PJSC Moscow Exchange.

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

<sup>3</sup> On 27 November 2017, PJSC Moscow Exchange changed the name of its MICEX index to the MOEX index.

2017 to ₹35.9 trillion. The turnover of secondary trading in stocks and Russian depositary receipts on PJSC Moscow Exchange in 2017 lost 0.3% compared to 2016 and amounted to ₹9.1 trillion.

Nevertheless, the recovery of economic growth, the improved foreign economic situation, and the reduction in deposit rates and bond market rates create the potential for further stock market growth.

In 2017, organised commodity trading took place on six exchanges. The total volume of trading in 2017 (in monetary terms) increased by approximately 20% relative to 2016, to ₹886 billion, which corresponds to 0.96% of Russia's GDP for the year. The structure of the organised commodity market did not undergo considerable changes.

Over the reporting period, the following commodity groups were traded in the commodity markets: petroleum products, precious metals, natural gas, oil, farm produce, timber, construction materials, ferrous and non-ferrous metals, and other commodities. The petro-

leum product segment continued to prevail in the trading structure in 2017, as in 2016, and showed a significant 23% growth over the reporting period reaching ₹689 billion, which corresponds to almost 78% of the total trading volume (76% in 2016). The trading volume in the natural gas segment also increased by 30%, as a result of which the volume of natural gas sales by PJSC Gazprom in organised trading actually reached its maximum permissible value of 17.5 billion cubic meters a year<sup>1</sup>.

The trading structure underwent changes largely due to an increased volume of trading in the groups of goods in highest demand and in farm produce. The latter's share grew from 0.01% in 2016 to 0.6% in 2017.

The exchange mechanisms of price setting for commodity assets are being developed and are gradually covering new commodity groups, which is evidenced by the launch of trading in mineral fertilisers and timber in the Perm Territory.

<sup>1</sup>Resolution of the Government of the Russian Federation No. 323, dated 16 April 2012, 'On Selling Natural Gas in Organised Trading and Amending Resolutions of the Government of the Russian Federation Regarding the Government Control of Gas Prices and Access to the Gas Transport System of Gazprom Joint Stock Company'.

## I.2.2. Financial market participants

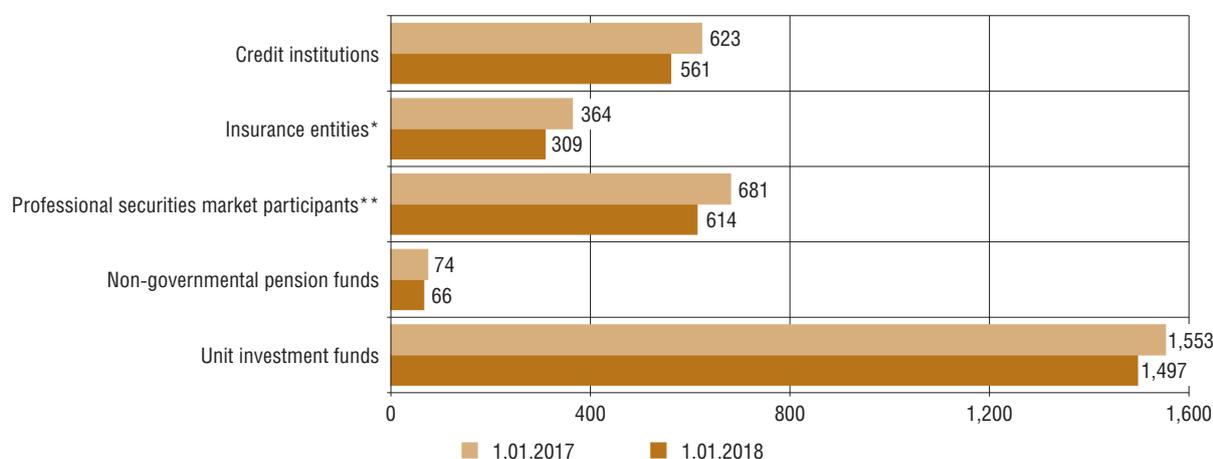
### I.2.2.1. Financial institutions

Credit institutions continued to dominate the Russian financial sector in terms of assets despite the presence of a substantial number of nonbank financial institutions (see Table 9, Section V.4 Statistical Tables). In 2017, the ratio of banking sector assets to GDP exceeded 90%, while that of other major finan-

cial market participants<sup>1</sup> assets was slightly above 10%.

In 2017, households and businesses continued to give preference to comprehensive banking services. Nevertheless, services of nonbank financial institutions were in great demand.

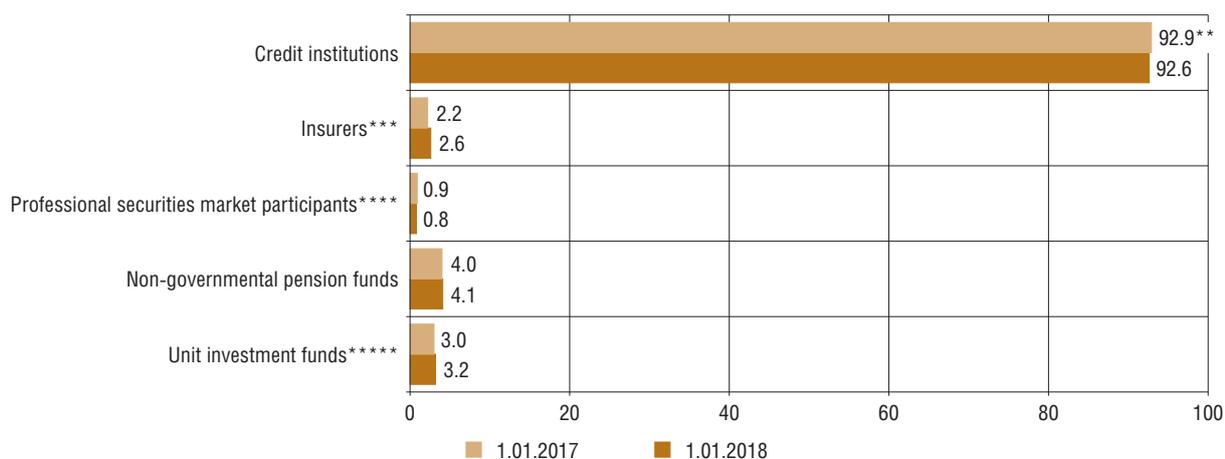
**Number of major financial market participants  
(units)**



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

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

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



\* Assets taken into account based on 2017 results; for credit institutions – according to statements as of 1 January 2018, for insurers, non-governmental pension funds, unit investment funds and professional securities market participants – according to statements as of 31 December 2017.

\*\* Here and below, the indicator as of the beginning of 2017 differs from the indicator used in Bank of Russia Annual Report for 2016, due to the update of GDP data.

\*\*\* Insurers comprise insurance companies and mutual insurance companies.

\*\*\*\* Taking into account nonbank financial institutions which are professional securities market participants.

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

<sup>1</sup> Insurance entities, non-governmental pension funds, professional securities market participants, and unit investment funds.

## Credit institutions

In 2017, the banking sector functioned against the backdrop of gradual economic activity recovery: a number of sectors were growing at a rapid pace, real wages went up, and signs of reinvigorated demand were observed. The situation in the banking sector also stabilised. The capital reserve was evaluated as sufficient to further increase lending and develop the banking sector. A smooth reduction in the key rate and the cost of funding made a favourable impact on the financial indicators of the banking sector.

The loan portfolio quality was observed to improve. During the year, overdue loans did not change significantly and remained at a consistently low level. Adequate provisions were made for bad loans. The reserves dynamics were influenced by the formation of additional provisions for possible losses in respect of troubled assets of banking groups whose parent companies are undergoing financial rehabilitation using money from the Fund of Banking Sector Consolidation.

Relative indicators of the banking sector were impacted by the ruble exchange rate dynamics and the revocation of licences of a number of credit institutions. Therefore, to more accurately reflect the actual

dynamics of the main indicators of the banking sector, the data in this section are given net of the influence of the exchange rate for credit institutions operating as of 1 January 2018 (including banks that were restructured during the year).

The ongoing inflow of household savings to banks, indicating the continued trust of the population in banks, was also a positive characteristic of the year 2017.

Banking sector assets in 2017 increased by 9.0% to ₹85.2 trillion (in 2016, they grew by 3.4%). Due to the less significant increase in assets in nominal terms as compared to GDP dynamics, the ratio of banking sector assets to GDP changed from 92.9% to 92.6% over the year.

In 2017, the total assets of systemically important credit institutions (SICIs) increased by 10.6% to ₹55.3 trillion, inter alia, due to the inclusion of PJSC MOSCOW CREDIT BANK on their list (net of this credit institution, the total assets in 2017 increased by 6.8%).

**Credit institution liability structure.** The banking sector funding in 2017 remained balanced. Household deposits took the lead as a source of funding: their share in bank liabilities exceeded the share of corporate funds (30.5% and 29.2% respectively as of 1 January 2018).

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



\* For loans extended to resident legal entities and individual entrepreneurs, excluding loans to complete settlements. Here and below, lending indicators broken down by economic activity take into account data of the State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank).

Total household deposits<sup>1</sup> in 2017 increased by 10.7% (by 11.8% in 2016) to ₺26.0 trillion. The share of Sberbank in the household deposit market decreased slightly in 2017, from 46.6% to 46.1%. The total amount of corporate deposits and funds in accounts in 2017 grew by 4.8% to reach ₺24.8 trillion of 1 January 2018.

The share of the foreign currency component decreased in 2017 from 23.7% to 20.6% for household deposits and from 40.5% to 36.7% for corporate deposits and funds in accounts.

The amount of corporate deposits and funds in accounts in SICs increased over 2017 by 5.6% to ₺17.7 trillion, and the amount of household deposits grew by 11.6% to ₺16.9 trillion.

Against the backdrop of structural liquidity surplus, credit institutions reduced their borrowings from the Bank of Russia significantly (by 25.7%). The decline in the share of these funds in bank liabilities from 3.4% to 2.4% demonstrates that banks mostly used market sources of funding. The amount of funds that the Federal Treasury placed in bank deposits tripled over 2017, and their share in banking sector liabilities increased from 0.4% to 1.2%.

A smooth reduction in the Bank of Russia key rate facilitated the decrease in the weighted average interest rate on ruble deposits of nonfinancial organisations with maturity of over one year from 9.0% p.a. in January to 7.5% p.a. in December 2017, and on household ruble deposits, from 7.8% to 6.4% respectively.

The banking sector's liabilities in foreign currency (in dollar terms) decreased by 7.1% over 2017, and their share in total banking sector liabilities decreased to 21.8% (26.5% as of 1 January 2017).

**Credit institution asset structure.** The total amount of lending to nonfinancial organisations and households increased in 2017 by 6.2% (in 2016 it decreased by 0.8%) to ₺42.4 trillion.

The amount of such lending to SICs increased by 8.7% to ₺31.4 trillion.

The debt on loans and other funds placed with nonfinancial organisations increased by 3.7% in 2017 for the banking sector as a whole (in 2016 it decreased by 1.8%), to ₺30.2 trillion. The share of these loans in

banking sector assets contracted from 37.6% to 35.4% over 2017.

In 2017, the SME lending market showed signs of recovery for the first time since 2014. The total amount of loans issued to SMEs in 2017 increased significantly (+15.4%)<sup>2</sup>. The amount of debt on bank loans to SMEs increased by 1.3% and amounted to ₺4.2 trillion as of 1 January 2018. This growth resulted from a notable decrease in the SME loan portfolio in August 2017 associated with the exclusion of some borrowers from the Unified Register of SMEs<sup>3</sup>.

Broken down by type of economic activity, loans to manufacturing enterprises accounted for the largest share (26.2% of the corporate loan portfolio as of 1 January 2018 against 21.9% as of 1 January 2017)<sup>4</sup>. The share of loans to wholesale and retail trade enterprises decreased from 15.5% to 7.3% over 2017.

The dynamics of loans to various types of enterprises in 2017 were different. Loans to agricultural and forest enterprises increased by 9.2% over the year. Loans to enterprises involved in mining and quarrying and in operations with real estate, leasing, and provision of services increased significantly (by 24.4% and 27.3% respectively). Meanwhile, the debt on loans extended to construction organisations decreased by 3.8%, and on loans to wholesale and retail trade organisations decreased by 3.6%.

The share of foreign currency loans in total loans to nonfinancial organisations decreased in 2017 from 32.2% to 29.7%, which was caused by growth in ruble lending amid a decrease in foreign currency loans, and the ruble appreciation. The share of the foreign currency component dropped on loans to organisations of all types of economic activity, except for organisations involved in electricity, gas, and water supply. The largest decline in this share was observed in the mining and quarrying enterprises (from 46.4% to 39.9%). Nevertheless, these enterprises retained the highest share of outstanding foreign currency loans, which may be explained by their significant foreign exchange earnings.

Loans to households increased by 13.2% in 2017 (by 2.5% in 2016) to ₺12.2 trillion for the banking sector as a whole. As of 1 January 2018, the segment of household lending accounted for 14.3% of banking

<sup>1</sup> Including savings certificates.

<sup>2</sup> The volume of loans issued to SMEs is given for the entire banking sector, without excluding the influence of foreign currency revaluation and banks whose licences have been revoked.

<sup>3</sup> The Federal Tax Service excluded some legal entities that do not meet the criteria for categorisation as SMEs from the list of SMEs on 10 August 2017 based on reporting data for the previous calendar year (Clause 5, Article 4<sup>1</sup> of Federal Law No. 209-FZ, dated 24 July 2007, 'On the Development of Small and Medium-sized Businesses in the Russian Federation').

<sup>4</sup> For loans issued to resident legal entities and individual entrepreneurs, excluding loans issued to finalise settlements.

sector assets. Foreign currency revaluation affected retail loan growth insignificantly due to the extremely low share of the foreign currency component. After several years of decline, growth in the unsecured consumer loan portfolio started to recover.

Outstanding housing mortgage loans grew by 15.7% in 2017 (by 12.1% in 2016) to ₺5.2 trillion, which was facilitated by government subsidies for the interest rate on these loans. Ruble loans continued to prevail in mortgage lending (99.2%). In 2017, about 1.1 million housing mortgage loans were extended for a total amount of over ₺2 trillion (against 856,000 loans in 2016).

The weighted average interest rate on ruble loans to nonfinancial organisations for terms over one year amounted to 9.4% p.a. in December 2017, which was 3.1 pp less than in January 2017. The rate on ruble-denominated loans to households with the same maturity decreased from 16.2% p.a. in January to 12.9% p.a. in December. The weighted average interest rate on ruble-denominated housing mortgage loans went down from 11.8% p.a. in January to 9.8% p.a. in December.

The securities portfolio increased in 2017 by 9.7% (against 4.4% in 2016) to ₺12.3 trillion and its share in banking sector assets did not change significantly and amounted to 14.5%. Investments in debt liabilities still constituted the largest share (81%) in this portfolio. Equities rose by 41.8%, and their share in the securities portfolio grew from 3.1% to 3.9%.

The securities portfolio of SICIs increased by 13.5% to ₺7.3 trillion during the reporting period.

Given the absence of liquidity problems in banks, credit institutions' claims against the Bank of Russia (on deposits and correspondent accounts) in 2017 grew by 67.6% (by 24.2% in 2016) to ₺4.2 trillion; the share of these claims in banking sector assets increased from 3.2% to 5.0%.

Credit institutions' foreign currency assets (in dollar terms) decreased by 9.0% over 2017, and their share in total banking sector assets contracted to 22.3% (from 27.8% as of 1 January 2017).

**Claims and obligations on interbank loans.** The total IBL portfolio increased in 2017 by 10.0% (against 15.1% in 2016) to ₺9.8 trillion, and their share in banking sector assets remained virtually unchanged during the year and amounted to 11.5%. IBLs extended to resident banks increased by 14.8%, and IBLs extended to nonresident banks decreased by 7.7%.

The amount of IBLs raised grew by 10.5% (by 30.6% in 2016) to ₺9.3 trillion, and their share in banking sector liabilities rose slightly, to 10.9%; IBLs raised from nonresident banks decreased by 21.1% over the year.

At the end of 2017, the Russian banking sector remained a net creditor in operations with nonresident banks: net claims to nonresidents in the IBL market stood at ₺0.8 trillion (₺0.7 trillion a year earlier).

**Banking sector financial results and capital in 2017.** In 2017, the net profit of operating credit institutions stood at ₺789.7 billion<sup>1</sup> (₺929.7 billion in 2016). The decline was due to a significant net additional creation of loss provisions, which increased by ₺768.7 billion, or by 38.7%, in 2017 as compared to 2016. The major part of this amount was covered by a number of large banks which were undergoing financial rehabilitation, including with Bank of Russia involvement.

Net interest income remained the most significant item in banks' financial results: its share in factors contributing to profit growth amounted to 64.2% (66.5% in 2016). In 2017, net interest income decreased by 2.3% to ₺2.6 trillion. The ratio of banks' net interest income to gross interest income rose from 40.9% as of 1 January 2017 to 44.8% as of 1 January 2018 owing to the rapid decline in gross interest income.

Net interest income on operations with individuals grew by ₺65.0 billion, or by 17.5%, over the year. Interest income on household loans decreased by 13.2%, while interest expenditures on operations with households decreased by 21.7%, reflecting the trend towards quicker reduction in interest rates on household deposits than on retail loans.

Net fee income<sup>2</sup> increased in 2017 by ₺32.8 billion, or by 3.7% (by ₺121.0 billion, or by 15.7%, in 2016). The share of this item in the structure of profit growth factors went up from 22.4% to 22.9% over the year.

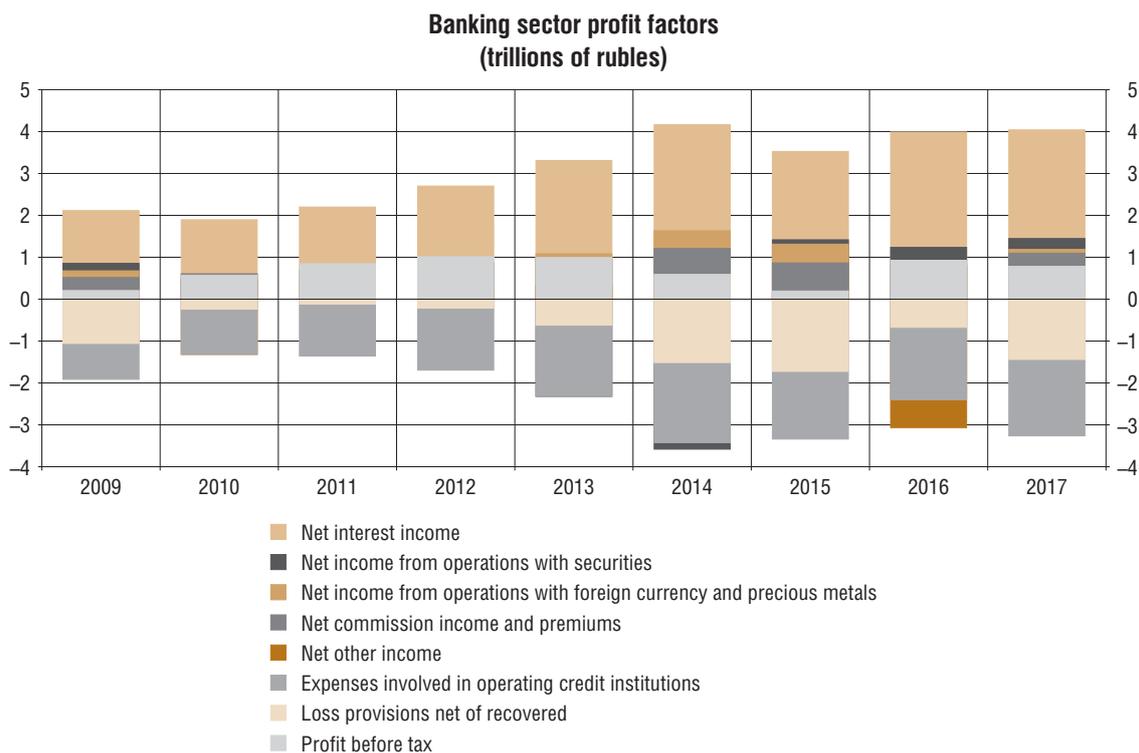
Net income from operations with securities decreased in 2017 by 38.0%; its share in the structure of profit growth factors amounted to 6.4% (10.4% in 2016).

The share of net income from foreign currency operations in the structure of profit growth factors went up from 0.6% to 2.3% over the year.

Net income from other operations of credit institutions also supported the banking sector's financial result. In 2017, this income accounted for 4.2% in the

<sup>1</sup> Before reflecting EARD (events after the reporting date) in reports.

<sup>2</sup> Including fee income/expenditures on operations that yield interest income/expenditures.



structure of profit growth factors (in 2016, net expenditures in the amount of ₹663.7 billion were reported from these operations).

Expenditures related to the activities of credit institutions grew by 5.2% over 2017.

The total profit of SICs in 2017 amounted to ₹917.9 billion; the activity of SICs (except for Bank FC Otkritie PJSC, which is undergoing financial rehabilitation with Bank of Russia involvement) was profitable.

Banking sector profitability decreased somewhat: the return on assets dropped from 1.2% to 1.0% over the year, and the return on equity fell from 10.3% to 8.3%.

Profit-making credit institutions prevailed. Their share grew from 71.4% to 74.9% over the year. As many as 420 credit institutions reported profits totalling ₹1.6 trillion and 140 credit institutions reported losses in the amount of ₹772.0 billion in 2017.

The equity capital of credit institutions remained almost unchanged in 2017 (₹9.4 trillion). The overall increase in total capital was ₹10 billion (+0.1%); Tier I capital, ₹36 billion (+0.5%); and common equity Tier I capital, ₹10 billion (+0.2%).

In 2017, 365 credit institutions augmented their equity capital to total ₹1.3 trillion; 195 credit institutions decreased their capital by ₹1.1 trillion; and 63 credit institutions (with capital of ₹141 billion) ter-

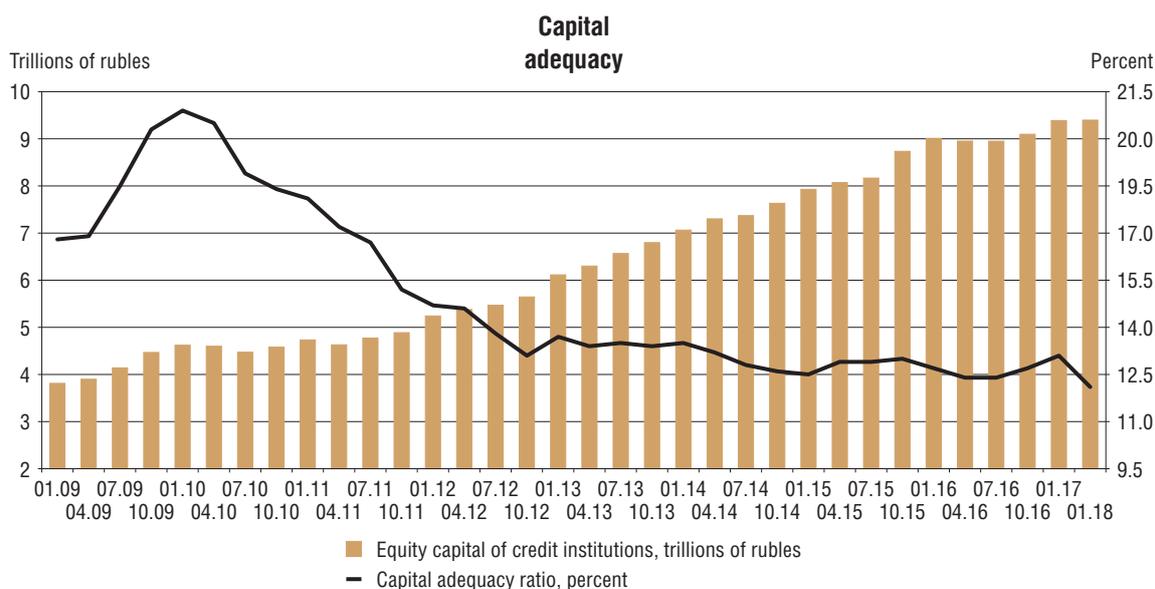
minated their activity for various reasons (licence revocation or cancellation, restructuring). With regard to the credit institutions that decreased their capital, 92% of such decrease was due to banks undergoing bankruptcy-prevention measures as of 1 January 2018. There were 244 credit institutions with capital less than ₹1 billion<sup>1</sup> as of 1 January 2018 (243 as of 1 January 2017).

The banking sector's capital structure underwent some changes, while the amount of capital changed insignificantly. The share of authorised capital and additional paid-in capital increased considerably (from 42% to 47% of total capital), while the share of subordinated debt shrank (from 28% to 25%), and the ratio of the financial result recorded in the capital to the capital remained at 43%.

The banking sector equity capital adequacy ratio (N1.0) decreased from 13.1% to 12.1% over the year. The common equity Tier I capital adequacy ratio (N1.1) dropped from 8.9% to 8.2%, and Tier I capital adequacy ratio (N1.2) fell from 9.2% to 8.5%.

The capital reserve of Russian banks calculated as banks' capital in excess of the level required for them to comply with the capital adequacy ratios and with the capital conservation buffer and the systemic importance buffer remained virtually unchanged at ₹2.2 trillion as of 1 January 2018.

<sup>1</sup> Excluding credit institutions with negative capital.



**Foreign-controlled banks.** There are a large number of foreign-controlled banks operating in the Russian banking sector. The share of these banks in the total number of operating credit institutions grew from 27.9% to 28.5% in 2017, although their number decreased from 174 to 160.

The total amount of investments by nonresidents in the authorised capitals of operating credit institutions decreased in 2017 by ₺3.9 billion, or by 1%, and stood at ₺403.4 billion as of 1 January 2018. The nonresidents' stake in the total paid-in authorised capital of operating credit institutions decreased from 16.57% as of 1 January 2017 to 15.11% as of 1 January 2018<sup>1</sup>.

Foreign-controlled banks' share in the total authorised capital of operating credit institutions, as calculated by the Bank of Russia in accordance with the procedure specified by Article 18 of Federal Law No. 395-1, dated 2 December 1990, 'On Banks and Banking Activities' (hereinafter, Federal Law No. 395-1) was 12.94% as of 1 January 2018 (13.51% as of 1 January 2017).

The number of operating credit institutions with the nonresidents' stake in excess of 50% decreased from 92 to 84 over 2017, while in absolute terms foreign investments in the authorised capitals of such credit institutions increased by ₺3.1 billion. In 17 out of these 84 credit institutions, the nonresident shareholders (participants) were under the control of Russian residents.

## Insurance entities

In 2017, the number of insurance market participants continued to decline. The total number of insurance entities decreased by 15.1% over the year to stand at 309 as of 1 January 2018 (see Table 9, Section V.4 Statistical Tables). The total capital of insurers (insurance companies and mutual insurance companies) in 2017 amounted to ₺605.4 billion<sup>2</sup>, insurance reserves – ₺1,448.5 billion, and net profit<sup>3</sup> – ₺84.0 billion. The total assets held by Russian insurers reached ₺2,429.7 billion. The assets to GDP ratio was 2.64%.

In 2017, demand for insurers' services continued to grow. The insurance premiums collected in 2017 increased by 8.3% to reach ₺1,278.8 billion (₺1,180.6 billion in 2016). The 20 largest insurers accounted for 79.8% of premiums collected in 2017 (78.1% in 2016). Over the year, the number of insurance agreements grew by 15.1% to 193.1 million. Indemnities increased in 2017 by ₺3.9 billion to ₺509.7 billion (+0.8%). The indemnity ratio in the market as a whole in 2017 stood at 39.9%, which was 3.0 pp less than in 2016.

In 2017, life insurance was the key driver of market growth (53.7%). The amount of life insurance premiums grew by ₺115.8 billion to ₺331.5 billion. As a result, the share of life insurance premiums in total premiums increased to 25.9% (from 18.3% in 2016). Growth of indemnities stood at 21.7%, and their volume reached ₺36.5 billion.

<sup>1</sup> The paragraph contains figures of the absolute and relative stakes of nonresidents, net of the adjustments established in Article 18 of Federal Law No. 395-1, dated 2 December 1990, 'On Banks and Banking Activities'.

<sup>2</sup> Here and below, we present statistical data on insurers' activity for 2017 as of 20 February 2018; accounting (financial) data of insurers are given as of 27 March 2018.

<sup>3</sup> Profit is given after taxes.

Compulsory motor third party liability insurance (CMTPLI) premiums decreased in 2017 by ₹12.3 billion to ₹222.1 billion (–5.2% over the year). Nevertheless, the number of CMTPLI policies grew by 0.1% to 38.2 million in 2017. As a result, the average premium decreased by 5.3% to ₹5,800. In 2017, the amount of indemnities under CMTPLI reached ₹175.5 billion. The decline in premiums and growth of indemnities resulted in an increased indemnity ratio under CMTPLI (to 79.0% at the end of 2017).

The amount of premiums for voluntary medical insurance in 2017 was ₹140.0 billion. The number of concluded insurance agreements increased by 7.9% to 11.1 million.

The amount of premiums for land-based transport (excluding railway transport) insurance decreased by ₹8.2 billion to ₹162.5 billion (–4.8% over 2017). Meanwhile, the number of concluded insurance agreements grew by 8.7% to 3.9 million. In 2017, the average insurance premium for land-based transport (excluding railway transport) insurance decreased to ₹41,300 from ₹47,200 in 2016. In 2017, the amount of indemnities under land-based transport (excluding railway transport) insurance fell by 14.5% to ₹83.3 billion.

The amount of insurance premiums under reinsurance agreements decreased by 17.6% over 2017, to ₹108.9 billion. As a result, the share of reinsurers in the total amount of insurance premiums shrank by 2.7 percentage points to 8.5%.

### Non-governmental pension funds (NPFs)

The number of operating NPFs decreased by 10.8% over the year and stood at 66 as of 1 January 2018 (see Table 9, Section V.4 Statistical Tables), over half of which (38 funds) are participants in the system guaranteeing the rights of insured persons and engage in compulsory pension insurance.

The total amount of NPF assets as of 31 December 2017 was ₹3,817.9 billion (+11.6% over the year).

The total amount of pension savings and pension reserves held by NPFs grew by 11.9% over the year to ₹3,677.4 billion. The NPF pension savings portfolio increased by 14.6% to ₹2,467.5 billion, and the pension reserves portfolio increased by 6.9% to ₹1,209.9 billion.

Over 2017, the number of voluntary pension insurance system participants increased by 13.8% to exceed

6 million people. The amount of pension payouts under non-governmental pension provision programmes was ₹59.6 billion, which was 11.4% more than in 2016. As of 31 December 2017, there were 1.48 million recipients of voluntary pensions (3% less than a year earlier). The number of insured persons, who made their savings in funds, increased by 15% over the year to about 34.3 million people as of the end of 2017.

Over 2017, the amount of pension payouts under compulsory pension insurance was ₹8.1 billion, an increase of 44% as compared to the same period of 2016. As of 31 December 2017, almost 432,800 insured persons were receiving a pension, which was 2.6% less than the figure as of 31 December 2016.

### Collective investment market entities (excluding NPFs)

As of 1 January 2018, the number of unit investment funds (PIFs) decreased by 56, to 1,497 funds (see Table 9, Section V.4 Statistical Tables): 1,131 closed-end PIFs, 327 open-end PIFs, and 39 interval PIFs. The number of management companies operating in the collective investment market<sup>1</sup> decreased by 28 to 305 management companies (see Table 9, Section V.4 Statistical Tables).

The number of organisations operating as a specialised depository decreased by 8 to 31 specialised depositories.

In 2017, PIF assets increased by 16.8%<sup>2</sup> to ₹3,311.6 billion, and their ratio to GDP rose to 3.6% as of year-end 2017. Meanwhile, the net asset value (NAV) of PIFs, which reached ₹2,939.0 billion, increased by 13.9%. The biggest investment inflow was observed in closed-end PIFs (an increase of ₹271.7 billion), and their share in the total NAV of PIFs was 92.0%. The NAV of open-end PIFs increased in 2017 by ₹85.3 billion to ₹216.2 billion, and the NAV of interval PIFs increased by ₹2.1 billion over the year to ₹20.3 billion.

In 2017, net investment inflow into PIFs stood at ₹436.3 billion, of which ₹260.0 billion was registered in 2017 Q4. At the end of the year, net investment inflow was recorded by all PIFs: closed-end PIFs – in the amount of ₹362.6 billion, open-end PIFs – ₹72.6 billion, and interval PIFs – ₹1.2 billion.

In 2017, the number of joint-stock investment funds in the market remained unchanged at three funds. A substantial decrease in the NAV of one of the funds

<sup>1</sup> Organisations engaged in the management of investment funds and non-governmental pension funds.

<sup>2</sup> Here and below, the reporting data of the management companies of 1,357 PIFs as of 30 January 2018 are provided.

resulted in the decline of the total NAV by 29% in 2017, to ₺3.2 billion.

### Professional securities market participants

During 2017, the number of credit and nonbank institutions holding licences of professional securities market participants continued to decline. The number of such institutions decreased over the year by 9.8% to 614 institutions as of 1 January 2018 (see Table 9, Section V.4 Statistical Tables).

The total assets of professional securities market participants – nonbank financial institutions (hereinafter, professional participants – NFIs<sup>1</sup>) declined by 9.3% against 31 December 2016 and accounted for ₺708.9 billion as of 31 December 2017.

The equity capital of professional participants – NFIs amounted to ₺123.7 billion as of 31 December 2017.

Liabilities under core activity (short-term loans) decreased by 57.6% in the period under review, to ₺28.3 billion.

Net profit of professional participants – NFIs shrank by 6.6% over the year and stood at ₺33.7 billion as of 31 December 2017.

### Microfinance market participants

The number of microfinance organisations (MFOs) decreased in 2017 by 12.2%, to 2,271 or-

ganisations as of 1 January 2018. Out of this number, 60 organisations operate as microfinance companies (MFCs), and 2,211 as microcredit companies (MCCs). The number of consumer credit cooperatives (CCCs) declined by 12.8% to 2,666 organisations, housing savings cooperatives (HSCs) decreased by 8.7% to 63 organisations, pawnshops by 22% to 5,782, and agricultural CCCs (ACCCs) by 15.5% to 1,242 organisations (see Table 9, Section V.4 Statistical Tables).

In 2017, products offered by microfinance organisations continued to be in high demand. In 2017, 23.5 million microloan agreements were concluded, which was 23.6% more than in 2016. The total amount of microloans issued increased by 31.2% to ₺256.1 billion.

Core assets of MFOs (the loan portfolio) increased by 28% as compared to 31 December 2016 and reached ₺112.8 billion as of 31 December 2017.

During the reporting year, MFOs raised funds in the amount of ₺62 billion.

The amount of debt on microloans written off in the reporting period increased by 34% over the year, to ₺3.9 billion as of 31 December 2017.

The amount of cash funds and the value of other assets received to repay the principal debt under microloan agreements as of 31 December 2017 also increased by 38.3% over the year, to ₺203.8 billion.

Net profit of MFOs in the reporting year amounted to ₺5.3 billion, which was 33.4% less than in 2016.

<sup>1</sup> Here and below, the data of professional participants – NFIs are provided excluding the data of the Agency for Housing Mortgage Lending JSC.

### 1.2.2.2. Financial market infrastructures and other participants

In 2017, the following infrastructures operated in the financial market (see Table 9, Section V.4 Statistical Tables): exchanges, the central depository, repositories, clearing houses, the central counterparty, organisations performing the functions of a central counterparty, commodity delivery operators, the national payment system entities, credit history bureaus, and news agencies accredited to disclose information on securities and other financial instruments.

Due to the issue of a respective licence, in 2017 the number of operating clearing houses increased from five to six, one organisation was assigned the status of a central counterparty, and the number of repositories increased to two. The Bank of Russia accredited two commodity delivery operators. As of 1 January 2018, five commodity delivery operators were accredited. The number of exchanges decreased from eight to seven over 2017. As of 1 January 2018, a central depository, a central counterparty, two organisations performing the functions of a central counterparty, and 32 payment system operators were operating in the financial market.

In 2017, as compared to the previous period, the key performance indicators of **systemically important financial market infrastructures** (SIFMIs) grew. SIFMIs included the Nonbank Credit Institution – Central Counterparty National Clearing Centre (Joint-stock Company) (NCI NCC (JSC))<sup>1</sup>, which was the central counterparty (CC), and the Nonbank Credit Institution – Joint-stock Company National Settlement Depository (NCI JSC NSD), which was the central depository (CD), repository, clearing house, and settlement depository.

The value of assets kept in the CD increased by 11% and amounted to ₴44 trillion, which was primarily due to the inflow of securities for servicing. The number of transactions registered in the repository under all types of agreements increased 4.7 times, to 11.3 million transactions. Growth in the number of registered contracts is mainly associated with reporting on repo transactions with a maturity of less than three days outside of master agreements.

The trading volume under operations with the CC rose by 7% and amounted to ₴681 trillion owing to the increased trading volume in the foreign exchange mar-

ket and in the repo market with the CC, including due to the measures to develop the said markets and increase their liquidity and attractiveness to investors. Such measures include admission of corporations to trading in the foreign exchange market and operations to place funds in deposit accounts in the money market of PJSC Moscow Exchange, introduction of new liquidity support programmes in the markets, expansion of the list of traded instruments, and introduction of a marketing period for individual transactions.

In 2017, Russian legal entities other than credit institutions or professional securities market participants received direct access to the money and foreign exchange markets of PJSC Moscow Exchange. It became possible for corporations to place funds in deposit accounts with the CC at the market rates of exchange-traded repo in the money market and to execute transactions in the foreign exchange market directly on a par with banks and brokerage companies.

NCI NCC (JSC) was subject to evaluation by external organisations in 2017. Analytical Credit Rating Agency (Joint-stock Company) (ACRA JSC) confirmed the NCC's credit rating at AAA (RU), outlook stable. Fitch Ratings confirmed the long-term issuer default credit rating of NCI NCC (JSC) in foreign currency at BBB– (corresponds to the sovereign rating of the Russian Federation).

As part of changes in the risk management system to increase the reliability of the activity of NCI NCC (JSC) as the CC, the contributions of clearing participants to the guarantee funds in the foreign exchange, stock, and forward markets were increased to ₴10 million.

In 2017, NCI JSC NSD, which is a systemically important central depository, a repository, and a systemically and nationally important payment system, was the first to undergo a quality assessment of the functioning of the price centre<sup>2</sup>, an organisation engaged in the valuation of financial instruments information about which financial market participants may use.

The data of the NCI JSC NSD price centre enable its users to reduce the costs of measuring the fair prices of instruments, automate the process of revaluing securities the list of which is limited to the scope of the Methodology for Determining the Value of Ruble Bonds,

<sup>1</sup> Before 28 November 2017, the National Clearing Centre Bank (Joint-stock Company) (NCC Bank (JSC)).

<sup>2</sup> When determining the value of ruble-denominated bonds.

dated 1 December 2017, and increase transparency in the financial markets.

In 2017, NCI JSC NSD successfully underwent accreditation with the Global Legal Entity Identifier Foundation (GLEIF) as a local operating unit (LOU<sup>1</sup>) under the Global Legal Entity Identifier System (GLEIS). The certificate was issued to NCI JSC NSD on 5 January 2018. GLEIF accreditation confirms the conformity of NCI JSC NSD to all regulatory and process requirements placed by GLEIF for operating LOUs. GLEIF accreditation will allow NCI JSC NSD to continue performing the functions of assigning and updating LEI codes and ensuring their integration into the global database.

In 2017, NCI JSC NSD started implementation of an agent-based single window system for corporate information disclosure. This will enable the implementation of the single window principle for information disclosure<sup>2</sup> in the Russian market and provides for the establishment of the services of acceptance, structuring, and distribution of corporate data on the basis of agencies accredited by the Bank of Russia to disclose information on securities.

**The national payment system (NPS)** was characterised in 2017 by the effective functioning of the NPS participants which ensure the smooth provision of funds transfer services; by the significant strengthening of the position of the Mir payment system, the leading national participant, in the payment services market; and by the rapid development of national payment instruments. The development and implementation of high-tech remote payment services and products make payment services more accessible, including online, as well as increase the volumes of cashless operations.

As of 1 January 2018, 563 funds transfer operators (including 93 e-money operators), 32 payment system operators<sup>3</sup>, 45 payment infrastructure operators<sup>4</sup>, the Federal State Unitary Enterprise Russian Post, payment agents, and bank payment agents operated as NPS entities.

Twenty-seven out of 45 operators of payment infrastructure services performed the functions of settlement centres (the Bank of Russia and 26 credit institutions),

29 entities performed the functions of payment clearing centres (the Bank of Russia, 11 credit institutions, and 17 other than credit institutions), and 29 entities performed the functions of operating centres (the Bank of Russia, 10 credit institutions, and 18 other than credit institutions).

As of the beginning of 2018, there were two systemically important payment systems functioning in the Russian Federation (the Bank of Russia payment system and the NSD payment system), along with four socially important payment systems (Sberbank, Visa, Zolotaya Korona, and MasterCard) and 16 nationally important payment systems (including the Bank of Russia payment system, the Mir payment system, and the NSD payment system).

In 2017, 1.5 billion funds transfers were made via the systemically important Bank of Russia payment system (BR PS) for an amount of ₺1,440.9 trillion, including operations made in furtherance of the monetary policy, settlements in the interbank and financial markets, and operations using payment cards. The ratio of funds transfers to GDP did not change as compared to the previous year and stood at 15.6. For the purpose of completing settlements under operations using cards<sup>5</sup>, including those of international payment systems, 35,300 transfers were made via the BR PS for an amount of ₺2.8 trillion (an increase of 10.6% in the number of transfers, and 33.1% in their volume).

The volume of funds transfers in the NSD payment system (NSD PS), Russia's second most important payment system, increased by 17.5% against 2016 to ₺188.7 trillion, which was double the volume of GDP. Funds transfers under transactions performed in organised trading predominated in the structure of NSD PS funds transfers (71.1%), just as in 2016. The share of OTC funds transfers accounted for 18.9%.

National Payment Card System Joint-stock Company (NPCS JSC), Russia's leading operator of payment infrastructure services which provides services to credit institutions for processing operations with payment cards performed in the Russian Federation, increased the number and volume of operations with

<sup>1</sup> An LOU is an organisation authorised to assign LEI codes to legal entities within a certain territory.

<sup>2</sup> In accordance with Bank of Russia Regulations No. 454-P, dated 30 December 2014, 'On Disclosing Information by Securities Issuers' and No. 546-P, dated 1 June 2016, 'On the List of Information Associated with the Exercise of Securities Rights and Provided by Issuers to the Central Depository, the Procedure and Timeframes for Its Provision, and on the Requirements for the Procedure for the Central Depository to Give Access to Such Information'.

<sup>3</sup> Including the Bank of Russia and Joint-stock Company National Payment Card System.

<sup>4</sup> An organisation may be an operating centre, a payment clearing centre, or a settlement centre for several payment systems simultaneously.

<sup>5</sup> Settlements under operations using bank cards are effected on a net basis.

payment cards by 40% in 2017 (to 7.5 billion operations for an amount of ₹10.5 trillion<sup>1</sup>).

In 2017, 41 credit institutions were recognised by the Bank of Russia as important in the payment services market<sup>2</sup>.

2017 saw rapid growth of indicators characterising the performance of credit institutions that are funds transfer operators, which form the institutional basis of the national payment system.

Operations performed by credit institutions on orders of their customers<sup>3</sup>, as well as credit institutions' own operations increased by 32.3% in number and by 7.2% in volume (to 26.8 billion payments for an amount of ₹667.7 trillion). Household operations showed outpacing growth rates (by 36.5% in number and by 35.8% in volume), which testified to the continued active involvement of households in cashless circulation.

Amid the reduction in the network of credit institutions' divisions, a trend towards replacement of physical channels of access to payment services with remote channels is becoming even more evident. The number of customer accounts with remote access continued to grow (by 12.7% to 219.4 million), and over the reporting year their share in active accounts of credit institution customers increased to 82.2%.

Compared to 2016, the number of operations performed by the customers of credit institutions using electronic technologies increased by more than a third (to 25.4 billion orders), and the volume of such operations grew by 10.5% (to ₹592.6 trillion). This was achieved mainly owing to transactions of individuals, the annual growth of which amounted to 38.3% in terms of number and 45.8% in terms of volume. Every fifth electronic payment was made by an individual via the Internet and/or using mobile communications devices.

The rapid development of the payment card market, typical of recent years, continued in 2017 due to the full-scale entry of the largest national player, the Mir payment system, into the market. In 2017, the issue of Mir cards ensured the overall growth in the number of payment cards issued by Russian credit institutions by 6.4% (to 271 million cards as of the beginning of 2018).

Operations using Russian payment cards performed within and outside the country showed steady

upward dynamics, having increased by 34.3% in terms of number and by 23.7% in terms of volume. In 2017, 24.0 billion operations for a total amount of ₹63.4 trillion were performed, or 163 operations for an amount of ₹431,400 per one resident of the Russian Federation.

Payment cards were used for cashless operations six times more often than for cash withdrawal. The share of cashless operations in the total number of operations with cards increased by 5.5 percentage points and reached 86.1% in 2017. The value of such operations was more than half (57.0%) of the total volume of operations with cards for the first time since the payment cards market was formed.

In the reporting year, the share of cashless payments in the total turnover of retail trade, public catering, and paid services provided to households continued to grow; most of these were payments for goods and services using payment cards (39.6% in 2017 against 31.8% in 2016).

As regards cash withdrawal operations using payment cards, a decline by 3.8% in number and 0.4% in volume against 2016 was registered for the first time.

The service of cashless funds transfer from one bank account to another using payment cards, which is provided by credit institutions, is increasingly in demand with users. In 2017, Russians performed such operations twice as frequently as a year earlier (2.7 billion transfers for a total amount of ₹19.1 trillion, which amounts to 13.2% and 52.8% of the total number and volume of cashless operations using payment cards).

The active connection of trade and services organisations to the payment card infrastructure was conducive to the rapid growth of cashless operations with cards. In 2017, the number of POS terminals installed in them increased by 24.3% to 2.2 million and 34.7 million operations for an amount of ₹30.0 billion were made through them on a daily basis. The number of ATMs, most of which are designed for cashless operations, was 195,200 as of 1 January 2018.

The number of electronic means of payment to transfer e-money issued in 2017 by e-money operators increased by 16% to 366.1 million. During the year, 2.0 billion operations were performed using these means for an amount of ₹1.4 trillion<sup>4</sup> (an increase of 42.4% in

<sup>1</sup> Based on NPC's data. Including funds transfer orders submitted for execution to the payment clearing centre. Excluding orders cancelled by the payment system participant and/or cancelled by the payment clearing centre.

<sup>2</sup> During the year, one of them terminated its activity due to restructuring through merger with another important credit institution in the payment services market.

<sup>3</sup> Here and below, individuals and legal entities other than credit institutions.

<sup>4</sup> Including operations to transfer e-money or e-money balances, including balances issued in cash.

number and 35.3% in volume), of which non-personalised electronic means of payment accounted for the largest share (86.3% and 58.9% respectively).

As of 1 January 2018, 17 organisations were operating as **credit history bureaus (CHBs)** in the financial market. During 2017, the Bank of Russia decided to make an entry in the state register of CHBs in respect of one organisation.

In 2017, the Central Catalogue of Credit Histories (CCCH) saw a further increase in credit history titles and inquiries from credit history holders and users.

As of 1 January 2017, the CCCH included 289.6 million credit history titles<sup>1</sup>. During 2017, the CCCH received 22.5 million credit history titles (7.78% growth as compared with early 2017), and as of the end of the reporting year they totalled 312.1 million. Over 2017, the number of credit history titles of individuals increased by 22.4 million (7.8%) and stood at 311 million as of the beginning of 2018, while the number of credit history titles of corporate borrowers totalled 1.1 million as of 1 January 2018, having increased by 14.4% as compared with the beginning of 2017.

The four largest CHBs accounted for about 94% of the credit history titles in 2017.

During 2017, 3,705 credit history sources sent information to CHBs. Credit institutions sent information mostly to the four largest CHBs, while smaller regional CHBs mainly focused on microfinance companies and consumer credit cooperatives.

Apart from the core activity of providing credit reports, CHBs also provided a number of related services, including score-based evaluation of creditworthiness and risks of possible fraud, notifications about the borrowers' situation (e.g., payments, delays) (the so-called 'triggers'), verification of passport details, generation of credit history holder codes, and provision of statistical data on the market by type of loans, category of borrowers, region, etc.

The number of requests addressed to the CCCH by credit history holders and users about the CHBs in which their credit histories were maintained and the number of requests for the creation, cancellation, or alteration of a credit history holder code (additional code) increased by 1.9 million (6.6%) over the reporting year to reach 30.3 million since the start of the functioning of the CCCH.

The number of requests about the CHBs maintaining credit histories that the CCCH received from credit history holders amounted to 2.2 million in absolute terms from the start of the CCCH's operation. As much as 75.6% of the total number of such requests were delivered to the CCCH via credit institutions.

As of 1 January 2018, there were five **news agencies** operating in the financial market which were accredited by the Bank of Russia to disclose information on securities and other financial instruments.

The process of institutionalisation of **self-regulatory organisations** is coming to an end. In 2017, the Bank of Russia assigned the status of a self-regulatory organisation in the financial market in respect of insurance brokers' activity for the first time. Over 2017, the total number of self-regulatory organisations did not change and remained at 22, including 20 self-regulatory organisations in the financial market and two self-regulatory organisations of actuaries. Detailed information on the number of self-regulatory organisations and their members is given in Table 10, Section V.4 Statistical Tables.

As of 1 January 2018, there were 30 associations of insurance entities, 22 management companies of specialised companies, 58 representatives of bond owners, and 11 organisations accredited by the Bank of Russia to carry out certification of financial market specialists operating in the financial market.

As of 1 January 2018, details of 104 responsible actuaries were entered into the single register of responsible **actuaries**. Their number remained unchanged during the reporting period. In 2017, self-regulatory organisations of actuaries, with the Bank of Russia's involvement in the certification commission, performed certification of actuaries for the actuary or responsible actuary to confirm its conformity to additional qualification requirements. Following the results of attestations, no resolutions on the certification of applicants were adopted.

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

In 2017, there were no changes to the register of credit rating agencies.

In 2017, three branches of foreign credit rating agencies filed applications for the entry of their details into the register of branches and representative offic-

<sup>1</sup> The number of credit history titles is defined as the sum total of credit history titles transferred to the CCCH by all credit history bureaus (data about one borrower are maintained in several credit history bureaus), including credit history titles filed based only on a lender's inquiry.

es of foreign credit rating agencies with the Bank of Russia for the first time. Following the results of review of the applications and the documents attached thereto, the Bank of Russia decided to enter details of three branches of private companies into the register of branches and representative offices of foreign credit rating agencies.

As part of achieving objectives related to the development of financial market infrastructure and instruments, the Bank of Russia decided to assess the quality

(accreditation) of the operation of **price centres**, which opted to obtain such accreditation on a voluntary basis<sup>1</sup>, starting from March 2016. In 2016, the Bank of Russia received two requests for voluntary quality assessment of the functioning of price centres. In 2017, the Bank of Russia recognised the quality of the functioning of the NSD price centre (as regards documents, processes, and software code) as satisfactory. The second request for quality assessment of a price centre's functioning is currently under review.

<sup>1</sup> See Bank of Russia Information Letter No. IN-06-51/15, dated 29 March 2016, 'On Assessing the Quality of Price Centres' Operation' published on the Bank of Russia website in the section 'Financial Markets / Financial Market Development / Price Centres'.

## **II. THE BANK OF RUSSIA'S ACTIVITIES**

*Chapter II contains the Bank of Russia's report on the activity conducted to achieve its strategic goals and the performance of functions aimed at gaining the public's confidence in and understanding of its policy, strengthening the Bank of Russia's reputation in the international financial and economic arena, and developing international cooperation.*

*Strategic goals have been set for several years ahead and are being implemented in stages.*

*As regards the goal of ensuring price stability, the Bank of Russia points out that the preparatory path associated with inflation reduction to acceptably low values was travelled and completed in the reporting year. Now, it is necessary to keep inflation at a consistently low level, which is what maintenance of price stability means.*

*The goal of ensuring financial market resilience is also being achieved gradually. In previous years, purging the financial sector of unscrupulous and weak participants was a necessary, yet the most painful, stage. In the reporting year, the Bank of Russia stepped up efforts to build a regulatory framework to develop a fair competition in the financial market and to exercise effective proactive supervision of financial institutions.*

*The Bank of Russia pays much attention to the development of the financial market and expanding financial inclusion. This is important for both effective reallocation of financial resources and ensuring conditions for Russian economic growth and raising prosperity and living standards of Russian citizens.*

*The National Payment System is being developed to ensure the safety of the national payment environment.*

*The Bank of Russia facilitates the application of new modern technologies in the financial market. Furthermore, the Bank of Russia is studying the risks of digital technology used in the financial area, including those associated with the circulation of cryptocurrencies in the territory of the Russian Federation. The Bank of Russia pays due attention to ensuring the cyber resilience of credit and finance organisations.*

*The information policy pursued by the Bank of Russia plays a big role in ensuring the transparency of its activities and is a major tool of interaction with the public. Ensuring that professional Russian and foreign experts and various population groups understand the Bank of Russia's policy is an area of special focus.*

*The Bank of Russia conducts economic research aimed at resolving practical tasks in the field of monetary policy, financial stability, and improvement of the model mechanism used to predict macroeconomic parameters and develop macroeconomic scenarios.*

*The Bank of Russia is working on the consistent development of macroeconomic financial statistics in accordance with modern international standards and aims to increase the quality and reduce the terms of statistical publications.*

*The Bank of Russia maintains active cooperation with other central banks and international organisations. Cooperation within G20, BRICS, and EAEU is developing as well.*

*The Annual Report also informs the reader about Bank of Russia stakeholdings in the capital of Russian economic entities, credit institutions, and international organisations, including about the expansion of these stakeholdings in connection with the use of a new mechanism of banking sector recovery.*

## II.1. ENSURING PRICE STABILITY

### II.1.1. Monetary policy objectives and key measures

The low and stable inflation rate in 2017 is an important result of the consistent and prudent monetary policy of recent years. Inflation remained close to 4% throughout most of the past year. Its dynamics were highly homogeneous across commodity groups and regions. Households, businesses, and banks continued to adjust gradually to the low rates of price growth. Their inflation expectations decreased, which was necessary to anchor inflation near 4% in the future. Sociological surveys showed that the problem of high inflation had become less acute. Low and stable inflation protected household income and savings from depreciation. The slowdown of inflation was accompanied by the accelerated growth in real wages amid the stable growth in nominal wages. The decline in inflation and inflation expectations also became one of the factors of the gradual decrease in long-term bank interest rates, which was important for the economy's transition to an investment model of development and improvement of its further growth prospects.

As before, in 2017, the Bank of Russia implemented its monetary policy as part of the inflation targeting regime. The key rate remained the main instrument of monetary policy. Changes in the key rate affected the consumer price dynamics through the transmission mechanism, a long chain of interrelations. That is why the Bank of Russia made its key-rate decisions based on the macroeconomic forecast proceeding from stable trends and long-lasting factors. Such an approach made it possible to avoid frequent different changes in the key rate and ensure the stability of interest rates and the certainty of economic environment. When preparing the forecast, the Bank of Russia relied on conservative assumptions and prevented the underestimation of risks when making a decision on the key rate for both the inflation target and economic growth. The Bank of Russia strove to make balanced decisions on monetary policy, that is, to take into account both the need to achieve the inflation target and the possible implications for the financial and real sectors of the economy. The macroeconomic forecast was published in the Monetary Policy Guidelines for 2017–2019. As the economic situation changed, the Bank of Russia up-

dated the forecast as necessary and published it in the Monetary Policy Report.

Based on the macroeconomic forecast and inflation risk assessment, in 2017, the Bank of Russia made decisions on the gradual reduction of the key rate from 10.00% p.a. to 7.75% p.a.

Following a conservative approach to forecast assumptions, the Bank of Russia took into account the continued uncertainty of the extension of agreements on oil production cuts and possible downward pressure on oil quotes from the expansion of oil supply by countries which did not accede to the agreement (growth of shale oil production in the USA and the recovery of production in Libya and Nigeria). In its baseline scenario, the Bank of Russia assumed that these agreements would not be extended after their expiry and that the price of oil would decline to about \$40 per barrel and remain close to this level in the future. As predicted by the Bank of Russia, the slowdown of the Russian economic growth as a result of the deterioration of external economic conditions will be temporary, considering its weaker sensitivity to oil price fluctuations which was observed in 2016 and 2017 and the stability of economic recovery processes. That is why the Bank of Russia, when making its key-rate decisions, tried to build monetary conditions which would ensure balanced economic growth without increasing inflationary pressure or creating financial imbalances, which will make it possible to anchor inflation close to 4%. A gradual key rate reduction and a moderately tight monetary policy were consistent with the achievement of this goal. The gradual decline in the key rate was aimed at maintaining the attractiveness of savings in rubles, moderate credit growth and, as a result, reviving consumer activity in accordance with production capabilities. Moreover, the monetary policy did not hinder the further increase in output, the growth rate of which in 2017 came close to the level estimated by the Bank of Russia as corresponding to the long-term potential of the economy.

Inflation expectations dynamics were another important factor which the Bank of Russia considered in its forecast and key-rate decisions. Their decline, along with the predicted retention of this trend in the future as

the inflation rate nears 4%, was one of the important conditions for the key rate reduction in 2017. Throughout the year, inflation expectations dynamics remained a source of inflation risks. These risks were associated with high sensitivity of inflation expectations to proinflationary factors: even short-term price growth could lead to a stable increase in inflation expectations and entail risks of long-term deviation of inflation from the target. Due to the risks of inflation expectations growth, the Bank of Russia kept its key rate unchanged in January and July 2017. In January, these risks were associated with the announcement by the Ministry of Finance of Russia that it would start purchasing foreign currency in the domestic foreign exchange market to replenish the National Wealth Fund and with the uncertainty of how this would affect the dynamics of exchange rate and inflation expectations. However, after these operations started in February, the situation in the foreign exchange market remained stable, and inflation expectations continued to decline. In early summer, temporary growth in inflation expectations was associated with the rise in vegetable and fruit prices against the background of the depleted vegetable crop reserves, unfavourable weather conditions, and deterioration of harvest prospects in 2017. As the new harvest was brought in, its forecast improved, and growth of vegetable and fruit prices slowed down, inflation expectations resumed declining, which enabled the Bank of Russia to continue easing its monetary policy.

When making a decision on the gradual reduction of its key rate, the Bank of Russia also took into account the significant influence of the temporary factors, such as a good harvest and a stronger ruble, on inflation dynamics in 2017. These factors have a changeable nature. Therefore, their influence on prices may change rather quickly. Decision-making based on the dynamics of temporary factors involves significant risks from the point of view of achieving the inflation target. The Bank of Russia took into account highly uncertain weather conditions and did not include a good harvest and

its significant downward influence on food prices in its forecast when making its key-rate decisions. However, weather conditions were favourable, and the ensuing proinflationary risks did not materialise. Following a conservative approach to forecast assumptions and supposing a reduction in oil prices to about \$40 per barrel, the Bank of Russia did not predict the ruble appreciation either. However, oil prices in 2017 turned out to be higher than those included in the baseline scenario of the Bank of Russia forecast and thus contributed to the ruble appreciation. The good harvest and stronger ruble were the major factors of inflation reduction to 2.5% in December 2017. As the influence of these temporary factors on prices stops, inflation will return to 4%.

In 2017, the Bank of Russia tried to increase the transparency and predictability of its monetary policy. Detailed comments and explanations of the actions taken by the central bank intensified monetary policy signals, decreased uncertainty in the economy and served as a guideline for economic agents. In the first few months of 2017, the key rate remained unchanged. Meanwhile, under the influence of the respective information signals given in press releases following meetings of the Bank of Russia Board of Directors, financial market participants started expecting its reduction, which was expressed in decreased quotes of interest-rate derivatives, the shape of yield curves in the financial markets, and the ratio of long-term and short-term interest rates on loans.

In 2017, following a floating exchange rate regime, the Bank of Russia did not perform foreign exchange interventions to influence the ruble exchange rate or the rate of its change. The volatility of the ruble exchange rate and its sensitivity to oil price dynamics decreased, and the dedollarisation of bank assets and liabilities continued. This is an evidence of the adaptation of households and businesses to the floating exchange rate and growing confidence in the national currency. The introduction of fiscal policy mechanisms associated with the preparation for a transition to new fiscal rules made its contribution to the above processes<sup>1</sup>.

<sup>1</sup> Press release of the Ministry of Finance of Russia of 25 January 2017.

## II.1.2. Monetary policy instruments

The Bank of Russia uses monetary policy instruments to manage banking sector liquidity to achieve the operational goal of the monetary policy, i.e., to keep overnight rates in the monetary market close to the key rate. In 2017, the Bank of Russia achieved the operational goal of the monetary policy quite effectively: the average absolute deviation of the RUONIA rate from the key rate in 2017 was 26 basis points, as compared with 22 basis points in 2016. In order to achieve the operational goal, the Bank of Russia absorbed liquidity given its sustainable excess (surplus)<sup>1</sup>, which was formed in the second half of January 2017 and had increased to ₺2.6 trillion by the end of the year.

The large-scale expenditure of money from sovereign funds to finance the budget deficit in previous years created the conditions for a transition to structural liquidity surplus in 2017. In 2017, the inflow of funds via the budget channel also contributed to the increase in the liquidity surplus, but was not the main source. Over the year, the Ministry of Finance of Russia converted the money of sovereign funds from foreign currency into rubles for a total amount equivalent to ₺1.7 trillion. Most of these funds entered the banking sector in the form of budget expenditures, were placed on deposit accounts of credit institutions by the Federal Treasury, or were provided by the Federal Treasury under repo agreements. Unlike in previous years, a substantial balance of funds formed in the Federal Treasury's accounts with the Bank of Russia at the end of the year made it possible to keep budget funds previously placed on deposit accounts or provided under repo agreements in banks.

Simultaneously with the spending of money from sovereign funds, the Ministry of Finance of Russia replenished them by the amount of additional budget revenues received as a result of the oil price exceeding the level of \$40 per barrel, as envisaged by Federal Law No. 415-FZ, dated 19 December 2016, 'On the Federal Budget for 2017 and the Plan Period of 2018 and 2019'. As opposed to operations for converting the money of sovereign funds from foreign currency into rubles, the Ministry of Finance of Russia purchased foreign currency in the domestic foreign exchange market to replenish the sovereign funds. This facilitated an additional inflow

of liquidity into the banking sector. During the year, the Ministry of Finance of Russia purchased foreign currency for an amount of ₺0.8 trillion. The inflow of liquidity through these operations partially offset the outflow of funds in the form of additional budget revenues from the oil price exceeding the level of \$40 per barrel.

Apart from the money of sovereign funds, the Ministry of Finance of Russia raised funds in the market to finance the budget deficit through OFZ placement. In 2017, the amount of OFZs placed by the Ministry of Finance of Russia exceeded the repayment amount substantially, which resulted in an outflow of liquidity from the banking sector in the amount of ₺0.6 trillion, considering coupon payments. Subsequently, these funds returned to the banking sector in the form of budget expenditures.

In 2017, banking sector liquidity was affected the most by the measures aimed at the recovery of the banking sector, in particular, the Bank of Russia's measures to increase the financial stability of Bank FC Otkritie PJSC, B&N BANK PJSC, and Promsvyazbank and the transfer of funds by the state corporation Deposit Insurance Agency for resolution of banks and to agent banks to compensate for insurance indemnity payments to the depositors of banks whose licences had been revoked. The funds entered the banking sector via this channel mostly in the second half of the year, which led to substantial growth of the structural liquidity surplus.

In total, fiscal flows, banking sector recovery measures, and other operations<sup>2</sup> during the period under review resulted in the inflow of liquidity into banks in the amount of ₺3.4 trillion.

The purchase of monetary gold by the Bank of Russia and changes in the amount of cash funds in circulation (including cash in credit institutions' tills) produced a smaller, yet significant impact on banking sector liquidity in 2017. As part of international reserves management, the Bank of Russia purchased monetary gold in the domestic market, which resulted in an inflow of funds into the banking sector in the amount of ₺0.5 trillion. Consumer activity growth in 2017 was conducive to increased demand from households for cash

<sup>1</sup> A stable structural liquidity surplus (excess) means that the amount of funds accumulated in correspondent accounts of credit institutions with the Bank of Russia is more than they need to meet the required reserve requirements and make payments and settlements.

<sup>2</sup> Including settlements under Bank of Russia USD/RUB FX swaps, net interest income/expenses on Bank of Russia operations, and other operations.

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



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

funds. Under the influence of this factor, the outflow of liquidity from the banking sector amounted to ₰0.6 trillion.

As a result of the decision made by the Bank of Russia in late 2016 to update the composition of reservable liabilities of credit institutions and to set the required reserve ratios for long-term liabilities, the amount of funds which credit institutions had to maintain in correspondent accounts with the Bank of Russia during the averaging periods in 2017 grew to ₰1.9 trillion. However, as a result of liquidity inflow into the banking sector, credit institutions were able to accumulate more funds in correspondent accounts than they needed for the averaging of required reserves. Under these conditions, the Bank of Russia absorbed excess liquidity to establish short-term money market rates close to the key rate. In general, the system of instruments made it possible to effectively absorb excess liquidity, and the actual amount of funds in the correspondent accounts of banks slightly exceeded the amount which they had to maintain. In 2017, the average balances of funds in banks' correspondent accounts with the Bank of Russia amounted to ₰2.0 trillion.

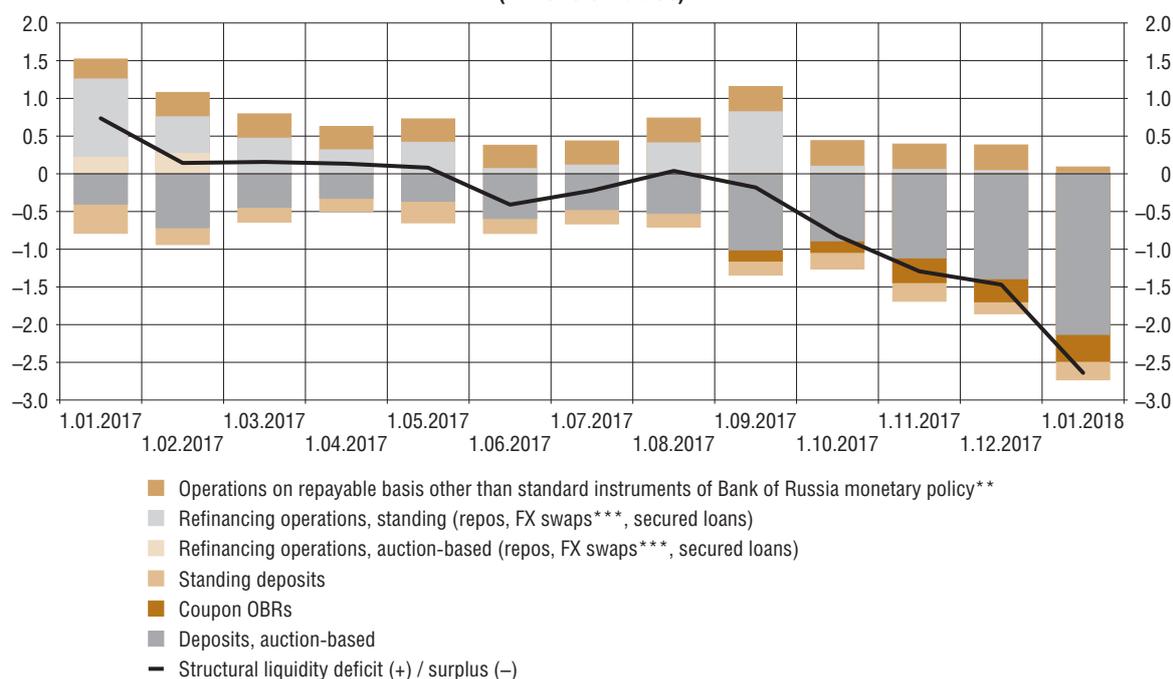
One-week deposit auctions were the main instrument to absorb liquidity. In order to absorb a stable portion of excess liquidity, the Bank of Russia placed three-month coupon bonds (coupon OBRs). The amount of funds to be raised through one-week deposit auctions

and auctions to place coupon OBRs was established based on the banking sector liquidity forecast.

In the first half of the year, the inflow of funds into the banking sector was small, and the increase in the structural liquidity surplus was insignificant. Under these conditions, the amount of funds raised by the Bank of Russia at one-week deposit auctions mostly corresponded to the established limit. 'Fine-tuning' operations were conducted only on some days. As a result, the average absolute deviation of the RUONIA rate from the Bank of Russia key rate in the first half of 2017 amounted to 17 basis points.

In the second half of the year, the inflow of funds into the banking sector grew significantly and was of a less predictable nature for credit institutions. Under these conditions, the Bank of Russia increased the supply of funds at one-week deposit auctions and started to place coupon OBRs. However, the banking sector adjusted slowly to the substantial growth of the structural liquidity surplus. Banks changed the structure of their operations in the money market with some lag. Furthermore, at the end of the year the traditional increase in the volume of customer transactions and uncertainty about the terms and volumes of budget funds inflow had an additional influence on the operations of banks. As a result, banks preferred to build up a 'liquidity cushion' by increasing the balances of their correspondent accounts and decreasing the supply of funds at Bank of Russia one-

Structure of Bank of Russia operations\*  
(trillions of rubles)



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

\*\* Bank of Russia specialised refinancing instruments, Bank of Russia loans under irrevocable credit lines, Bank of Russia USD/RUB and EUR/RUB sell/buy FX swaps.

\*\*\* Bank of Russia USD/RUB and EUR/RUB buy/sell FX swaps.

week deposit auctions and auctions to place coupon OBRs.

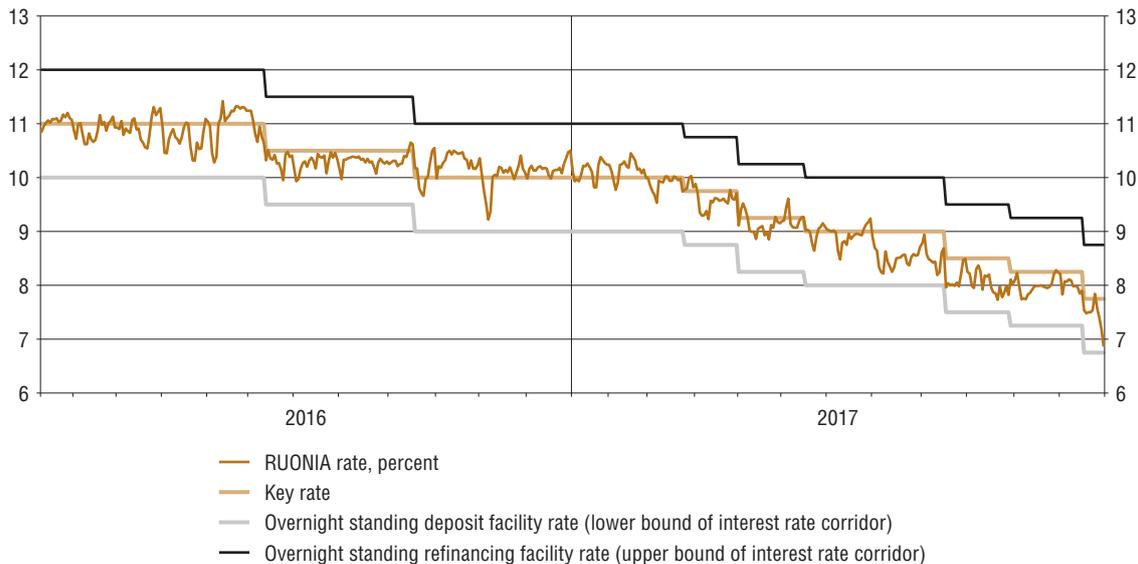
Given the slow adjustment of banks to a considerable increase in the structural liquidity surplus and their low supply of funds at one-week deposit auctions and auctions to place coupon OBRs as compared to the established limits, in the second half of the year the Bank of Russia increased the frequency of 'fine-tuning' auctions. One- to four-day 'fine-tuning' auctions were held and were in demand with banks. The amount of funds absorbed at these auctions generally corresponded to the established limits. 'Fine-tuning' auctions made it possible to prevent a considerable deviation of short-term money market rates from the key rate at the stage of increased structural liquidity surplus. However, the spread between these rates expanded on the whole in the second half of 2017. The average absolute deviation of the RUONIA rate from the Bank of Russia key rate over this period amounted to 34 basis points. The RUONIA rate was mostly in the lower half of the interest rate corridor.

Although the system of monetary policy instruments did not change in general, the Bank of Russia took individual measures throughout 2017 to optimise the line of instruments and increase their adaptability and

convenience of use by banks. For example, the Bank of Russia abolished the provision of loans secured by gold. The volume of funds provided under these operations was negligible, and the conclusion of transactions involved expenditures for the transportation and storage of the collateral. As a result, the Bank of Russia had two types of loans left as standing refinancing facilities: loans secured by securities and loans secured by non-marketable assets (loans issued by credit institutions to their customers).

In 2017, a project launched in 2016 to simplify deposit and credit operations continued. Credit institutions in all regions of the Russian Federation obtained the ability to exchange electronic documents directly with the Bank of Russia within the framework of deposit operations. Credit institutions located in the Central Federal District obtained the ability to send requests for loans electronically. The increased accessibility of monetary policy instruments was facilitated by changes to the temporary procedure for conducting operations: the extension of the time for accepting requests for loans from the Bank of Russia and a change in the maturity of deposit and credit operations of the Bank of Russia (see Section V.1 Measures to Implement the Single State Monetary Policy).

**Bank of Russia interest rate corridor and overnight RUONIA rate  
(percent p.a.)**



Repo transactions were also subject to improvements. Starting in June, they were concluded at the Moscow Exchange with a collateral management system via the National Settlement Depository. Thus, credit institutions got the opportunity to work with a basket of collateral when performing exchange transactions, that is, to submit one application for participation in repo transactions with the Bank of Russia, rather than several for various types of accepted securities, and replace the securities provided as collateral, if necessary.

In 2017, the approaches to compiling the list of assets accepted as collateral under refinancing operations changed as well. Taking into account the legal requirements for rating activity, when selecting assets eligible as collateral for its operations, the Bank of Russia started using the ratings of the national rating agencies and internal estimates of the Bank of Russia.

Furthermore, the Bank of Russia continued to use a countercyclical approach to compiling the list of assets accepted as collateral under Bank of Russia refinancing operations. According to this approach, with an increase in the structural liquidity surplus, the Bank of Russia gradually reduces the list of the said assets,

since the demand from banks for fundraising from the Bank of Russia declines. Given an increased structural liquidity deficit, the Bank of Russia, on the contrary, expands the list of assets to increase banks' options for refinancing in the Bank of Russia. When reducing the list of assets, the Bank of Russia takes into account the need to maintain a comfortable level that ensures the possibility for banks to use intraday loans considering the increase in the volume of payments and settlements in the banking sector during the day.

Under the countercyclical approach in 2017, amid an increased liquidity surplus, the Bank of Russia suspended the inclusion of new issues of individual classes of assets<sup>1</sup> in the Bank of Russia Lombard List, gradually decreased the adjustment ratios / increased discounts for assets of these classes which had already been included in the List, and raised requirements for the credit rating of assets (see Section V.1 Measures to Implement the Single State Monetary Policy). These measures did not pose any risk to the banking sector, since the volume of assets accepted as collateral for Bank of Russia refinancing operations significantly exceeded the banking sector's demand for fundraising.

<sup>1</sup> Bonds of credit institutions and insurance companies, bonds of Vnesheconombank, bonds of international financial institutions, debt securities issued outside the Russian Federation by nonresident legal entities, the beneficiaries or ultimate borrowers of which are Russian credit institutions or insurance companies or Vnesheconombank, and bonds of low credit quality with signs of restructuring.

## II.2. ENSURING FINANCIAL MARKET RESILIENCE

### II.2.1. Ensuring financial stability

#### II.2.1.1. Monitoring of financial stability risks

##### External risks

A rise in business activity, along with continued low volatility in 2017, was indicative of further stabilisation in the global financial markets. In these conditions, the central banks of many developed countries continued to normalise their monetary policy (the US Fed increased the federal funds rate on three occasions, and the ECB announced plans to reduce the monthly volume of bond purchases starting in January 2018) (see Subsection I.1.1). Against this backdrop, investors continued to be interested in high-yield assets, and this was reflected in the decline of the sovereign risk premium of many emerging markets. The situation in the global commodity markets was mostly favourable amid the extension of the OPEC+ agreement on oil production cut till the end of 2018 (as of year-end, the price of Brent crude increased by 17.7% to \$66.9 per barrel), though the strengthening of the US positions in the global energy resources market was a constraining factor. Some instances of increased volatility in the global financial markets were caused by changes in the expectations of a monetary policy tightening by the leading central banks, geopolitical tension, and aggravation of political risks and structural imbalances in some emerging markets.

In 2017, amid a rather favourable foreign economic environment, the situation in the Russian financial market improved, as evidenced by the continued interest of foreign investors in investments in Russian assets. The ruble appreciated against the US dollar (by 5.0%), but weakened against the euro (by 7.9%)<sup>1</sup>. Net capital inflow into funds investing in Russian shares and bonds amounted to \$7.3 billion. As of year-end, the share of nonresidents in the OFZ market increased by 6.2 pp to 33.1%. By the level of this indicator and its increase in 2017, Russia is in the middle of the list of emerging economies, preceded by such countries as Peru, the Czech Republic, and South Africa (the share of nonresidents in

the government debt market in these countries ranges from 37% to 45%) and followed by such countries as Thailand, South Korea, and Poland (from 12% to 17%).

##### Banking sector risks

The intensification of banking supervision, along with the improvement of risk management practices in credit institutions, stabilised the key parameters characterising bank risks. As of 1 January 2018, the equity capital adequacy ratio of the banking sector (N1.0) was 12.1% (13.1% as of 1 January 2017). The decline in capital adequacy resulted from problems discovered in a number of large banks in which financial rehabilitation measures were being implemented. The decisions made on banks' resolution were conducive to the cleaning of their balance sheets and enhancement of their resilience. Despite the difficulties associated with the resolution of large banks and persistent external risks, the banking sector maintained its resilience in 2017, which was also confirmed by stress test results: the total adequacy ratio of the banking sector was above the regulatory minimum even under the risk scenario (a downturn in the average oil price to \$25 per barrel).

**Liquidity risks.** Over the course of 2017, liquidity risks decreased in the banking sector. The ratio of the most liquid assets<sup>2</sup> to total banking sector assets increased from 7.4% to 8.7% during 2017. This was associated to a considerable extent with the transition of the banking sector to a structural liquidity surplus in 2017 (see Subsection II.1.2).

From 1 January 2017 through 1 January 2018, the weighted average values of the instant liquidity ratio (N2) and the current liquidity ratio (N3) for all banks showed stable growth: from 107% to 118% and from 145% to 167% respectively. The weighted average value of the liquidity coverage ratio of SICs increased over the same period from 95% to 114%, though in June–

<sup>1</sup> Calculated as the ratio of the nominal exchange rate as of year-end 2017 to that as of year-end 2016.

<sup>2</sup> Cash, precious metals, balances of nostro correspondent accounts, and balances of correspondent and deposit accounts with the Bank of Russia.

November the ratio of some SICs declined, and they increased the use of irrevocable liquidity credit lines to replenish the lack of high quality liquid assets.

The emergency liquidity provision mechanism (ELPM) introduced by the Bank of Russia on 1 September 2017 is an additional instrument for supporting financially stable banks suffering temporary troubles with liquidity. The ELPM is intended for SICs and banks of classification groups 1 and 2<sup>1</sup> which do not have overdue debt to the Bank of Russia and which meet all the ratios, except for the instant liquidity ratio. This mechanism will allow the Bank of Russia to support a financially stable bank, if necessary, and to prevent the development of negative trends in the financial market.

The ELPM does not imply Bank of Russia obligation to provide liquidity to any requesting bank. In order to receive funds, a bank must have a plan to resolve its liquidity problems (an ELPM 'exit strategy') during the time for which the funds are provided and a positive evaluation of the ability to resolve these problems from the Bank of Russia. The composition of the collateral which may be used within the ELPM is wider than that under the standard instruments used to obtain liquidity from the Bank of Russia. Depending on the collateral declared by the bank, the Bank of Russia may provide funds under a repo transaction and/or in the form of a secured loan. ELPM funds are provided in rubles for no more than 90 calendar days. The lending rate is equal to the Bank of Russia key rate in effect at the time of the operation plus 1.75 pp. As of 1 January 2018, the Bank of Russia concluded 49 agreements with credit institutions on the provision of funds under the ELPM.

Given increased stability in the external financial market, the situation with foreign currency liquidity in 2017 was generally more favourable than a year earlier. In these conditions, the role of foreign currency refinancing operations introduced in 2014 for the purpose of supporting financial stability decreased significantly.

In autumn 2017, the Bank of Russia ceased foreign currency refinancing operations. While adapting to sanctions, credit institutions and companies serviced their external obligations successfully. As a result, cred-

it institutions' demand for refinancing operations in foreign currency decreased gradually. By the end of 2017, banks had fully repaid their debt under these operations.

In 2017, the Bank of Russia performed USD/RUB FX swaps on certain days and in insignificant volumes and increased the limits on them when it was necessary.

**Credit risk.** The share of overdue loans to the economy decreased from 6.7% to 6.6% against the background of more intensive growth of the loan portfolio, though its volume grew by 2.5%<sup>2</sup> over 2017 (in 2016 it decreased by 3.7%). The share of bad loans (of quality categories IV and V) in total loans to all categories of borrowers over 2017 increased from 9.4% to 10.0%, which resulted largely from the reassessment of the quality of assets of banks undergoing resolution (net of their impact, the share of bad loans decreased from 7.9% to 7.1%). Such an important indicator as the coverage of bad loans with loss provisions grew from 68.5% to 71.2% over 2017.

**Bank risks on loans to nonfinancial organisations.** In 2017, ruble lending to nonfinancial organisations by banks increased by 5.7%. The share of overdue loans decreased insignificantly, from 8.3% to 8.2%. The indicator calculated excluding the data of banks undergoing financial rehabilitation<sup>3</sup> showed a greater decline, from 5.4% to 4.6%.

In 2017, dollarisation of the loan portfolio continued to decline (see Subsection II.2.1.2). The debt on foreign currency loans to nonfinancial organisations decreased by 0.6% amid the low share of overdue loans. Therefore, against the backdrop of the continued dedollarisation, credit risk associated with foreign currency risk remains moderate, which testifies to the conservatism of banks when choosing borrowers for foreign currency loans.

In 2017, credit quality deterioration was primarily observed in loans to construction companies, where the share of overdue loans over 2017 increased by 2.1 pp to 17.9%. Insignificant growth in the share of overdue loans was observed in wholesale and retail trade<sup>4</sup> (by 0.5 pp to 12.2%). In other types of economic activity, inter alia, the share of overdue loans in 2017 was decreasing; the biggest decline was observed in loans to

<sup>1</sup> In accordance with Bank of Russia Ordinance No. 4336-U, dated 3 April 2017, 'On Assessing Banks' Economic Situation'.

<sup>2</sup> The ruble exchange rate dynamics and the revocation or cancellation of licences of a number of credit institutions affected the banking sector's relative indicators, except when licences were cancelled due to restructuring. Therefore, to reflect the actual dynamics of the key banking sector indicators more accurately, here and below in this section the figures are given net of the influence of the exchange rate for credit institutions operating as of the latest reporting date (including banks restructured earlier).

<sup>3</sup> Banks undergoing financial rehabilitation with the participation of the LLC Fund of Banking Sector Consolidation Asset Management Company, the DIA, and investors involved in financial rehabilitation.

<sup>4</sup> Wholesale and retail trade, repair of motor vehicles, motorcycles, household appliances, and personal items.

transport and communications enterprises (by 2.1 pp to 4.3%) and agricultural enterprises (by 0.9 pp to 7.7%).

**Bank risks on loans to households.** Thanks to the improved credit quality of unsecured consumer lending and in the mortgage segment, the volume of overdue loans to households decreased in 2017 by 0.4% (2016 saw growth of 1.4%), and the share of overdue loans decreased from 7.9% to 7.0%.

The quality of the housing (including housing mortgage) loan portfolio remained high: the share of loans overdue for more than 90 days decreased from 2.7% to 2.2% over 2017. The Bank of Russia took prudential measures limiting bank risks to ensure sustainable development of the mortgage segment in the future (see Subsection II.2.1.2).

In 2017, the Bank of Russia focused on growth of household lending, first of all, its riskiest segment, i.e., unsecured consumer lending. In 2017, this segment was characterised by the recovery of lending activity. The increase in debt under such loans was 11.3% in 2017<sup>1</sup>. The share of loans overdue for more than 90 days decreased from 15.7% to 12.8% owing to the improvement of borrowers' payment discipline. The risk on previously issued loans, which had materialised in 2017, was at its low since 2011.

Growth of debt under unsecured consumer loans is outpacing household income growth, which may lead to the increase in household debt burden and requires monitoring by the Bank of Russia.

### Risks of nonbank financial institutions

**Insurers.** Investment life insurance was a key driver of the insurance market and as of year-end 2017 ensured the leading position of the life insurance segment by share in total insurance premiums (25.9%, an increase of 7.6 pp compared to the 2016 indicator). Due to increased demand and an expanded number of investors in investment life insurance, the issue of raising the quality of information disclosure on product characteristics to policyholders has become pressing. Meanwhile, the amount of premiums on insurance other than life insurance decreased by 1.8%. Risks persisted in the CMTPLI segment, and the combined loss ratio (consid-

ering other income and expenses) for this type of insurance amounted to 106.9% as of 31 December 2017 (102.6% as of 31 December 2016). The CMTPLI accessibility for consumers was maintained through an obligation to sell electronic policies (see Subsection II.3.3), which resulted in growth of the share of this channel in total premiums on CMTPLI to 12.8% as of year-end 2017. The establishment of Joint-stock Company Russian National Reinsurance Company began to influence the reinsurance market: the share of premiums on insurance other than life insurance which had been transferred to reinsurance in the territory of the Russian Federation increased to 20.2% (from 15.1% in 2016). To ensure the stability of the insurance market, the Bank of Russia started preparing for the implementation of a risk-based approach to regulation based on Solvency II<sup>2</sup> and developed a resolution mechanism for insurance companies<sup>3</sup>.

**Non-governmental pension funds (NPF).** In 2017, the risks of mutual investments of NPFs in the assets of financial groups materialised. In particular, funds were forced to cut down their investments in the assets of individual banks due to the deterioration of the financial position of the latter. Furthermore, the reduction in investments in the banking sector was associated with the gradual tightening of the Bank of Russia's requirements for the permissible share of investments of pension savings in the assets of credit institutions. As a result, the total investments of pension funds in banking sector assets decreased by 20.0% to ₹869.4 billion, mainly due to reduced investment of pension savings (by 25.2% to ₹620.1 billion). At the same time, the aforesaid developments resulted in growth of investments of NPFs in risk-free assets (the share of government securities grew from 7.1% to 21.8%). Developing the NPF risk management system, in 2017, the Bank of Russia elaborated a methodology for stress testing funds, which included parameters for assessing funds' assets and determining the probability of defaults and the results of stress testing if a shock scenario materialises (see Subsection II.2.4.2).

**Microfinance organisations (MFOs).** The main risks of the microfinance market in 2017 were concentrated around unscrupulous players and the quality of the microloan portfolio. As of 31 December 2017,

<sup>1</sup> According to data from Section 3 of Reporting Form 0409115 'Information on the Quality of Assets of a Credit Institution (Banking Group)'. For credit institutions which were operating as of 1 January 2018, including banks restructured earlier.

<sup>2</sup> See Subsection II.2.4.3 Insurance Entities.

<sup>3</sup> See Subsection II.2.5 Financial Rehabilitation of Financial Institutions/Implementation of the resolution mechanism for insurance companies.

the total microloan portfolio increased by 28.0% to ₹112.8 billion; 60 organisations with the status of an MFC (2.9% of all MFOs) accounted for 52.4% of the total microloan portfolio. The share of microloans which have been non-performing for over 90 days (NPL 90+)<sup>1</sup> in the consumer microfinance portfolio<sup>2</sup> of MFOs amounted to 30.3%. At the same time, the said value in the MFO sector decreased from the beginning of 2017 by 8.9 pp due to the outpacing growth of the portfolio of the largest MFOs (including in the segment of online microloans). The total growth of the microloan portfolio was mainly a result of the inflow of funds raised from legal entities (other than credit institutions) and individuals (including founders), the debt to which increased over the year by 46.5% and 28.1% respectively. The most important prudential requirements that affected the microfinance market in 2017 were the requirements for the minimum equity capital of MFCs (no less than ₹70.0 million)<sup>3</sup>, expiry of the grace period for making microloan loss provisions<sup>4</sup>, and approval of the core risk management standard

for MFOs<sup>5</sup>. Furthermore, to protect consumer rights, new regulatory limitations on the maximum amount of a borrower's debt obligations under a consumer microloan agreement are to be introduced during 2018 (see Subsection II.2.4.4).

### Improvement of risk assessment methods

While performing the activity aimed at improving the methods for assessing financial sector stability, in 2017, the Bank of Russia developed a concept of macroprudential stress testing of the financial sector<sup>6</sup> which examines the risks of banks, non-governmental pension funds, and insurance companies. Stress testing includes assessment of market risk, interest rate risk, credit risk, and liquidity risk at several time horizons (from two days to two years). The Bank of Russia also held consultations with representatives of major credit institutions on further development of the macroprudential stress testing methodology.

<sup>1</sup> NPL 90+ (non-performing loan) means an overdue loan the payment of interests and principal under which is delayed by 90 days or more.

<sup>2</sup> Including microloans extended to individuals.

<sup>3</sup> According to Bank of Russia Ordinance No. 4037-U, dated 9 June 2016, 'On Establishing the Methodology for Measuring the Equity Capital of a Microfinance Organisation'.

<sup>4</sup> According to Bank of Russia Ordinance No. 4054-U, dated 28 June 2016, 'On the Procedure for Microfinance Organisations to Make Loan Loss Provisions'.

<sup>5</sup> A core risk management standard for microfinance organisations was approved by the Bank of Russia on 27 July 2017.

<sup>6</sup> Published on the Bank of Russia website, in the section Information and Analytical Materials / Consultation Papers.

## II.2.1.2. Macroprudential regulation measures to ensure financial stability

In 2017, the Bank of Russia implemented a number of macroprudential measures to curb credit risks for the purpose of limiting the accumulation of systemic risks in the banking sector. Amid the decreasing interest rates in the economy, the Bank of Russia revised the existing risk ratio scale for consumer loans depending on the full cost of loans (FCL). The new risk ratio values apply to consumer loans with an FCL above 20% issued after 1 March 2017. This measure is aimed at limiting growth rates in lending segments characterised by an increased level of credit risk (with an FCL above 25%) and preventing the accumulation of risks in the group of banks specialising in unsecured consumer lending. Furthermore, increased risk ratios enable banks to build capital buffers to cover future losses. The decrease in the Bank of Russia key rate in 2017 and the revision of the risk ratios for consumer loans resulted in 2017 in a decline in the amount of disbursements in the segment with an FCL above 25% by more than 30% and in a reduction in the share of such loans in the total amount of new disbursements from 24% to 11%.

In 2017, many banks eased requirements for borrowers in the mortgage lending sector. The share of newly issued mortgage loans with a down payment of less than 20% increased from 6.7% in 2016 Q4 to 42.4% in 2017 Q4<sup>1</sup>. Data analysis shows that mortgage loans with a small down payment are generally characterised by a higher borrower credit risk. The share of such loans in bank portfolios is insignificant so far and does not entail systemic risks. However, to prevent future accumulation of risks and ensure the sustainable development of the mortgage segment, the Bank of Russia decided to apply a 150% risk ratio for mortgage loans in rubles with a down payment of less than 20% issued after 1 January 2018, regardless of the loan amount, and increase the risk ratio for mortgage loans in rubles with a down payment of less than 10% issued after 1 January 2018 from 150% to 300%. A 150% risk ratio was also established for

loans issued after 1 January 2018 for financing under a shared-equity construction agreement where the borrower's down payment made with his/her own funds was less than 20%.

The Bank of Russia continued to monitor the effectiveness of measures to limit lending in foreign currency to legal entities which did not have enough foreign currency earnings to service their debts on time and also measures to limit provision of foreign currency loans for the purpose of acquiring real estate. These measures applied to loans issued after 1 May 2016 and investments in debt securities denominated in foreign currency. The Bank of Russia set increased risk ratios for such loans (investments in securities).

In 2017, the amount of legal entities' debt on foreign currency loans to credit institutions decreased by 8.6% (net of the exchange rate revaluation factor). An increased risk ratio applies to 35.0% of legal entities' debt on foreign currency loans.

Throughout 2017, the Bank of Russia, with the involvement of the financial community, developed approaches towards calculating the debt burden ratio of individuals. The debt burden ratios of individual borrowers are widely used in international practice. Banks calculate these ratios at the moment of issuing loans for the purpose of limiting or prohibiting disbursement of loans with an increased risk level.

In February 2017, the Bank of Russia published a consultation paper 'On the Assessment of Risks of Individual Borrowers Based on Debt Burden Ratios'<sup>2</sup>, in which it presented possible approaches to implementing the debt burden ratio into Russian practice and described international experience in using this ratio.

In October 2017, the Bank of Russia published the Debt Burden Ratio Calculation Concept<sup>3</sup>. In 2018, taking into account the comments of market participants, the Bank of Russia will prepare a methodology for calculating the debt burden ratio and present a procedure for using this ratio for regulatory purposes.

<sup>1</sup> Based on Bank of Russia quarterly survey data. The amount of debt under mortgage loans covered by the surveyed banks accounted for more than 80% of the total banking sector debt.

<sup>2</sup> Published on the Bank of Russia website, in the section Information and Analytical Materials / Consultation Papers.

<sup>3</sup> Published on the Bank of Russia website, in the section Information and Analytical Materials / Financial Stability.

## II.2.2. Managing assets in foreign currencies and precious metals<sup>1</sup>

### Asset structure

The foreign currency assets of the Bank of Russia include government and nongovernment debt securities; deposits and balances of nostro accounts; funds invested under reverse repo transactions<sup>2</sup>; the net position of the Russian Federation in the IMF (net claims on the IMF); Eurobonds of the Russian Federation; and other claims on counterparties under executed transactions. The said instruments are denominated in US dollars, euros, pounds sterling, Canadian and Australian dollars, Swiss francs, yen, yuan, and special drawing rights (SDRs)<sup>3</sup> (hereinafter, eligible currencies).

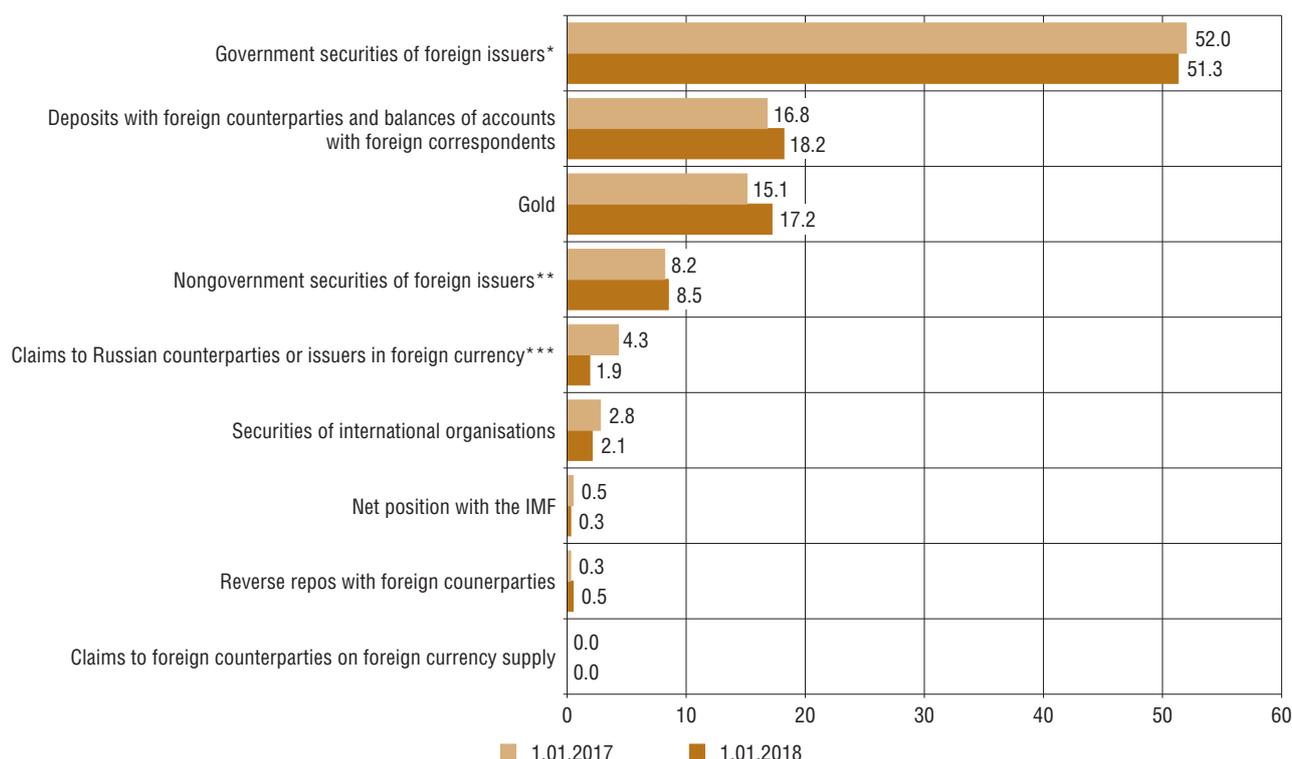
Bank of Russia assets in precious metals consist of monetary gold available in the territory of the Russian Federation. Information about assets in gold

is included in all the breakdowns and indicators of this section.

As of the end of 2017, the amount of Bank of Russia assets in foreign currency and gold stood at \$437.8 billion, of which \$354.2 billion were foreign currency assets from the category 'International Reserves of the Russian Federation', \$8.3 billion were other foreign currency assets, and \$75.3 billion were gold assets. During 2017, the Bank of Russia's gold assets increased by 220 tonnes and as of 31 December 2017 amounted to 1,808 tonnes.

Securities of foreign issuers are mostly represented by debt instruments of the US Treasury, government debt instruments of France, Germany, the United Kingdom, and Canada, nongovernment debt securities, including those the obligations under which are guar-

Bank of Russia assets in foreign currency and gold by instrument (percent)



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

\*\* Securities of foreign issuers with highly expected government support due to the organisation's special role in or importance to the economy of a country or region (implicit guarantee).

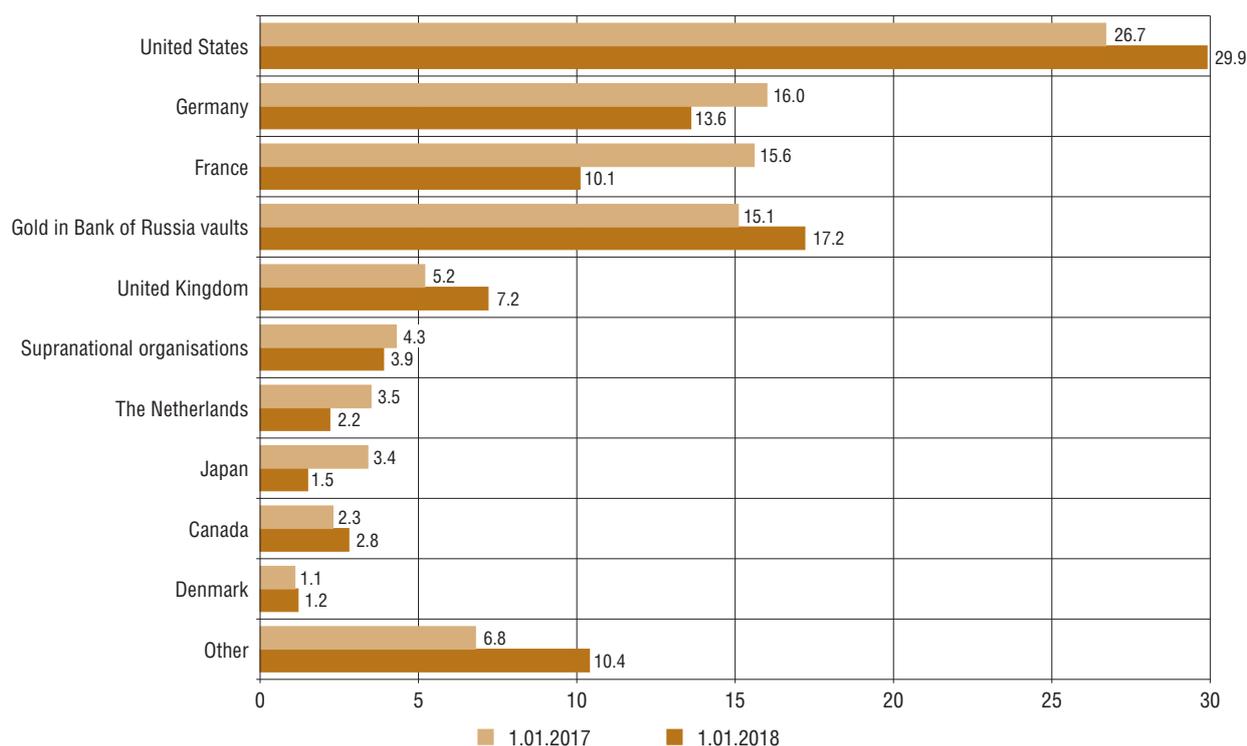
\*\*\* Claims to Russian credit institutions, Eurobonds of the Russian Federation and other Russian issuers.

<sup>1</sup> All the breakdowns and indicators provided in this section were calculated based on management accounting data.

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

<sup>3</sup> Unit of calculation used in IMF operations. The exchange rate of SDR is determined based on the dollar value of a basket consisting of five currencies: the US dollar, the euro, the yen, the pound sterling, and the yuan (since 1 October 2016).

Bank of Russia assets in foreign currency and gold by country (percent)



anteed by the governments of foreign states, and debt instruments of international organisations.

As part of its operations to manage foreign currency assets, the Bank of Russia purchased and sold debt obligations of foreign issuers, conducted repo transactions with the said securities, and provided foreign issuers' securities on a reverse basis.

In 2017, the Bank of Russia also sold foreign currency securities, which remained at its disposal as a result of settlement of the Bank of Russia's claims on counterparties under refinancing operations, and Eurobonds of the Russian Federation belonging to it. These operations did not have a significant impact on the amount of Bank of Russia assets in foreign currencies.

The geographic breakdown of foreign currency assets is based on the location (place of registration) of the legal entities which are Bank of Russia counterparties or foreign issuers of securities.

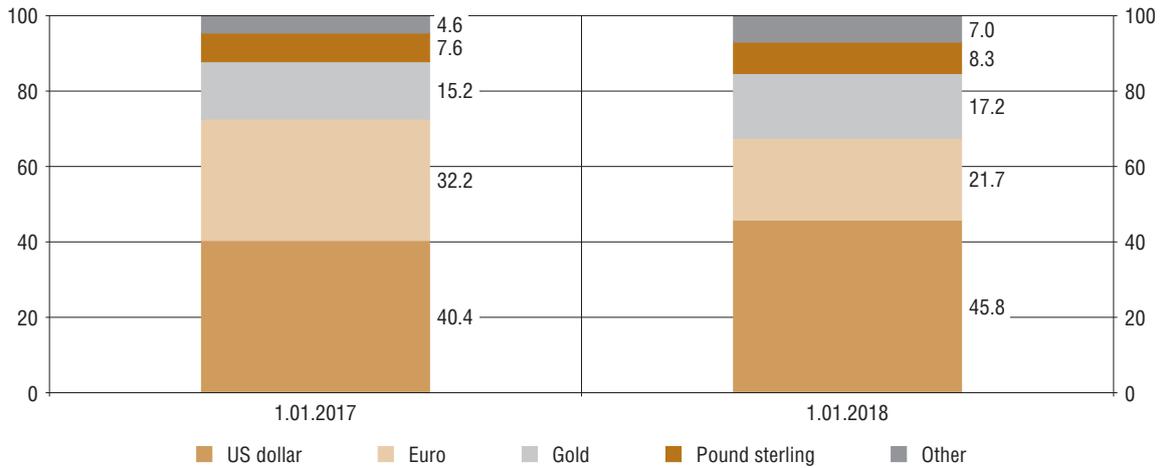
In 2017, assets denominated in US dollars and euros retained their dominant position in the structure of Bank of Russia assets in foreign currency and gold. The category 'Other' includes, among other things, assets in Canadian (3.1%) and Australian (1.0%) dollars and also assets in yuan (2.8%). The balances of accounts

in Japanese yen and Swiss francs were negligible. The SDR-denominated net claims of the Russian Federation to the IMF were accounted in the breakdown as assets in the foreign currencies included in the SDR basket, in the proportions determined by the IMF for calculating the SDR<sup>1</sup> value.

In 2017, the amount of Bank of Russia assets in foreign currency and gold grew by \$48.3 billion. The key factors behind their growth were the revaluation of foreign currency assets in dollar terms and transactions to purchase foreign currency in the domestic foreign exchange market for the Ministry of Finance of the Russian Federation (implementation of fiscal rule provisions), as well as the purchase of gold from Russian credit institutions and its revaluation in dollar terms. The execution of repo transactions between the Bank of Russia and foreign counterparties is another factor of growth in assets. These transactions are mainly concluded to raise funds under the repo transaction and simultaneously place the respective amount of funds with foreign counterparties at a higher rate into a deposit account, a reverse repo transaction, or a nostro account in a correspondent bank. The growth in assets was partially offset by the outflow of customer funds.

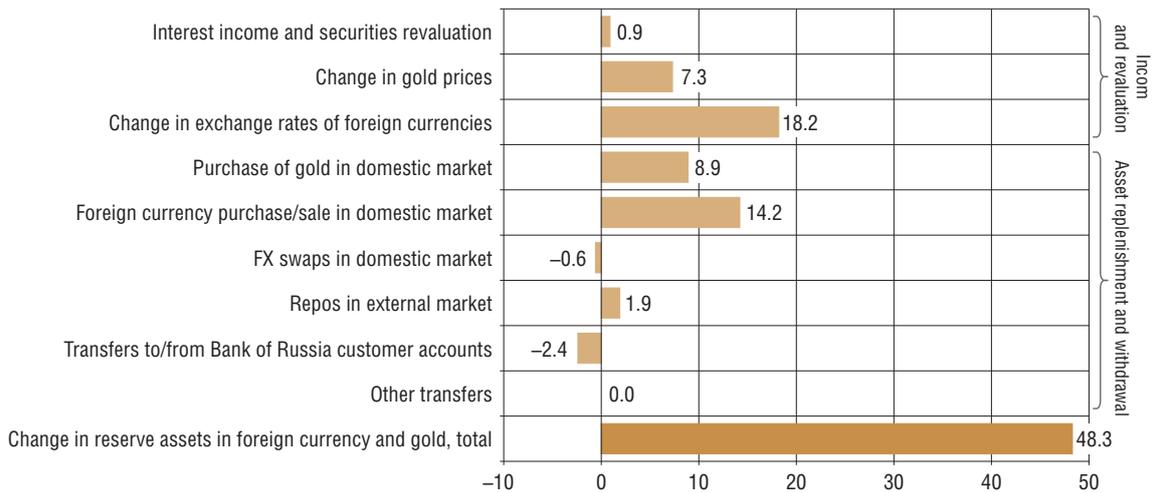
<sup>1</sup> Before 1 October 2016: USD 0.66; EUR 0.423; GBP 0.111; JPY 12.1. Since 1 October 2016: USD 0.58252; EUR 0.38671; GBP 0.085946; JPY 11.9; CNY 1.0174.

**Bank of Russia assets in foreign currency and gold\*  
(as a percentage of their market value)**



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

**Factors behind changes in Bank of Russia assets in foreign currency and gold in 2017  
(billions of US dollars)**



### Management of assets

The Bank of Russia’s foreign currency assets are managed with due regard to the Bank of Russia’s foreign currency liabilities (balances of customer foreign currency accounts, mainly government funds<sup>1</sup> and other Federal Treasury accounts).

Management of foreign currency assets is associated with the assumption of the following financial risks by the Bank of Russia: credit, foreign exchange, interest rate, and liquidity risks. The risk management process while conducting operations with foreign currency assets of the Bank of Russia includes the identification

of risks, risk assessment, the setting of risk limits, and monitoring compliance with the limits.

**Foreign exchange risk** means the risk of a decrease in the value of net foreign currency assets (assets net of liabilities) resulting from changes in foreign currencies’ exchange rates. The exposure to the foreign exchange risk is equal to net foreign currency assets, which is the amount in foreign currencies net of the Bank of Russia’s 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.

<sup>1</sup> The Reserve Fund and the National Wealth Fund of the Russian Federation, whose funds are managed by the Ministry of Finance of the Russian Federation, including through their placement on accounts in foreign currency (US dollars, euros, and pounds sterling) with the Bank of Russia. In December 2017, the balance of the Reserve Fund’s account was zero (the Government of the Russian Federation decided to terminate the Reserve Fund).

**Bank of Russia assets in foreign currency and gold by credit rating\*  
(percent)**



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

**Credit risk** means the risk of default by a counterparty or securities issuer on their liabilities to the Bank of Russia. Credit risk is constrained by various limits and requirements for the credit quality of foreign counterparties and issuers. The minimum required long-term credit rating of the Bank of Russia's foreign currency assets was established at 'A' (Fitch Ratings and S&P Global Ratings) or 'A2' (Moody's Investors Service). The minimum rating of securities issues of foreign issuers (the long-term credit rating of the issuer, if a securities issue has no rating) was established at 'AA-' (Fitch Ratings and S&P Global Ratings) or 'Aa3' (Moody's Investors Service).

**Interest rate risk** means the risk of a decline in the value of Bank of Russia foreign currency assets as a result of unfavourable changes in interest rates. The level of interest rate risk assumed by the Bank of Russia in each of the eligible currencies is determined by the target duration<sup>1</sup> of assets. For the purpose of interest rate risk management, the minimum and maximum duration of assets in each of the eligible currencies is established, and the time left to maturity of securities and the terms of deposits and repo transactions are limited.

**Liquidity risk** means the risk of loss as a result of the lack of funds for the Bank of Russia to discharge its current liabilities in eligible currencies. In order to mitigate

the risk, the amount of liquid assets in each of the currencies is maintained at a level exceeding the amount of liabilities in the respective currency. Government securities, which make up the greatest share of foreign currency assets, remain the most liquid assets. Sources of liquidity also include the balances of nostro accounts, credit facilities, short-term deposits and repo transactions, and cash inflow from coupon payments and redemption of securities in eligible currencies.

Under bank account agreements, the Bank of Russia accrues and pays interest on the balances of foreign currency accounts of government funds, based on the yields of indices, each of which is an aggregate of foreign government securities (denominated in the currency of the account) that have specific shares in this aggregate. The set of foreign government securities included in the index is established by the Federal Treasury and revised regularly in compliance with the procedure set forth in the said agreements. Liabilities related to interest payment are discharged by the Bank of Russia in Russian rubles. The Bank of Russia is the issuing bank that is why the said liabilities do not create any interest rate risk or liquidity risk for it.

Bank of Russia foreign currency assets are grouped into portfolios by the respective currency. For the purpose of evaluating the effectiveness of the management of the said portfolios, their yield is compared with the yield of standard portfolios<sup>2</sup>. The rate of return on

<sup>1</sup> The percent change in the value of a financial instrument or a class of instruments against the change in the corresponding interest rates by 1 percentage point.

<sup>2</sup> The set of instruments in each of the eligible currencies taken with certain weights. Standard portfolios reflect the target allocation of Bank of Russia assets in each of the eligible currencies.

Bank of Russia foreign currency assets was calculated as the total (realised and unrealised) return on investment as a percentage per annum for each of the eligible currencies. The cumulative rates of return on Bank of Russia foreign currency assets for 2017 are given in Table 22, Section V.4 Statistical Tables.

The Bank of Russia has a multi-tiered collegial system of investment decision-making. The Bank of Russia Board of Directors determines the objectives of managing assets in foreign currency and precious metals,

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

## II.2.3. Access to the financial market

### II.2.3.1. Credit institutions

As of 1 January 2018, the number of operating credit institutions with banking licences stood at 561 (including 44 nonbank credit institutions). In 2017, their number decreased by 62 or by 10%, including due to:

- revocation of licences of 51 credit institutions<sup>1</sup>;
- cancellation of licences of three credit institutions following a decision on voluntary liquidation made by their shareholders (participants);
- termination of activity as a result of the restructuring of nine credit institutions through merger;
- issue of a banking licence to one newly established nonbank credit institution to conduct operations with funds in rubles and foreign currency for settlement nonbank credit institutions.

During the reporting period, two banks changed their form of incorporation as a result of the restructuring through transformation, one bank changed its status to that of a nonbank credit institution, and one nonbank credit institution changed its status from that of a nonbank credit institution entitled to make funds transfers without opening bank accounts and other relevant banking operations to that of a settlement nonbank credit institution.

In 2017, four credit institutions expanded their activity by obtaining licences which granted the right to perform a wider scope of banking operations.

In the reporting year, the Bank of Russia decided to deny the expansion of the activity of three credit institutions through obtaining licences because of their failure to comply with the requirements established by Bank of Russia regulations.

Based on the decisions made by the Bank of Russia in 2017, amendments to the articles of association of 310 credit institutions were registered, of which 36 credit institutions had their banking licences replaced. As a result of licence replacement, universal licences were issued to three credit institutions in accordance with Federal Law No. 92-FZ, dated 1 May 2017, 'On Amending Certain Laws of the Russian Federation'.

The total authorised capital of operating credit institutions increased in 2017 by ₺251.895 billion, or by 10.6%, to ₺2,635.1 billion as of 1 January 2018.

As of 1 January 2018, there were 48 representative offices of foreign credit institutions accredited by the Bank of Russia in the territory of the Russian Federation. In 2017, the Bank of Russia extended the accreditation of 12 representative offices of foreign credit institutions,



<sup>1</sup> The grounds for revocation of banking licences are set forth in Subsection II.2.4.1 Credit Institutions, Banking Groups, and Bank Holding Companies / Supervisory measures.

while the accreditation of 11 representative offices of foreign credit institutions was terminated.

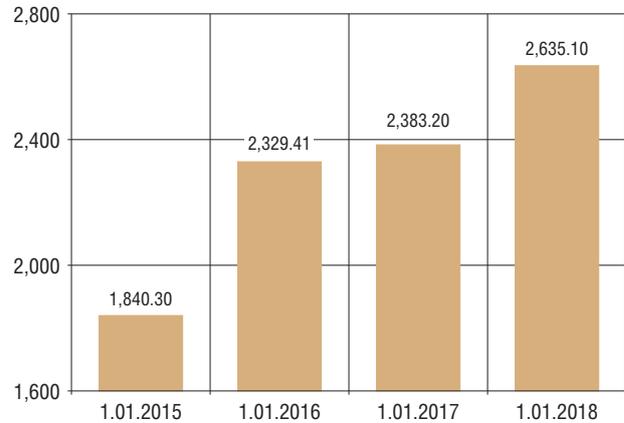
As of 1 January 2018, the total amount of nonresidents' investments in the authorised capitals of operating credit institutions was ₴403.4 billion, or 15.1% of the total paid-up authorised capital of the banking system (16.6% as of 1 January 2017). The number of operating credit institutions with nonresident stake holdings was 160 as of 1 January 2018 (174 as of 1 January 2017).

The share of foreign capital in the total authorised capital of credit institutions holding a banking licence, calculated by the Bank of Russia in accordance with the procedure determined by Article 18 of Federal Law No. 395-1, dated 2 December 1990, 'On Banks and Banking Activities', stood at 12.9% as of 1 January 2018 (13.5% as of 1 January 2017).

Over the reporting year, the number of branches of operating credit institutions decreased by 18.9% to 890 as of 1 January 2018.

The total number of internal divisions of credit institutions and their branches decreased by 2.7% to

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



33,286 as of 1 January 2018 (by 8.1% to 34,200 a year earlier). The number of mobile cash offices decreased by 39% to 3,033, while the number of additional offices increased by 2.5% to 20,263, credit and cash offices, by 1.5% to 1,972, operations offices, by 7.1% to 7,743, and mobile banking vehicles, by 7.4% to 275.

### II.2.3.2. Non-governmental pension funds

In 2017, the Bank of Russia did not issue any new licenses to non-governmental pension funds.

In 2017, three restructurings of non-governmental pension funds were approved, including one in the form of transformation of a non-commercial non-governmental pension fund into a joint-stock non-governmental pension fund and two restructurings in the form of a merger of joint-stock non-governmental pension funds. As a result of the said restructurings, one joint-

stock non-governmental pension fund was set up and the activities of one non-commercial pension fund and four joint-stock non-governmental pension funds were terminated.

During 2017, the Bank of Russia considered 24 requests for obtaining its preliminary approval of transactions to acquire more than 10% of shares of non-governmental pension funds (including 2 requests from individuals) and satisfied 17 requests.

### II.2.3.3. Insurance entities

In 2017, based on its decisions, the Bank of Russia issued the following to insurance entities:

- four insurance licences;
- five licences to perform mediation activity as an insurance broker;
- one mutual insurance licence.

In the reporting year, the Bank of Russia decided to replace the licence forms of seven insurance companies due to their restructuring through transformation (change in the form of incorporation). Ten licences were replaced.

#### II.2.3.4. Microfinance market entities

In 2017 (on 29 March), the transitional period established by Federal Law No. 407-FZ, dated 29 December 2015, 'On Amending Certain Laws of the Russian Federation and Invalidating Certain Provisions of Laws of the Russian Federation' ended, as a result of which microfinance organisations were legislatively divided into two types: microfinance companies and microcredit companies. As a result of this transition, the Bank of Russia entered the details of 631 microcredit companies and five microfinance companies into the state

register of microfinance organisations in the reporting period and changed the type of activity from that of a microcredit company to that of a microfinance company in respect of 50 operating microfinance organisations. Thus, in 2017, the status of a microfinance company was assigned to 55 organisations. The total number of microfinance organisations in the state register of microfinance organisations as of 1 January 2018 was 2,271, of which 60 operate as microfinance companies, and 2,211 as microcredit companies.

### II.2.3.5. Other participants

In 2017, the Bank of Russia issued one repository licence and one clearing licence, accredited two organisations as an entity performing the functions of a commodity delivery operator, assigned the status of a central counterparty to one organisation, decided to register two organisations as payment system operators, and resolved to make an entry in the state register of credit history bureaus regarding one organisation.

In 2017, the Bank of Russia issued two forex dealer licences, eight broker licences (including two customer broker licences), nine dealer licences, seven securities management licences, and ten depository licences.

In 2017, the following data were entered into the unified register of self-regulatory organisations in the financial market: a new self-regulatory organisation to which the status of a self-regulatory organisation with regard to insurance broker activity was assigned (assigned for the first time); one organisation with the status of a self-regulatory organisation with regard to consumer credit cooperative activity was excluded; the activity of one of the operating organisations was expanded and it was assigned the status of a self-regulatory organisation with regard to specialised depository activity.

Information on three branches of foreign credit rating agencies was entered for the first time into the register of branches and representative offices of foreign credit rating agencies.

Twelve management companies received licences during 2017.

In 2017, the list of representatives of bond owners was supplemented with the details of 17 persons who may be chosen (elected) as representatives of corporate bond owners, and as of 1 January 2018, their total number stood at 58.

Information on five entities was entered into the register of management companies of specialised entities. As of 1 January 2018, there were 22 such companies.

In 2017, the following changes were made with regard to organisations performing attestation of financial market specialists: one organisation was accredited, two organisations had their accreditations extended, the accreditation of one organisation expired, and one organisation had its accreditation revoked based on an application. The total number of accredited organisations that perform attestation of financial market specialists decreased by one in 2017 and amounted to 11 organisations as of 1 January 2018.

### II.2.3.6. National payment system participants

In accordance with Article 15 of Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System' (hereinafter, Federal Law No. 161-FZ), the Bank of Russia registers payment system operators. Based on Federal Law No. 161-FZ, the Bank of Russia and Joint-Stock Company National Payment Card System (JSC NPCS) are the operators of the Bank of Russia payment system and the Mir payment system respectively and they were not subject to registration and inclusion in the register of payment system operators.

In 2017, the Bank of Russia received applications from 13 organisations for registra-

tion as a payment system operator. Eleven of them were refused registration because of their non-conformity to the requirements of Federal Law No. 161-FZ and two organisations were registered as payment system operators. Five organisations were struck off from the register of payment system operators, of which three at their own request and two due to revocation of banking licences.

As of 1 January 2018, there were 30 payment system operators registered and entered into the register of payment system operators.

### II.2.3.7. Financial instruments

In 2017, the Bank of Russia continued to improve the procedures for financial instruments to access the financial market.

In 2017, the following measures were implemented:

- access to the financial market for financial instruments was separated from access for participants and the Corporate Affairs Department was set up to allow access to the financial market for financial instruments of both financial institutions and nonfinancial organisations;
- access for securities of credit institutions and non-bank financial institutions to the financial market was centralised;
- access for issue-grade securities of nonfinancial organisations to the financial market was transferred from Bank of Russia divisions to Bank of Russia regional branches and hubs. The procedure for monitoring access for issue-grade securities of nonfinancial organisations to the financial market by Bank of Russia regional branches and hubs was implemented.

In the medium term, under measures stipulated by the road map, the Bank of Russia plans to transfer individual powers of access for financial instruments to the financial market to market infrastructure participants<sup>1</sup>.

As part of developing electronic interaction in the financial market, in 2017, the Bank of Russia agreed to the possibility of issuing exchange-traded bonds and bond certificates in electronic form, without their execution on paper. To implement the possibility of issuing bonds and other securities, whose issues are registered by the Bank of Russia, in electronic form, the Bank of Russia developed a programme for preparing issue-grade securities in electronic form and started

creating a programme to automate the state registration of securities issues.

In 2017, the Bank of Russia worked to improve legislation<sup>2</sup> to simplify securities issuance (see Subsection II.3.5).

Continuing to improve access to the financial market for financial instruments, in 2017, the Bank of Russia:

- developed the procedure for the issuance of credit institutions' securities<sup>3</sup>, including in terms of defining the conditions for the issuance of demand bonds and enabling the accumulation of funds in foreign currency which are received as payment for shares in accounts with credit institutions chosen based on the national credit rating assigned to them;
- developed the procedure for registering the rules of trust management of a unit investment fund<sup>4</sup> for the purpose of optimising it;
- defined the specifics of the procedure for a bank to issue securities during the implementation by the Bank of Russia of measures to prevent the bank's bankruptcy using the Fund of Banking Sector Consolidation<sup>5</sup>.

In 2017, the Bank of Russia registered for the first time amendments to a circulating issue of bonds associated with the provision of a surety for such bonds and issued a first permit to a Russian company to place and organise the circulation of bonds outside the Russian Federation.

The Bank of Russia's work to improve access to the financial market for securities had a strong impact on the total number of issues of exchange-traded and commercial bonds admitted to the financial market in 2017 by the exchanges<sup>6</sup> and the central depository<sup>7</sup> (443 issues in 2017, which was 36.7% more than

<sup>1</sup> Transfer of individual powers of registration of shares while founding nonfinancial organisations to registrars and powers of registration of the rules of trust management of unit investment funds to specialised depositories.

<sup>2</sup> Draft Federal Law No. 319413-7 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation with Regard to Improving the Legal Regulation of Securities Issuance' (adopted by the State Duma of the Federal Assembly of the Russian Federation in the first reading on 24 January 2018).

<sup>3</sup> Bank of Russia Ordinance No. 4322-U, dated 23 March 2017, 'On Amending Bank of Russia Instruction No. 148-I, Dated 27 December 2013, 'On the Procedure for Credit Institutions to Issue Securities in the Russian Federation'.

<sup>4</sup> Bank of Russia Ordinance No. 4654-U, dated 20 December 2017, 'On Amending Bank of Russia Instruction No. 157-I, Dated 6 November 2014, 'On the Procedure for Registering the Rules of Trust Management of Unit Investment Funds and Amendments and Supplements Thereto'.

<sup>5</sup> Bank of Russia Ordinance No. 4476-U, dated 2 August 2017, 'On the Specifics of the Procedure for a Bank to Issue and Register Securities during the Implementation by the Bank of Russia of Measures to Prevent the Bank's Bankruptcy'.

<sup>6</sup> Here and below in this section, the exchanges shall mean Public Joint-Stock Company Moscow Exchange and Public Joint-Stock Company Saint Petersburg Exchange.

<sup>7</sup> NCI JSC National Settlement Depository is the central depository.

in 2016). In 2017, 528 issues of bonds were admitted with a total par value of ₴20,516.4 billion, \$1.68 billion, and €0.32 billion (in 2016, 418 issues with a value of ₴6,036.2 billion and \$1.66 billion).

The total amount of shares admitted to the market at par was ₴1,848.03 billion under 2,492 issues (in 2016, ₴2,649.9 billion under 2,672 issues). Moreover, the Bank of Russia registered 40 prospectuses of shares in 2017.

The total amount of securities placed in 2017 at par was ₴14,639.9 billion, \$1.22 billion, and €0.02 billion (₴2,118.2 billion – shares; ₴12,521.7 billion, \$1.22 billion, and €0.02 billion – bonds, including exchange-traded and commercial bonds). In 2016, the amount of shares placed was ₴1,810.5 billion, and the amount of bonds placed was ₴3,675.4 billion and \$3 billion.

The year 2017 saw a decline in the number of registered conditions of the issue and circulation of savings certificates and certificates of deposit. Five sets of conditions were registered in total (against 31 in 2016).

The number of new rules of trust management of unit investment funds and amendments and supple-

ments thereto registered in 2017 did not undergo significant changes compared to 2016 and amounted to 174 rules and 1,832 amendments and supplements thereto (in 2016, 170 rules and 1,628 amendments and supplements).

No new rules of trust management of mortgage coverage were registered in 2017; nine amendments and supplements were registered to earlier registered rules (in 2016, one new rule of trust management of mortgage coverage and 20 amendments and supplements were registered).

As of year-end 2017, the number of operating unit investment funds decreased by 3.6% to 1,497, including 327 open-end unit investment funds, 39 interval unit investment funds, and 1,131 closed-end unit investment funds. The number of effective registered rules of trust management of mortgage coverage decreased by 29 to 41.

In 2017, the Bank of Russia registered 13 amendments to the specifications of contracts that are financial derivatives (in 2016, 25 specifications and 19 amendments thereto).

## II.2.4. Regulation and supervision

In 2017, to increase the effectiveness of supervision, elaborate uniform approaches towards the implementation of supervisory procedures, and mitigate the risks inherent in supervisory activity, the Core Standard of Banking Supervision of CIs and the Supervisory Activity Standard with Regard to NFIs were developed and approved.

The Bank of Russia continued to automate supervisory processes. Within the Uniform Information System for Support of Bank of Russia Operations, the functional sub-system Supervised Institution Consolidated File (FSS Conso File) is being developed to enable automation of off-site supervision processes implemented by CI supervisors and NFI supervisors to increase the timeliness and soundness of decision-making by raising the efficiency of supervisory processes based on the use of modern technologies. The FSS Conso File prototype is used to analyse consolidated data on CIs and NFIs, to record supervisory measures and their outcomes, and to analyse related counterparties. Development of other software suites also makes it possible to increase the promptness and depth of supervisory and analytical procedures and reduce the volume of labour resources allocated for performing these tasks.

Starting from 1 January 2017, NFIs switched to new accounting and reporting standards based on the principles of International Financial Reporting Standards (IFRS) (see Subsection II.2.11 on the implementation of IFRS principles in accounting).

In 2017, publication of the consultation paper 'The Use of Informed (Professional) Judgement in the Bank of Russia's Supervisory Practice' was an event that aroused interest in financial market participants. The extension of the list of possible areas for the regulator to use informed (professional) judgement in its supervisory practice and when providing access to the financial market for institutions will ensure the balance between the evaluation of formal compliance with the set requirements and the qualitative analysis of the activities of financial institutions and will allow it to respond proactively to risks arising in their activities. Public consultations comprised meetings with the professional community to discuss the provisions of the paper. Following the results of the meetings and based on the opinions received from market participants and their self-regulatory organisations, a report on the outcomes of public consultations was published on the Bank of Russia website.

## II.2.4.1. Credit institutions, banking groups, and bank holding companies

### Regulation of the activities of credit institutions, banking groups, and bank holding companies

2017 saw the introduction of amendments<sup>1</sup> to Federal Law No. 395-1, dated 2 December 1990, 'On Banks and Banking Activities' (hereinafter, Federal Law No. 395-1) with the participation of the Bank of Russia. These amendments were aimed at dividing banks into banks with a universal licence and banks with a basic licence proceeding from the amount of their equity capital.

The new requirements for the minimum equity capital of operating banks will apply starting from 1 January 2018. Until 1 January 2019, banks with an equity capital less than ₹1 billion (but more than ₹300 million) will be able to increase their equity capital to ₹1 billion to continue their activity as banks with a universal licence or change their status to that of banks with a basic licence<sup>2</sup>.

A transitional five-year period is provided for to retain the resource base and ensure gradual adaptation to the new business model.

The type of banking licence determines the regulatory load on a bank. The full scope of requirements applies to banks with a universal licence, while banks with a basic licence are subject to simplified regulation, which stipulates, among other things:

- non-application of new, sophisticated international regulatory standards;
- reduction of the list of statements to be submitted to the Bank of Russia;
- introduction of simplified requirements for information disclosure;
- the possibility for a head of the Risk Management Service to perform the functions of a head of the Internal Control Service;
- a reduced number of the required ratios and special aspects of their calculation;
- establishment of a specific assessment of the economic position of banks with a basic licence, taking into account the reduced list of the required ratios stipulated for them.

The simplifications provided for by the legislation were implemented in Bank of Russia regulations.

Furthermore, in 2017, the Bank of Russia worked to improve the regulation of banks' required ratios and the procedure for making reserves. New versions of regulations were published, providing for:

- clarification of approaches towards using credit ratings for foreign and national objects of rating;
- introduction of risk assessment benefits in respect of corporate borrowers registered in the territory of the Republic of Crimea or the federal city of Sevastopol;
- determination of the procedure for including clearing participation certificates received when contributing assets to the property pool formed by the clearing organisation – central counterparty in the calculation of required ratios.

The Bank of Russia continued work to limit risks on mortgage loans. In particular, it raised risk ratios (from 150% to 300%) for mortgage loans in rubles with a small down payment made after 1 January 2018.

In 2017, the Bank of Russia continued to improve effective laws for the purpose of acquiring powers to regulate the activities of bank holding companies and supervise them. There are plans to make bank holding companies subject to regulation applied to banking groups.

In particular, bank holding companies will have to comply with the required ratios, capital adequacy ratio buffers, and requirements for risk and capital management and internal control systems. Executives of the parent company of a bank holding company will be subject to the same business reputation and qualification requirements as established for the management of credit institutions. Moreover, the term 'bank holding company' will also include informal associations of credit and nonbank financial institutions which have the same owners.

The Bank of Russia continues to consistently implement international approaches towards the regulation of credit institutions, including those established by documents of the Basel Committee on Banking Supervision (BCBS). For example, in 2017, the Bank of Russia estab-

<sup>1</sup> Federal Law No. 92-FZ, dated 1 May 2017, 'On Amending Certain Laws of the Russian Federation'.

<sup>2</sup> The minimum capital for a bank with a universal licence has been established at ₹1 billion and for a bank with a basic licence, at ₹300 million.

lished the procedure<sup>1</sup> for the calculation of and compliance with the structural liquidity ratio<sup>2</sup> (net stable funding ratio, NSFR) by systemically important credit institutions in all currencies on a consolidated basis. The NSFR is aimed at ensuring the healthy funding structure of a credit institution and limits excessive transformation of short-term, less stable sources of the resource base into long-term assets. The minimum admissible numerical value of the NSFR is set at 100%, which corresponds to the requirements of Basel III. As a required ratio the NSFR became effective starting from 1 January 2018.

In 2017, the Bank of Russia implemented a new procedure for calculating the credit risk on investments in funds for the purpose of compliance with the capital adequacy ratios, and also established a new financial leverage ratio N1.4. The minimum admissible numerical value of the ratio is 3%. As a required ratio this ratio applies only to banks with a universal licence and has been in effect starting with statements executed as of 1 February 2018.

Furthermore, the requirements for information disclosure provided for by Basel II<sup>3</sup> were implemented. Unified forms for disclosing information on assumed risks and the procedures for their assessment and for risk and capital management were established for credit institutions (except for banks with a basic licence) and banking groups, and the rules and timeframes for disclosing information about risks were updated. The scope of information to be disclosed in the annual (interim) accounting statements is given in accordance with the requirements of IFRS<sup>4</sup>.

In 2017, the Bank of Russia in its regulations:

- established the procedure for the Bank of Russia to disclose on its official website the statements of credit institutions (banking groups) and information about the risks to be disclosed by credit institutions (banking groups);
- established an additional attribute for determining the affiliation of a credit institution with an entity (entities);
- updated the procedure for including the reporting data of banking group participants, which are insurance companies, in the consolidated statements and other information about the banking group's

activities, as well as the procedure for determining the banking group's stakeholding in the activity of a banking group participant;

- explained the procedure for cross-border banking groups to calculate capital adequacy ratio buffers and reflect their values in statements;
- established the procedure for the annual confirmation of the share of banking activity in the activities of a bank holding company and for electronic notification of the Bank of Russia on the occurrence of grounds as a result of which a bank holding company ceases to meet the definition of a bank holding company as per Federal Law No. 395-1;
- simplified the procedure for evaluating the financial position of banks, which are subject to bankruptcy prevention measures, to exclude the duty of such banks to pay insurance premiums at an additional increased rate.

In 2017, the Bank of Russia evaluated bank methodologies for credit risk management and credit risk quantification models for the purpose of calculating capital adequacy ratios under the Basel II internal ratings-based (IRB) approaches towards credit risk calculation of Sberbank and Raiffeisenbank.

The Bank of Russia issued Sberbank a permit to use the IRB approach starting from 1 January 2018 for exposures in respect of which the bank had filed a request for the application of this approach. The Bank of Russia will exercise further supervision and monitoring of Sberbank's compliance with the applicable methodologies.

In 2017, the Bank of Russia completed the first stage of evaluating the application of the IRB approach by Raiffeisenbank.

## Off-site supervision

In 2017, the Bank of Russia continued its large-scale banking supervision reform based on its centralisation. The reform provides for the implementation of organisational and substantive changes which would enable:

- to implement risk-based and proactive supervision based on unified supervision approaches and standards;

<sup>1</sup> Bank of Russia Regulation No. 596-P, dated 26 July 2017, 'On the Procedure for Systemically Important Credit Institutions to Calculate Structural Liquidity Ratio (Net Stable Funding Ratio) (Basel III)'.

<sup>2</sup> The second of the two liquidity ratios under Basel III.

<sup>3</sup> The Consultative Document 'Pillar 3 Disclosure Requirements – Updated Framework' (under Basel II 'Market Discipline').

<sup>4</sup> Credit institutions (banking groups) will disclose information on risks and updated interim accounting statements for 2018 Q1 for the first time.

- to improve supervision technology;
- to integrate new technology for interaction with credit institutions based on electronic document flow.

Substantive changes touched upon the improvement of supervisory processes, including the optimisation of the decision-making and monitoring systems and the requirements for the level of competence of specialists. The reform included the implementation of projects in the field of IT-based management of supervisory processes.

Interaction between banking supervision and NFI supervision is being improved.

As of year-end 2017, significant results with regard to banking supervision centralisation were achieved while ensuring supervision succession and continuity:

- the Bank of Russia set up a new structural unit of the head office, the Service for Ongoing Banking Supervision (SOBS), to which all regional branches are transferring the functions of supervision over credit institutions (except for systemically important credit institutions, their subsidiaries, and the central counterparty, NCI NCC (JSC));
- cross-functional interaction and the exchange of significant information were organised between the SOBS and all Bank of Russia divisions involved in supervision, and uniform procedures for monitoring the quality of supervision were implemented;
- the personnel selection procedure was developed based on the comprehensive assessment of professional, analytical, and management competences.

An experiment is being conducted under which credit institution supervisors take part in inspections to reduce the time for considering the results thereof and make decisions on the application of measures against credit institutions.

In 2017, the functions of supervision over credit institutions which used to be supervised by the Bank of Russia Main Branch for the Central Federal District and by the Far Eastern and Southern Main Branches were transferred to the SOBS. As of 1 January 2018, the SOBS supervised 369 credit institutions (65.7% of the total number of operating credit institutions).

A new model of banking supervision presence in the regions was implemented. The supervisory employees in the regions are SOBS employees; they support supervisory activity in terms of prompt interaction with credit institutions and visual control and monitoring of their operations and execute the orders of the bank supervisor. Additional functions of regional employees include their participation in inspections and provisional

administrations and analysis of inspection documents of the Internal Control Service and Internal Audit Service of credit institutions.

As of 1 January 2018, according to Article 76 of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' (hereinafter, Federal Law No. 86-FZ), Bank of Russia authorised representatives were appointed to 143 credit institutions (149 credit institutions a year earlier), including all systemically important credit institutions and their subsidiaries (except one).

Bank of Russia supervision divisions continued their interaction in the field of financial markets to implement the practice of consolidated supervision over financial groups (including informal ones) which include nonbank financial institutions. Regular information exchange was maintained to evaluate the mutual impact of the group participants on their financial condition; proposals to synchronise inspections of related credit institutions and insurance companies were introduced.

In 2017, the Bank of Russia carried out the first assessment of the quality of the internal capital adequacy assessment process (ICAAP) and capital adequacy in a number of credit institutions with assets exceeding ₺500 billion. In 2018, the Bank of Russia will also make such an assessment for credit institutions with assets less than ₺500 billion and for banking groups the assets of the parent credit institutions of which exceed ₺500 billion. Therefore, the Bank of Russia will continue to improve the methodology and quality assessment of the ICAAP of banking groups.

To increase the effectiveness of banking supervision, the Bank of Russia worked to unify supervisory procedures and improve the methodological framework of supervision and supervisory technology. For example, the Core Banking Supervision Standard was developed and approved and the methodology of supervisory regimes as part of the procedure for determining risk profiles of credit institutions and the intensity of supervisory regimes was adjusted (the Bank of Russia approved a technical solution and updated the interactive questionnaire covering risk factors revealed in credit institutions' activities).

In 2017, the requirements were established to develop the Supervised Institution Consolidated File to ensure the automation of supervisory processes based on the use of modern technologies.

Identification of problems in the activities of banks at early stages and implementation of effective supervisory response measures for the purpose of ensuring banking sector stability and protecting interests of cred-

itors and depositors remained a priority of supervisory activity in 2017.

A number of problems in credit institutions' activities remained the focus of supervisory attention:

- understatement of credit risk and loss provisions; overstatement of the value of securities, subjects of pledge (the absence of the subjects of pledge at their location), or real estate, as a result of which fictitious income is formed;
- fraudulent formation of equity capital sources;
- financing of owners' business;
- withdrawal of assets from credit institutions and misrepresentation of accounting statements.

In 2017, the Risk Analysis Service continued to extend its competence. Credit and market risks of banks were assessed on a regular basis. The corresponding information was delivered to the divisions responsible for banking supervision and was used in the analysis of banks' conformity to the regulatory requirements.

Assessment of credit risks of corporate borrowers for 2017 involved the analysis of over 8,000 loans, which revealed a significant number of loans under which losses were understated by credit institutions.

Along with the mass technology of credit risk assessment, especially large, systemically important borrowers were also subject to a comprehensive analysis, including calculation of the total debt burden of related companies. In 2017, over 150 such borrowers with a total debt burden in excess of ₹7 trillion were analysed. During the year, opinions were prepared in which the securities of over 300 issuers were analysed in terms of their market risk / fair value.

The comprehensive evaluation of potential credit losses was also facilitated by the expert examination of the pledge accepted by credit institutions as security under loans. The expert examination evaluated the availability of the pledge, its legal status, and the value of the subject of pledge. In 2017, over 20,000 subjects of pledge and over 15,000 assets of credit institutions were evaluated.

The Bank of Russia worked to develop the approaches to the assessment of operational risks of banks and risks under homogeneous retail loan portfolios. The results of this work will be used in consultative supervision.

In 2017, the Bank of Russia worked on connecting and testing electronic document flow technology

using personal accounts; the technology provides for electronic information exchange between the Bank of Russia and financial market participants.

The compulsory household deposit insurance system continues to function at banks of the Russian Federation (hereinafter, the deposit insurance system)<sup>1</sup>.

As of 1 January 2018, 781 banks were registered in the deposit insurance system, including 472 operating banks and 309 banks that were undergoing liquidation (Table 38, Section V.4 Statistical Tables).

The deposit insurance system covers household deposits in one bank for a maximum amount of ₹1.4 million.

To resolve the problem of the so-called 'off-balance sheet' deposits, the Bank of Russia started creating the Unified Deposit Registration System based on the accounting and operational information (information of the operating day) that the Bank of Russia plans to receive from credit institutions. The individual insurance account number (SNILS) is supposed to be used to identify depositors. Depositors are to be notified of opened deposit accounts via the Unified Portal of Public and Municipal Services (Functions) (UPPS). All information on deposits will be kept at the Bank of Russia and the UPPS will be used as an authentication and identification point using the Unified System of Identification and Authentication.

Moreover, the Bank of Russia approved draft amendments of the Government of the Russian Federation to draft Federal Law No. 286345-7 'On Amending Article 172<sup>1</sup> of the Criminal Code of the Russian Federation and Article 160<sup>1</sup> of the Code of Criminal Proceedings of the Russian Federation', which included the Bank of Russia's proposals to create a distinct offence providing for a penalty on a credit institution for the failure to reflect in statements information on household funds taken on deposit, i.e., for the so-called 'off-balance sheet' deposits.

### Inspection of credit institutions

In 2017, the Bank of Russia conducted 460 inspections of credit institutions (their branches)<sup>2</sup>.

As much as 74% of the total number of inspections were scheduled and 66% of unscheduled inspections were carried out due to information available about material violations in CI activities, including the signs

<sup>1</sup> According to Federal Law No. 177-FZ, dated 23 December 2003, 'On the Insurance of Household Deposits with Russian Banks'.

<sup>2</sup> The number of inspections started in 2017 is specified.

of manipulation of household deposits and double accounting of foreign exchange operations. Taking into account risk-based approaches to the organisation of inspections, inspections were carried out by individual lines of business or by types of banking operations and transactions<sup>1</sup>.

Simultaneous inspections of supervised institutions controlled by one beneficial owner (one group of beneficial owners) were a focus of significant attention. In particular, 11 CIs and 19 NFIs participating in five banking groups and one bank holding company were inspected.

Inspections were also conducted in 32 credit institutions participating in 16 banking groups (excluding NFIs), including 20 resolved credit institutions and their investors. The results of a comprehensive approach to consideration of the operations of group / holding company participants revealed high-risk operations performed for the benefit of group beneficiaries; the actual absence of high-quality liquid assets reflected in the official statements of supervised institutions; signs of fiduciary transactions when lending to affiliates; and various fraudulent operations conducted for the purpose of concealing the real level of consolidated risk.

The majority of violations discovered in the course of inspections of credit institutions are associated with the understatement of credit risk (77%). Furthermore, along with the breach of the procedures for assessing financial position and debt servicing quality, credit institutions also engaged in relending, concealed the real duration of overdue loans, committed multiple violations of laws during the execution of credit agreements with individuals, and falsified documents for the possible camouflaging of real losses.

The failure to comply with the requirements of law on anti-money laundering and countering the financing of terrorism (AML/CFT) accounted for 11% of the violations discovered in the course of 208 inspections started in 2017.

For the purpose of evaluating the timeliness and fullness of payment of insurance premiums to the compulsory deposit insurance fund, the procedure for accounting liabilities to depositors, and the ability of credit institutions to prepare the register of these liabilities in due time, 77 inspections were conducted in 2017.

At all stages of inspection activities, the Bank of Russia maintained active information interaction with supervisory, monitoring, and law-enforcement agen-

cies. Measures to improve inspection activities were taken on a continuous basis.

## Supervisory response

In 2017, just like the year before, the Bank of Russia's supervisory response was primarily geared towards early identification of negative trends in the activities of credit institutions and the adoption of adequate measures to prevent the development of these trends. Information on the measures applied to credit institutions in 2017 is shown in Table 36, Section V.4 Statistical Tables.

As part of the early response procedures, the management and (or) boards of directors (supervisory boards) of 601 credit institutions received written information on shortcomings in their activities and recommendations on how to correct them.

Supervisory meetings were held with representatives of 443 credit institutions to demonstrate to the management and owners of the credit institutions the problems identified and the need to remedy them independently.

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

- fines (247 credit institutions);
- restrictions on certain types of transactions carried out by credit institutions (135 credit institutions);
- bans on certain types of banking transactions carried out by credit institutions (28 credit institutions);
- demands (on 484 credit institutions);
- bans on opening branches (41 credit institutions);
- appointment of provisional administrations to manage credit institutions without revoking their licences (including provisional administrations whose functions are assigned to the DIA and the LLC Fund of Banking Sector Consolidation Asset Management Company) (12 credit institutions).

In 2017, the Bank of Russia, in pursuance of Article 74 of Federal Law No. 86-FZ and Article 20 of Federal Law No. 395-1, revoked the licences of 51 credit institutions, which was almost half the number in 2015 and 2016.

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

<sup>1</sup> Almost all. Only one inspection was conducted on a comprehensive basis.

- enforced against a credit institution more than once: 51 cases (96 in 2016);
- repeated violations, within one year, of the requirements set out in Federal Law No. 115-FZ, dated 7 August 2001, 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' and Bank of Russia regulations issued in accordance therewith: 24 cases (35 in 2016);
  - evidence of significant misreporting of data: 5 cases (5 in 2016);
  - capital adequacy below 2%: 14 cases (39 in 2016);
  - a credit institution's equity capital falling below the minimum authorised capital amount established as of the date of the credit institution's state registration: 14 cases (36 in 2016);
  - failure to comply with Bank of Russia requirements for the harmonisation of the authorised capital and equity capital within the timeframe established in Paragraph 4.1 of Chapter IX of the Federal Law 'On Insolvency (Bankruptcy)': 2 cases (no such cases in 2016);
  - inability to satisfy creditors' claims under monetary obligations within 14 days of the due date: 8 cases (15 in 2016).

The total assets of credit institutions whose banking licences had been revoked by the Bank of Russia in 2017 amounted to ₹927 billion, or 1.2% of total banking sector assets; their total deposits raised from the population amounted to ₹380 billion, or 1.5% of total banking sector deposits<sup>1</sup>.

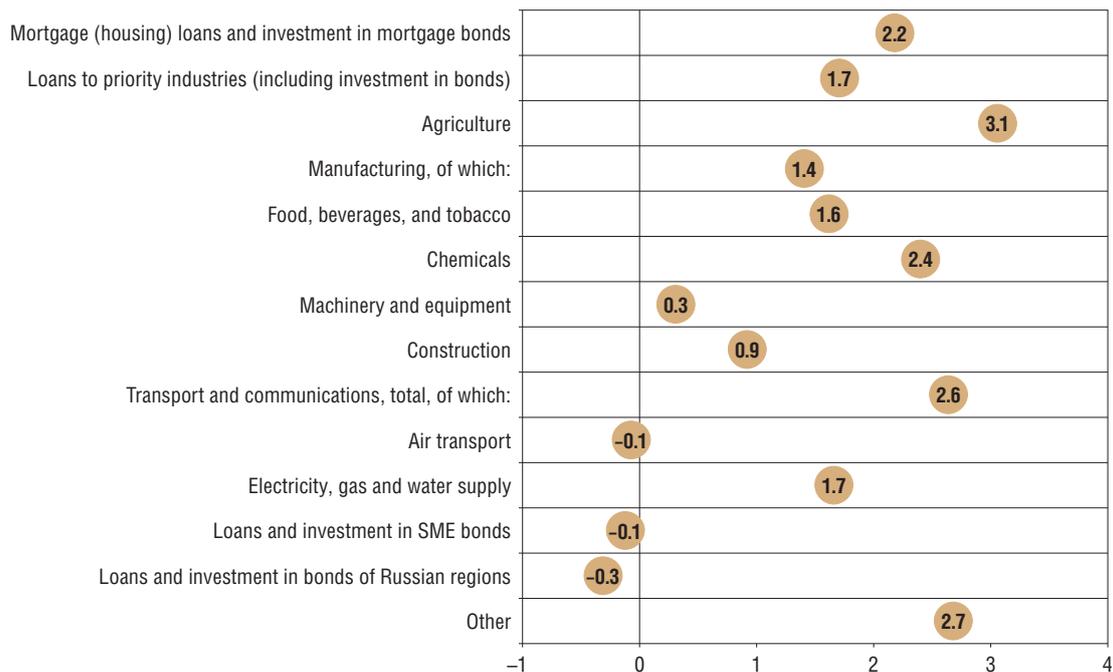
Most credit institutions (31 out of 51) whose licences had been revoked during the reporting period were registered in Moscow and the Moscow Region.

### Monitoring of use of funds received by credit institutions under the recapitalisation programme through the state corporation Deposit Insurance Agency

In the course of banking supervision, the banks which are subject to measures to increase capitalisation by OFZ placement through the DIA are the focus of increased attention.

In 2017, the Bank of Russia carried out regular monitoring of the use of funds received by banks in accordance with Federal Law No. 451-FZ, dated 29 December 2014, 'On Amending Article 11 of the Federal Law 'On the Insurance of Household Deposits with Russian

**Average monthly growth rates in lending by group of banks supported by government through the DIA as of 1 January 2018 (as per banks' special statements to the DIA, percent)**



<sup>1</sup> The shares were calculated using credit institutions' performance indicators registered as of the last reporting date before revocation of banking licences and aggregate indicators of the banking sector as of 1 January 2017.

Banks' and Article 46 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'<sup>1</sup>.

Participation of banks in the programme to increase capitalisation through the DIA enabled significant growth in lending to the economy<sup>2</sup>. As of 1 January 2018, since the start of the programme for banks' recapitalisation through the DIA (2015), the growth in lending and investment of funds by participating banks in bonds of the priority sectors of the economy, SMEs, housing mortgage lending (HML), and constituent territories of the Russian Federation amounted to ₽2,065 billion, which is 2.6 times more than the amount of funds received by banks under the programme.

After receiving the OFZs, the recapitalised banks mostly provided housing mortgage loans and invest-

ed in mortgage bonds (33% of the total growth in the claims portfolio) and loans to manufacturing enterprises (25%), agricultural enterprises (14%), and transport and communications enterprises (12%)<sup>3</sup>.

The results of monitoring of the use of government support funds show that the requirement for increasing the total portfolio was generally observed in the group of recapitalised banks: as of 1 January 2018, the average monthly growth in lending and investment in bonds of the priority sectors of the economy, SMEs, HML, and constituent territories of the Russian Federation in these banks amounted to 1.3%<sup>4</sup>. Meanwhile, as of 1 January 2018, four out of 24 reporting banks<sup>5</sup> did not comply with the increase requirements set forth in the Procedure.

<sup>1</sup> In connection with Decree of the State Duma of the Federal Assembly of the Russian Federation No. 5807-6 GD, dated 19 December 2014, 'On Draft Federal Law No. 298254-6 'On Amending Article 11 of the Federal Law 'On the Insurance of Household Deposits with Russian Banks' and Article 46 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'.  
<sup>2</sup> According to the Procedure and Conditions for Investing the Property Contribution of the Russian Federation to DIA Property in the Subordinated Liabilities and Preference Shares of Banks (hereinafter, the Procedure), one of the main requirements for obtaining these funds was banks' obligation to increase the aggregate volume of ruble lending within three years after the recapitalisation, including mortgage (housing) lending, and (or) lending to small and medium-sized enterprises, and (or) constituent territories of the Russian Federation, and (or) entities conducting their business in one or several sectors of the economy, by no less than 1% per month. Apart from actual loans, calculation of the increase should also include bank investments in the ruble-denominated mortgage bonds and the ruble bonds issued by the aforementioned entities and purchased by banks.  
<sup>3</sup> Based on DIA data as of 1 January 2018.  
<sup>4</sup> The average monthly indicators were calculated for each bank for the period starting from their receipt of funds from the DIA.  
<sup>5</sup> As part of measures to increase capitalisation, 34 banks received funds through the DIA (and three subsidiary banks received funds for recapitalisation through parent institutions). Later on, three out of the 34 credit institutions which received funds for recapitalisation were restructured through merger. One bank made partial early repayment of subordinated loans received from the DIA. One bank had its banking licence revoked. Subordinated liabilities of five banks to the DIA were terminated due to the implementation of bankruptcy prevention measures with regard to these banks. Therefore, as of 1 January 2018, 24 banks reported on the increase in lending to the priority areas.

## II.2.4.2. Non-governmental pension funds

For the purpose of governing the activities of non-governmental pension funds, the Bank of Russia developed the following regulations.

1) Bank of Russia Regulation No. 580-P<sup>1</sup>, dated 1 March 2017, which establishes the following:

- additional restrictions on the investment of pension savings of an NPF providing mandatory pension insurance, including requirements for the assets in which the pension savings of the NPF are invested;
- cases when a management company (MC) acting as a trustee of pension savings of an NPF is entitled to execute repo agreements;
- requirements aimed at risk mitigation the observance whereof entitles an MC acting as a trustee of pension savings of an NPF to execute financial derivative contracts;
- additional requirements for credit institutions which servicemen pension and housing savings are placed with;
- the additional requirement for an MC selected competitively to invest pension savings transferred to it in trust management by the Pension Fund of the Russian Federation in accordance with the applications of insured persons for choosing an MC investment portfolio to comply with during the effective period of the pension savings trust management agreement to finance funded pension.

2) Bank of Russia Ordinance No. 4579-U<sup>2</sup>, dated 11 October 2017, which establishes the procedure for calculating the value of net assets comprising pension savings and the total market value of pension reserves and the procedure for accepting assets and liabilities for calculating the net asset value.

3) Bank of Russia Ordinance No. 4636-U<sup>3</sup>, dated 6 December 2017, which defines the requirements for stress testing of NPFs to be performed using the stress testing scenarios developed by the Bank of Russia.

Stress testing scenarios are developed taking into account possible unfavourable changes in market conditions, in particular, the decline in economic growth rates, interest rate growth or the decline in stock indices, the lowering of credit ratings, or default on obligations by major counterparties or securities issuers.

In 2017, the Bank of Russia took the following measures based on identified violations of the pension laws of the Russian Federation:

- sent 105 orders to eliminate violations to NPFs and their management companies;
- imposed a ban on operations related to non-governmental pension provision of one NPF;
- issued 15 administrative offence reports for NPFs and four reports for NPF management companies;
- cancelled the licences of two NPFs for repeated violations of the requirements of pension laws;
- cancelled the qualification certificates of 30 financial market specialists in charge of the management of investments funds, unit investment funds, and NPFs.

The licences of two NPFs were cancelled based on the request of the licensees to give up their licences. Following mergers and takeovers in the market, four NPFs were merged with other NPFs.

In the course of inspections with regard to NPFs, in 2017, Bank of Russia authorised representatives started inspections of 37 NPFs, of which 20 were conducted on a coordinated basis (along with the inspections of other NPFs, CIs, and an insurance company).

The aforementioned inspections in a number of NPFs revealed violations in the investment of pension reserves and pension savings, along with instances of investing in assets of low investment quality, providing and disclosing unreliable information, violating the requirements for internal controls, and other violations of laws on non-governmental pension funds.

<sup>1</sup> Bank of Russia Regulation No. 580-P, dated 1 March 2017, 'On Additional Restrictions on Investing Pension Savings Placed with Non-governmental Pension Funds Providing Mandatory Pension Insurance; on Cases When a Management Company Acting as a Trustee of Pension Savings Is Entitled to Execute Repo Agreements; on Requirements Aimed at Risk Mitigation the Observance Whereof Entitles the Management Company to Execute Financial Derivative Contracts; on Additional Requirements for Credit Institutions Which Servicemen Pension and Housing Savings are Placed with; and on the Additional Requirement for the Management Company to Finance Funded Pension under Pension Savings Trust Management Agreement'.

<sup>2</sup> Bank of Russia Ordinance No. 4579-U, dated 11 October 2017, 'On the Procedure for Calculating the Current Market Value and the Value of Net Assets Held in Trust Management under a Trust Management Agreement to Manage Pension Savings; on the Procedure and Timeframe for Calculating the Market Value of Assets into Which Pension Savings are Invested; and on the Total Market Value of a Non-governmental Pension Fund's Pension Reserves'.

<sup>3</sup> Bank of Russia Ordinance No. 4636-U, dated 6 December 2017, 'On Amending Bank of Russia Ordinance No. 4060-U, Dated 4 July 2016, 'On the Requirements for the Organisation of the Risk Management System of a Non-Governmental Pension Fund'.

In 2017, the number of NPFs decreased by eight to 66 as of 31 December 2017. There were 38 NPFs engaged in mandatory pension provision and participating in the system guaranteeing the rights of insured persons. Sixty-two NPFs were engaged in non-governmental pension provision. The

amount of the pension savings guarantee fund was ₺1,063.79 million<sup>1</sup>.

During the time of the functioning of the system guaranteeing the rights of insured persons, no loss events associated with the cancellation of licences of participating funds occurred.

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<sup>1</sup>Based on information published on the DIA official website.

### II.2.4.3. Insurance entities

To ensure the financial stability and solvency of insurers, in 2017, the Bank of Russia prepared for the long-term implementation of a risk-based approach towards the regulation of the Russian insurance market on the basis of Solvency II. The Bank of Russia developed the Concept of Risk-based Approach to Regulation of the Insurance Sector in the Russian Federation, in which the objectives and priority areas of activity in the course of transition to the risk-based approach are set out.

In 2017, for the purpose of developing individual types of insurance, the Bank of Russia published the consultation papers 'Proposals to Develop Medical Insurance in the Russian Federation', 'Proposals to Develop Life Insurance in the Russian Federation', and 'Proposals to Develop Agricultural Insurance with Government Support in the Russian Federation'. Wide discussion of these papers with the professional and expert community will enable the Bank of Russia to determine the list of measures to be taken for the purpose of further development of the Russian insurance sector and improving the mechanisms for the protection of the rights and legal interests of insurance services consumers and timely implementation of the best practices and tools in the insurance market.

For the purpose of increasing the financial stability and solvency of insurers in 2017, the Bank of Russia developed and adopted regulations governing the procedure for investing insurers' funds. New qualitative and quantitative requirements for assets were introduced.

As part of regulation of the financial stability and solvency of insurance companies, in 2017, due to the transition to sectoral accounting standards, the Bank of Russia developed and adopted a regulation that updated the procedure for calculating the equity capital to liabilities ratio by an insurance company.

In 2017, insurance tariffs for compulsory third party liability insurance of the owner a hazardous facility for inflicting damage as a result of an accident at such hazardous facility and compulsory third party liability insurance of a carrier for inflicting damage to the life, health or property of passengers during transportation, which had been established in 2016, were updated. Adjusted

values of the insurance tariffs were developed with due regard to the influence of economic factors and current losses under individual types of hazardous facilities, means of transport and transportation.

In 2017, the Russian National Reinsurance Company, a joint-stock company (JSC RNRC), operated in the insurance market. It was established by the decision of the Bank of Russia Board of Directors in pursuance of Federal Law No. 363-FZ<sup>1</sup>, dated 3 July 2016, to ensure the financial stability of Russian insurers and protect the property interests of the Russian Federation and its constituent territories and municipalities, as well as legal entities and individuals, given the external political environment.

In 2017, JSC RNRC accrued reinsurance premiums in the amount of ₹7,703,667,000 under 6,744 reinsurance agreements, including 6,366 optional agreements and 378 obligatory agreements. Following the results of JSC RNRC operation for 12 months of 2017, the target for accrued premiums was achieved by 101% (the target was ₹7,594,392,000).

In the field of agricultural insurance, in 2017, the Bank of Russia exercised oversight in accordance with the established procedure over the activities of the United Association of Agroindustrial Complex Insurers – National Association of Agricultural Insurers (NAAI), including oversight over the creation of a compensation fund by the NAAI and making compensation payments. According to Part 3 of Article 10 of Federal Law No. 260-FZ<sup>2</sup>, dated 25 July 2011, in 2017 Q4, the Bank of Russia agreed on the possibility of allocating no more than 25% of funds received by the NAAI from investing the money of the compensation fund to finance five target programmes to develop the system of agricultural insurance with government support.

In 2017, the Bank of Russia continued monitoring of insurers' performance indicators in the segment of property developers public liability (PDPL) insurance. In the course of monitoring, the Bank of Russia developed new detailed formats for data submission by insurers, including the list and status of troubled construction projects. As of 31 December 2017, PDPL insurance could be provided by 16 insurers that met the require-

<sup>1</sup> Federal Law No. 363-FZ, dated 3 July 2016, 'On Amending the Law of the Russian Federation 'On the Organisation of the Insurance Business in the Russian Federation'.

<sup>2</sup> Federal Law No. 260-FZ, dated 25 July 2011, 'On Government Support for Agricultural Insurance and on Amending the Federal Law 'On Agricultural Sector Development'.

ments of Federal Law No. 214-FZ<sup>1</sup>, dated 30 December 2004. The total amount of liability under PDPL agreements was ₪3,240 billion, and JSC RNRC was a party to five PDPL reinsurance agreements.

Moreover, on 20 October 2017, the public company 'Fund for the Protection of the Rights of Individual Shared-equity Construction Participants'<sup>2</sup> was registered. The Fund receives fees from developers only in respect of new construction objects under which the first shared-equity agreement was concluded after 20 October 2017. PDPL insurance for new projects was stopped and insurers may conclude insurance agreements only in respect of objects that are already being built.

In 2017, the Bank of Russia implemented a large-scale project to transform its regional branches supervising insurance entities, which was developed as part of the programme for re-engineering the Bank of Russia's business processes in order to increase the effectiveness of supervision over insurance entities, including due to the synergy effect of centralisation and adherence to the principles of group supervision.

As part of the inspection of insurance entities, in 2017, Bank of Russia authorised representatives started on-site inspections of 136 insurance companies. In the course of studying the activity of insurance entities, material risks to financial stability and solvency were revealed in connection with the failure to comply with the procedure for investing insurance reserves and equity capital on the part of a number of insurers, with the investment of assets in financial instruments of inadequate quality, and in terms of formation of insurance reserves. Furthermore, in the course of inspection of individual insurance companies, signs of fictitious transactions and insurer involvement in operations showing signs of illegal cashing of funds through multiple private accounts were discovered. There were also instances of systematic submission of unreliable information by individual insurers to the Bank of Russia (including information on the amount of insurers' liabilities and insurance agreements concluded).

In the reporting year, 11 major insurance companies were inspected for compliance with laws on compulsory third party liability insurance (CMTPLI), includ-

ing insurers' duty to enable the conclusion of CMTPLI agreements in the form of electronic documents<sup>3</sup>. The inspections revealed evidence of the failure of insurance companies to comply with insurance laws, systematic failure to provide the possibility of concluding CMTPLI agreements in the form of electronic documents with each requesting person, and threats to the rights and lawful interests of policy holders and other financial services consumers (persons intending to conclude an agreement).

Moreover, according to the decisions made following the parliamentary hearings in the State Duma of the Russian Federation, concurrent inspections of 13 insurance companies providing developer liability insurance to shared-equity construction participants were conducted. Some inspections revealed evidence of insurers' exposure to elevated risks, including due to the nonmarket mechanism of insurance tariffs formation and insurers' failure to perform detailed analysis of developer activity before concluding a respective insurance agreement.

Based on the revealed facts, detailed analysis was performed using off-site supervision methods, and supervisory response measures were taken where necessary.

In 2017, 13 provisional administrations of the Bank of Russia were appointed to insurance companies; as of 31 December 2017, 11 of them terminated their activity, including five administrations due to the achievement of the goal of their appointment. In all cases, the results of financial analysis performed by provisional administrations confirmed the off-site supervision findings.

In the second half of 2017, Bank of Russia employees took part in the provisional administration of PJSC Bank FC Otkritie with regard to overseeing the activity of the systemically important insurance company PJSC Rosgosstrakh in order to monitor its financial and economic activities, oversee the execution of corporate procedures, and determine the insurer's financial position and the need for recapitalisation.

In 2017, the number of insurance entities continued to decline. As of 1 January 2018, there were 225 insurance companies, one national reinsurance company, 71 insurance brokers, and 12 mutual insurance com-

<sup>1</sup> Federal Law No. 214-FZ, dated 30 December 2004, 'On Participating in Shared-equity Construction of Apartment Houses and Other Real Estate and on Amending Certain Laws of the Russian Federation'.

<sup>2</sup> Established in accordance with Federal Law No. 218-FZ, dated 29 July 2017, 'On a Public Company for the Protection of the Rights of Individual Shared-equity Construction Participants in Case of the Insolvency (Bankruptcy) of Developers and on Amending Certain Laws of the Russian Federation'.

<sup>3</sup> See Subsection II.3.1 Protecting the Rights of Financial Services Consumers and Investors.

panies operating in the insurance market<sup>1</sup>. It should be noted that the decline in the number of insurance entities slowed down, which testifies to the gradual stabilisation of the market and the willingness and interest of the remaining participants in conducting activity in compliance with the legislative requirements.

The maintenance of dossiers on insurance companies was a key focus of the Bank of Russia's supervisory activity in the insurance market in 2017. This helped speed up decision-making on determining the risk profile of insurers and modes of supervision over them. The dossier of an insurance company includes a set of information concerning the supervised entity updated by the supervisor of the insurance company on a continu-

ous basis, which includes information on the ownership structure of the insurer, corporate governance, and the internal control and risk management system; analysis of the financial position of the insurer, including analysis of assets, liabilities, and factors that shape the financial result of the insurer; analysis of the financial planning system; and monitoring of the accomplishment of business plans. The maintenance of dossiers on insurance companies by supervisors on a continuous basis is one of the factors that ensured the effective use of a risk-based approach in the Bank of Russia's supervisory activity in the financial market, including prompt application of supervisory measures in order to prevent the development of negative trends in insurers' activity.

<sup>1</sup>Detailed information is provided in Table 9, Section V.4 Statistical Tables.

## II.2.4.4. Microfinance market entities

In the course of developing off-site supervision in the microfinance market, the Bank of Russia is improving its supervision tools, including the procedure for compiling dossiers on microfinance organisations, and is creating the institution of supervisors and a system of internal control over supervision and data quality.

According to the adopted Bank of Russia Supervision Standard with regard to NFIs, optional documents were prepared, including those regarding off-site supervision:

- of MCCs by self-regulatory organisations (SROs) in the financial market which unite MFOs and of CCCs with fewer than 3,000 members by SROs in the financial market which unite CCCs;
- of SROs uniting MFOs and SROs uniting CCCs by the Bank of Russia.

As part of off-site supervision, regulations were adopted which defined:

- the procedure for making loan loss provisions by MFOs<sup>1</sup>;
- the procedure for determining misreporting by MFOs to the Bank of Russia and its materiality qualifiers<sup>2</sup>;
- the procedure for calculating financial ratios of ACCCs<sup>3</sup>.

As part of the creation of a system to supervise MFOs and CCCs through their SROs, the Bank of Russia approved the following core standards:

- the Core MFO Risk Management Standard;
- the Core Standard for CCC Operations in the Financial Market;
- the Core CCC Corporate Governance Standard;
- the Core Standard for the Protection of the Rights and Interests of Legal Entities and Individuals, Consumers of Financial Services Provided by Members of SROs Uniting MFOs;
- the Core Standard for the Protection of the Rights and Interests of Legal Entities and Individuals, Con-

sumers of Financial Services Provided by Members of SROs Uniting CCCs.

As part of the implementation of the proportionate regulation of microfinance market entities (MFME), the Bank of Russia adopted ordinances to establish economic ratios for the following companies:

- MFCs raising funds from individuals, including individual entrepreneurs, and (or) from legal entities in the form of loans;
- MFCs that issue and place bonds<sup>4</sup>;
- MCCs raising funds from individuals, including individual entrepreneurs that are founders (members, shareholders), and (or) from legal entities in the form of loans<sup>5</sup>.

In 2017, MFOs' sensitivity to the introduction of a limit on the borrower's maximum debt on interest accrued, penalty, other measures of liability, and payments on short-term (up to one year) consumer loans against the amount of loan was analysed. Based on the results of such analysis, proposals were developed to further limit the borrower's total debt on microloans.

Proposals were prepared to reduce the maximum amount of borrower's liabilities to MFOs under a consumer loan agreement, upon reaching which the creditor will not be entitled to accrue or charge interest for using the loan or penalty (fine) or to apply other sanctions to the borrower under the said agreement until the debt is fully repaid.

The Bank of Russia published a consultation paper 'Credit Cooperation Development' on its website. Comments made by professional community with regard to the paper will be taken into account by the Bank of Russia when elaborating proposals to improve Russian laws in the field of credit cooperation and preparing regulations.

To preserve the ability of CCCs to place the reserve funds as loans of second-tier CCCs in the absence of

<sup>1</sup> Bank of Russia Ordinance No. 4406-U, dated 13 June 2017, 'On Amending Bank of Russia Ordinance No. 4054-U, Dated 28 June 2016, 'On the Procedure for Microfinance Organisations to Make Loan Loss Provisions'.

<sup>2</sup> Bank of Russia Ordinance No. 4168-U, dated 27 October 2016, 'On the Procedure for Determining Misreporting by Microfinance Organisations to the Bank of Russia and its Materiality Qualifiers'.

<sup>3</sup> Bank of Russia Ordinance No. 4299-U, dated 27 February 2017, 'On the Numerical Value of the Financial Ratio and the Procedure for Calculating Financial Ratios of Agricultural Consumer Credit Cooperatives'.

<sup>4</sup> Bank of Russia Ordinance No. 4382-U, dated 24 May 2017, 'On Setting Economic Ratios for a Microfinance Company Raising Funds from Individuals, Including Individual Entrepreneurs, and (or) Legal Entities, in the Form of Loans, and for a Microfinance Company Issuing and Placing Bonds'.

<sup>5</sup> Bank of Russia Ordinance No. 4384-U, dated 24 May 2017, 'On Setting Economic Ratios for a Microcredit Company Raising Funds from Individuals, Including Individual Entrepreneurs, Who are Founders (Members, Shareholders), and (or) Legal Entities in the Form of Loans'.

credit ratings assigned by credit rating agencies and approved rating methodologies for second-tier CCCs, amendments to the procedure for placing the reserve funds of consumer credit cooperatives were developed and sent to the Ministry of Justice of Russia<sup>1</sup>.

To improve supervision of MFMEs, in 2017, the Bank of Russia prepared dossiers on all existing market participants which contained the necessary information on their activity and financial position.

In the course of Bank of Russia supervision of MFMEs, in 2017, 4,475 orders to eliminate violations of Russian laws and 54 orders to prohibit CCCs from raising funds, accepting new members, and issuing loans were issued to MFOs, CCCs, ACCCs, HSCs, and pawnshops; 4,347 cases on administrative offences were initiated.

To ensure financial stability and financial market development, the Bank of Russia continued to strike off organisations that did not comply with legislative requirements, violated financial consumer rights, failed to comply with requirements for names, financial stability, and reliability, did not join a SRO, or did not provide any microloans during the year from the state register of MFOs. In 2017, details of 928 legal entities were struck off from the state register of MFOs: 623 organisations terminated their activity due to repeated violations of laws during the year, and 305 organisations terminated their activity voluntarily after losing the status of an MFO based on applications.

As a result of coordinated supervisory actions, the Bank of Russia discovered the operation of a large pyramid scheme involving 22 CCCs, one insurance company, and over 300 non-supervised organisations. The materials submitted by the Bank of Russia served as grounds for initiating a criminal case and detaining the conspirators at a federal level.

In 2017, the Bank of Russia continued the systematic application of supervisory response measures in respect of the insolvency (bankruptcy) of CCCs.

During the year, the Bank of Russia made decisions to appoint three provisional administrations to CCCs that were large microfinance market participants. Such appointments were caused by repeated violations of financial ratios by two CCCs and the issuance of an order to one CCC prohibiting fundraising,

admission of new members, and issuance of loans in the absence of notifications of the existence of the said circumstances.

The said provisional administrations were appointed with the limitation of the powers of the CCC's executive bodies. Subsequently, based on a petition filed by the provisional administration to suspend the powers of the executive bodies, a decision was made to suspend the powers of the executive bodies of one CCC.

In 2017, four provisional administrations in CCCs were being monitored, including one provisional administration appointed in 2016.

In the course of work in this area, meetings with the heads of the provisional administrations and CCCs were held; recommendations were given to the CCCs to provide the necessary documents to the provisional administrations for compiling their opinions on the financial position and on developing solvency recovery plans; and deadlines for submitting opinions on the financial position of CCCs were monitored.

Following the results of the said measures, the activity of one provisional administration of the CCC was terminated due to the achievement of the goal of recovering the solvency of the CCC and meeting the target objectives; in respect of three CCCs decisions were made to file applications with the arbitration courts to recognise them as insolvent (bankrupt).

In the course of inspection activity with regard to MFMEs, in 2017, Bank of Russia authorised representatives held on-site inspections of 53 CCCs, 17 MFOs, eight pawnshops, two ACCCs, and one HSC.

In 2017, a new type of inspections suggested within the framework of business process re-engineering was launched, i.e., standardised short-term inspections of MFMEs in terms of compliance with the laws on consumer loans. In 2017 Q4, six inspections of this type were completed. They revealed numerous violations of the requirements of Russian laws on consumer loans.

Inspections of certain MFMEs revealed non-compliance with the financial ratios and signs of the breach of the requirements of Russian laws and regulations in the field of countering the legalisation (laundering) of criminally obtained incomes and the financing of terrorism. Furthermore, instances of submitting unreliable information to the Bank of Russia were discovered.

<sup>1</sup> Bank of Russia Ordinance No. 4612-U, dated 16 November 2017, 'On Amending Bank of Russia Ordinance No. 3805-U, Dated 24 September 2015, 'On the Procedure for Investing Reserve Funds of Consumer Credit Cooperatives'.

## II.2.4.5. Other participants

### Collective investment market entities (except NPFs)

To improve regulation of the activities of collective investment market entities, the Bank of Russia developed Ordinance No. 4346-U<sup>1</sup>, dated 6 April 2017, which sets limitations the compliance with which allows one to conclude financial derivative contracts and repo contracts.

In 2017, the Bank of Russia took the following measures based on identified violations of laws of the Russian Federation:

- 296 orders to provide information (of which 67 concerned the winding up of PIFs) and 141 orders to eliminate violations (of which 45 concerned the winding up of PIFs) were sent;
- 32 qualification certificates were cancelled;
- 43 orders to extend the term for the winding up of PIFs were issued;
- 283 administrative cases were considered and penalties were imposed in 165 of them;
- Bank of Russia representatives took part in 16 court sessions where lawsuits of supervised entities were considered.

The comprehensive inspection of specialised depositories (SDs) of bond mortgage coverage was completed. In respect of violations discovered in the course of the inspection, measures to eliminate them were implemented, and measures aimed at mitigating risks in the activity of SDs were taken.

In the course of inspection activity, in 2017, Bank of Russia authorised representatives started on-site inspections of four management companies of investment funds, PIFs and NPFs, and one specialised depository.

As part of regulatory support of the activity of NFI and SRO supervisors, the Bank of Russia approved Ordinance No. 4488-U<sup>2</sup>, dated 11 August 2017.

### Professional securities market participants

The Bank of Russia's supervisory activity standard with regard to NFIs which was approved in 2017 set

out the goals, objectives, and principles of supervision, established applicable supervisory procedures, and defined the procedure for establishing the supervision mode depending on the company's risk profile and category in accordance with the supervision mode matrix.

In order to determine the risk profile of supervised institutions when implementing risk-based supervision, the corresponding methodology and tools were developed and implemented, including evaluation of the financial position, performance indicators, and behavioural aspects of company activities. As a result of work on risk profile determination, companies were grouped by risk level, and participants requiring enhanced supervision were identified.

Automation of the risk profile determination process made it possible to calculate and update the risk profile of professional securities market participants (PSMPs) on a weekly basis, which helped make supervision more effective in terms of promptly identifying supervisory facts in the activity and financial position of companies, performing essential inspections, and removing dishonest participants from the market.

Identifying the category of an NFI depending on its performance indicators makes it possible to apply proportionate requirements to the activity and determines the choice of the supervision mode to be implemented for a supervised entity.

In supervising NFIs, the Bank of Russia implemented the 'Trigger Indicators' project, which made it possible to reorganise the supervisory process through optimising the work of supervisors and enabling prompt response to incoming reporting. The project allowed to use a risk-based approach to supervisory activities and to early identify trends in changes in a company's financial position and its business model. Keeping the focus on material changes in performance indicators and on the existing problem zones of a company, triggers act as one of the main sources of supervisory facts.

In 2017, there were 1,545 Bank of Russia orders to eliminate or prevent violations in respect of PSMPs, and six in respect of financial market infrastructure organisations (FMIOs). There were 3,652 requests for information (including those sent as an order) in respect of

<sup>1</sup> Bank of Russia Ordinance No. 4346-U, dated 6 April 2017, 'On Amending Clauses 2.10 and 4.2 of Bank of Russia Ordinance No. 4129-U, Dated 5 September 2016, 'On the Composition and Structure of Assets of Joint-stock Investment Funds and Unit Investment Funds'.

<sup>2</sup> Bank of Russia Ordinance No. 4488-U, dated 11 August 2017, 'On Organising and Implementing the Activity of Supervisors of Nonbank Financial Institutions and Financial Market Self-regulatory Organisations in the Bank of Russia'.

PSMPs, and 90 in respect of FMIOs. There were 283 administrative offence reports in respect of PSMPs, and 19 in respect of FMIOs.

As part of supervision and monitoring of the activities of brokers, dealers, and trust managers to counter malpractices, protect the rights and lawful interests of investors, and increase the transparency of services, work was performed:

- to prevent risks associated with substantial investments of customers of a management company in the subordinated bonds of a credit institution affiliated with it (supervisory actions were timely performed, which contributed to reduced customer investments in the said securities);
- to improve the auto-follow service<sup>1</sup> provided by brokers (the main risk zones of the service were identified, including those associated with brokers' use of regulatory arbitrage with respect to the activity of trust managers);
- to eliminate risks associated with a broker's 'pseudo-trust management' of its customers' assets under powers of attorney (as a result of supervisory measures, the broker stopped this practice);
- to investigate models of PSMPs' use of their customers' securities (currently amendments are being introduced to the existing regulation to limit PSMPs' use of customers' securities);
- to identify brokers that do not fulfil the orders of their customers on a priority basis as compared to their own operations (supervisory response measures were taken with regard to a large broker that did not fulfil customer orders on a priority basis).

To counter the falsification of reports, in 2017, the Bank of Russia started to carry out a centralised analysis of reports and confirm the rights to securities. As part of this activity, measures were adopted in respect of depositories that contributed to the distortion of data on the equity capital of credit institutions and PSMPs, including with the use of foreign accounting institutions (Great Britain, Cyprus, and Bulgaria). As an interim result, the professional securities market participant licences of two depositories were cancelled and the inspection materials were forwarded to law enforcement agencies.

The Bank of Russia worked to standardise the activities of financial institutions that are SRO members as

part of developing and implementing core standards for their activities. The Bank of Russia set up six committees on standards for all types of professional activities in the securities market. As a result of the work of these committees, five core standards were developed, and the Bank of Russia approved two of them in 2017. In particular, the Core Standard for Operations in the Financial Market When Acting as a Forex Dealer was approved, which enabled these organisations to start their activities in the territory of the Russian Federation. Core standards to perform operations by brokers, depositories, and registrars were also developed. Core standards are called to establish universal principles which reflect modern supervisory practice and shape the attitude towards the business practices of financial intermediaries as best and fair practices or unfair practices.

While exercising its powers in the field of regulating the activities of professional securities market participants and infrastructure organisations, the Bank of Russia took the following measures during 2017.

Following the results of discussion with the professional community of the consultation paper 'Improving the Regulation of Brokerage Activity', which had been published earlier, the Bank of Russia developed the Concept of Amendments to the Regulation of Brokerage Activity. There are plans to implement it before 2020. While implementing the concept, the Bank of Russia adopted Regulation No. 577-P<sup>2</sup>, dated 31 January 2017, to update the requirements for PSMPs in the field of internal accounting. The said Regulation supplements the list of transactions subject to internal accounting, governs the assignment of the function of internal accounting, clarifies the duty to keep records of customers' assets at the places of custody, sets out the criteria for grouping and sampling the accounting data reflected in internal accounting, and updates the minimum requirements for a broker's reports to customers.

To improve the regulation of brokerage activity, a draft regulation was developed to establish margin requirements for a broker's transactions with financial derivatives performed for the benefit of a customer.

In 2017, the Bank of Russia published the consultation paper 'Improving the Regulation of Dealer Activity' on its website. The paper analysed modern models of investment activity at one's own expense on different

<sup>1</sup> Auto-follow is a service which automatically copies the transactions of one of a broker's customers (the strategy author) into the accounts of other customers of the broker, who are called subscribers. Subscribers using this service expect to earn income in an amount similar to that of the strategy author.

<sup>2</sup> Bank of Russia Regulation No. 577-P, dated 31 January 2017, 'On the Internal Accounting Rules of Professional Securities Market Participants Engaged in Brokerage, Dealer, and Securities Management Activities'.

segments of the financial market and made specific proposals to improve its regulation.

The Bank of Russia completed measures for improving the existing system of advanced training and certification of financial market specialists by the Bank of Russia. The qualification exam programmes to certify citizens in all areas of professional securities market activities were updated to bring them into line with existing Russian laws.

In 2017, the Bank of Russia completed work on a regulation that set the requirements for brokerage activity with regard to the calculation of the liquidity coverage ratio where customers entitle brokers to use their funds in the brokers' interest<sup>1</sup>. The liquidity coverage ratio is aimed at ensuring that a broker has a reliable level of liquidity by creating a reserve of unencumbered high quality liquid assets sufficient to continue its activity for one month (30 days) amid a substantial outflow of cash funds; this would contribute, inter alia, to the safekeeping of customer funds received by the broker with the right to use them in the broker's interest. It is also aimed at ensuring that the broker repays such funds on the customer's demand no later than the next business day.

To implement measures for building a system of risk-based supervision, in 2017, the Bank of Russia developed a regulation that set the requirements for PSMPs to organise a system for managing risks associated with professional securities market activities and operations with their own assets, depending on the type of activity and the nature of operations performed<sup>2</sup>. The said regulation established the general requirements for organising a risk management system and the requirements for the processes and activities, documents and personnel necessary for organising the risk management system.

The Bank of Russia improved the procedure for making decisions on the suspension, renewal, or cancellation of a professional securities market participant licence, the timeframes for making such decisions, the list of documents for cancellation of a licence on the licensee's initiative, and the procedure for sending a notification of licence cancellation to a company. Moreover, the Bank of Russia established the procedure for it to simultaneously decide on the revocation of a banking licence and cancellation of a professional securities market partici-

part licence of an organisation and the conditions under which the Bank of Russia shall be entitled to establish the deadline for an organisation to terminate obligations associated with the conduct of the corresponding type of professional securities market activity.

In 2017, a regulation was adopted establishing the requirements for dealer and brokerage activity, securities management activity, and forex dealer activity regarding the calculation of the capital adequacy ratio<sup>3</sup>. The capital adequacy ratio is aimed at ensuring a reliable level of capital of a PSMP by forming a pool of assets with fewer risks to continue activity, including ensuring a possibility to cover financial losses at its own expense should the risks materialise.

In 2017, the Bank of Russia took an active part in developing the institution of the commodity delivery operator (CDO). Amendments to legislation were developed and adopted to improve regulation of clearing activity and central counterparty activity; in particular, they provided for the possibility of performing CDO functions without storing assets and without opening commercial commodity accounts in accordance with CDO conditions, which is necessary for the functioning of CDOs in oil and gas trading.

In the course of inspection activity, in 2017, Bank of Russia authorised representatives started on-site inspections of 18 PSMPs.

In the course of 14 coordinated inspections of PSMPs, instances of fraudulent transactions consisting in the temporary replacement of improper assets with high-quality securities for the purpose of formal conformity to the requirements for the minimum equity capital, instances of the breach of licence requirements and conditions of professional securities market activity, and the breach of other requirements of Russian laws and regulations governing the activity of professional securities market participants were discovered.

### Self-regulatory organisations in the financial markets

To improve the regulation of SRO activity, in 2017, the Bank of Russia adopted eight regulations which established, among other things:

<sup>1</sup> Bank of Russia Ordinance No. 4402-U, dated 6 June 2017, 'On the Requirements for Brokerage Activity with Regard to the Calculation of the Liquidity Coverage Ratio Where Customers Entitle Brokers to Use Their Funds in the Brokers' Interest'.

<sup>2</sup> Bank of Russia Ordinance No. 4501-U, dated 21 August 2017, 'On the Requirements for Professional Securities Market Participants to Organise a System to Manage Risks Related to Their Professional Activity in the Securities Market and Operations with Their Own Assets Depending on the Type of Activity and the Nature of Operations Performed'.

<sup>3</sup> Bank of Russia Ordinance No. 4630-U, dated 30 November 2017, 'On the Requirements for Dealer, Brokerage, Securities Management and Forex Dealer Activities with Regard to the Calculation of the Capital Adequacy Ratio'.

- the content, form, procedure and timeframe for SROs to submit their statements to the Bank of Russia<sup>1</sup>;
- the list of core standards which SROs uniting forex dealers must develop and the requirements for their content, as well as the list of operations (content of the activities) of forex dealers in the financial market which are subject to standardisation;
- the requirements for the content of core standards to protect the rights and interests of individuals and legal entities that are the recipients of financial services provided by members of SROs uniting MFOs, CCCs, brokers, managers, depositories, and registrars;
- the procedure for the Bank of Russia to delegate the powers to receive statements from SRO members to a SRO, the procedure for exercising such powers, the procedure and grounds for their termination, and the list of statements the powers to receive which the Bank of Russia may delegate to a SRO<sup>2</sup>;
- the procedure for approving core standards by the Bank of Russia Standards Committee for the Respective Activity of Financial Institutions and for approving the agreed-upon standards by the Bank of Russia<sup>3</sup>.

In 2017, there were 10 standards committees functioning under the Bank of Russia, whose main objectives included coordination of the core standards developed by SROs and elaboration of proposals to develop the activities of financial institutions, including the activities of brokers, dealers, registrars, managers, forex dealers, CCCs, MFOs, insurance companies, and insurance brokers, and depository activity.

In 2017, the Bank of Russia approved seven core standards for the activity of forex dealers, MFOs, CCCs, and managers.

In the course of inspection activity, in 2017, Bank of Russia authorised representatives started one on-site inspection of a CCC SRO.

No supervisory response measures were applied to self-regulatory organisations uniting NPFs, MCs, and SDs.

As of the end of 2017, there were three SROs uniting MFOs and eight SROs uniting CCCs operating in the market. Members of the said SROs were 100% of MFCs, 95% of MCCs, and 70%<sup>4</sup> of CCCs.

In 2017, regulatory and supervisory measures were taken to identify violations by SROs of the requirements established by federal laws, Russian regulatory legal acts, Bank of Russia regulations, core standards, and internal standards.

Following the results of the regulatory and supervisory measures, 12 orders were issued to SROs to eliminate violations of Russian laws, and six cases on administrative offences were initiated.

On 28 December 2017, the Bank of Russia decided to terminate the status of one SRO in the financial market uniting CCCs because of the breach of the requirements of Russian laws, repeated failure to comply with the deadlines for fulfilling Bank of Russia requests, and failure to provide information or provision of false information.

### Credit rating agencies

In 2017, the Bank of Russia finished the elaboration of approaches to comparing the rating scales of credit rating agencies.

On 15 November 2017, the Bank of Russia published the final report 'Creating a System to Compare Rating Scales of Credit Rating Agencies (Mapping)'. The mapping methodology is expected to be used for regular preparation of a table of equivalence of credit ratings assigned by Russian credit rating agencies after the latter accumulate sufficient statistical data on defaults for a wide range of the objects of rating, including nonfinancial organisations.

In accordance with the provisions of Federal Law No. 222-FZ<sup>5</sup>, dated 13 July 2015, if Russian laws provide for the use of credit ratings by the federal government, local government, local self-government bodies, or the Bank of Russia, credit ratings assigned on the national rating scale for the Russian Federation shall be applied to Russian rating objects.

<sup>1</sup> Bank of Russia Ordinance No. 4262-U, dated 13 January 2017, 'On the Content, Form, Procedure and Timeframe for Self-regulatory Organisations in the Financial Market to Submit Statements to the Bank of Russia'.

<sup>2</sup> Bank of Russia Ordinance No. 4281-U, dated 7 February 2017, 'On the Procedure for the Bank of Russia to Delegate the Powers to Receive Statements from Members of a Self-Regulatory Organisation in the Financial Market to a Self-Regulatory Organisation in the Financial Market, the Procedure for Exercising Such Powers, the Procedure and Grounds for Their Termination, and the List of Statements the Powers to Receive Which the Bank of Russia May Delegate to a Self-Regulatory Organisation in the Financial Market'.

<sup>3</sup> Bank of Russia Ordinance No. 4484-U, dated 9 August 2017, 'On the Procedure for the Bank of Russia Standards Committee for the Respective Activity of Financial Institutions to Coordinate Core Standards and for the Bank of Russia to Approve Such Core Standards'.

<sup>4</sup> When calculating this indicator, the number of CCCs, excluding organisations being under restructuring or liquidation, was taken as 100%.

<sup>5</sup> Federal Law No. 222-FZ, dated 13 July 2015, 'On the Activities of Credit Rating Agencies in the Russian Federation, on Amending Article 76.1 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and Invalidating Certain Provisions of Russian Laws' (hereinafter, Federal Law No. 222-FZ).

By 14 July 2017, the Bank of Russia Board of Directors had approved the lists of credit rating agencies and the levels of credit ratings, including for the purposes of:

- investment of pension savings<sup>1</sup>;
- investment of an insurer's equity capital and insurance reserve funds<sup>2</sup>;
- determination of the amount of equity capital of professional securities market participants<sup>3</sup>;
- determination of the amount of equity capital of non-governmental pension funds<sup>4</sup> and management companies<sup>5</sup>;
- calculation of financial ratios<sup>6</sup> and placement of the reserve funds of consumer credit cooperatives<sup>7</sup>;
- inclusion of securities in the Bank of Russia Lombard List<sup>8</sup>.

These decisions provided for the use, in respect of Russian objects of rating, of credit ratings assigned by credit rating agencies included in the register of credit rating agencies of the Bank of Russia (ACRA (JSC) and Expert RA JSC) according to the national rating scale for the Russian Federation.

Furthermore, in 2017, the Bank of Russia published five information letters<sup>9</sup> on its official website, which, in particular, reported on the use starting from 1 July 2017 in respect of Russian rating objects of credit ratings assigned by credit rating agencies on the basis of methodologies whose conformity to the requirements of Federal Law No. 222-FZ has been confirmed by the Bank of Russia, as well as the methodologies of credit rating agencies in respect of which such conformity has been confirmed.

## Actuaries

To improve the system for regulating actuarial activity, in 2017, the Bank of Russia adopted two regulations which established additional requirements for the contents of an actuarial report resulting from the actuarial evaluation of the activity of a non-governmental pension fund<sup>10</sup>, insurance company, or mutual insurance company<sup>11</sup>.

In the course of supervisory activities, the Bank of Russia sent self-regulatory organisations of actuaries its requirements for inspection of individual members,

<sup>1</sup> Bank of Russia Regulation No. 580-P, dated 1 March 2017, 'On Additional Restrictions on Investing Pension Savings Placed with Non-governmental Pension Funds Providing Mandatory Pension Insurance; on Cases When a Management Company Acting as a Trustee of Pension Savings Is Entitled to Execute Repo Agreements; on Requirements Aimed at Risk Mitigation the Observance Whereof Entitles the Management Company to Execute Financial Derivative Contracts; on Additional Requirements for Credit Institutions Which Servicemen Pension and Housing Savings are Placed with; and on the Additional Requirement for the Management Company to Finance Funded Pension under Pension Savings Trust Management Agreement'; 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 Mandatory Pension Insurance, Additional Requirements for Credit Institutions with Which Servicemen Pension and Housing Savings are Placed, and Additional Requirements for Management Companies under Pension Savings Trust Management Agreement' – with regard to investments of pension savings made before 13 July 2017.

<sup>2</sup> Bank of Russia Ordinance No. 4298-U, dated 22 February 2017, 'On the Procedure for Investing Insurer's Equity Capital and the List of Assets Eligible for Investment'; Bank of Russia Ordinance No. 4297-U, dated 22 February 2017, 'On the Procedure for Investing Insurance Reserve Funds and the List of Assets Eligible for Investment'; Bank of Russia Ordinance No. 3849-U, dated 16 November 2015, 'On the Requirements for the Insurers' Association to Invest Funds from Government-support Agricultural Insurance Compensation Payments'.

<sup>3</sup> Bank of Russia Regulation No. 548-P, dated 19 July 2016, 'On the Procedure for Calculating the Equity Capital of Professional Securities Market Participants and Applicants for a Professional Securities Market Participant Licence'.

<sup>4</sup> Bank of Russia Ordinance No. 4028-U, dated 30 May 2016, 'On the Procedure for Calculating the Equity Capital of Non-governmental Pension Funds'.

<sup>5</sup> Bank of Russia Ordinance No. 4075-U, dated 19 July 2016, 'On the Requirements for the Equity Capital of Management Companies of Investment Funds, Unit Investment Funds, and Non-governmental Pension Funds, and Applicants for a Management Company Licence'.

<sup>6</sup> Bank of Russia Ordinance No. 3916-U, dated 28 December 2015, 'On the Procedure for Calculating the Financial Ratios of Consumer Credit Cooperatives and Their Numerical Values'.

<sup>7</sup> Bank of Russia Ordinance No. 3805-U, dated 24 September 2015, 'On the Procedure for Investing Reserve Funds of Consumer Credit Cooperatives'.

<sup>8</sup> Bank of Russia Ordinance No. 2861-U, dated 10 August 2012, 'On the Securities Included in the Bank of Russia Lombard List'.

<sup>9</sup> Information letters: No. IN-06-51/21, dated 12 May 2017, 'On Using Credit Ratings'; No. IN-06-51/24, dated 30 May 2017, 'On Methodologies of Credit Rating Agencies'; No. IN-06-51/32, dated 22 June 2017, 'On Methodologies of Credit Rating Agencies'; No. IN-06-51/48, dated 11 October 2017, 'On Methodologies of Credit Rating Agencies'; No. IN-06-51/55, dated 29 November 2017, 'On the Methodology of a Credit Rating Agency'.

<sup>10</sup> Bank of Russia Ordinance No. 4595-U, dated 31 October 2017, 'On Additional Requirements for the Contents of an Actuarial Report Resulting from the Actuarial Evaluation of the Activity of a Non-governmental Pension Fund' (along with 'Information to be Included in an Actuarial Report Resulting from the Actuarial Evaluation of the Activity of a Non-governmental Pension Fund, in Addition to the Requirements Established in Article 5 of the Federal Law 'On Actuarial Activity in the Russian Federation')).

<sup>11</sup> Bank of Russia Ordinance No. 4533-U, dated 18 September 2017, 'On Additional Requirements for an Actuarial Report Resulting from the Mandatory Actuarial Evaluation of the Activity of an Insurance Company or Mutual Insurance Company, Including the Requirements for Its Contents, Submission, and Publication' (along with 'Information to be Included in an Actuarial Report Resulting from the Mandatory Actuarial Evaluation of the Activity of an Insurance Company or Mutual Insurance Company, in Addition to the Requirements Established in Article 5 of the Federal Law 'On Actuarial Activity in the Russian Federation')).

as a result of which four actuaries were subjected to disciplinary measures in the form of a fine.

In 2017, the Bank of Russia held a qualification exam for persons wishing to join self-regulatory organisations of actuaries, which was successfully passed by 25 applicants.

### Central counterparties

In 2017, the Bank of Russia continued to reform the institution of the central counterparty, which plays a key role in supporting the smooth and stable functioning of the financial market. As a result of the reform initiated in 2015, a central counterparty became to be considered as a separate type of nonbank credit institution (NCI-CC) and a separate model of prudential regulation of the central counterparty's activity was formed, which would take into account its specific aspects.

In the period under review, the following was established at the level of Bank of Russia by-laws ensuring the appropriateness of the central counterparty's regulatory environment to its risk profile, nature, and the scale of operations:

- the requirements for the methodologies for risk stress testing and assessment of the accuracy of the central counterparty's model, for risk stress testing and assessment of the accuracy of the central counterparty's model, and the procedure and timeframes for information disclosure on the results of stress testing of the central counterparty's risks to clearing participants<sup>1</sup>;
- the requirements for the content, procedure, and timeframes for submitting the plan for ensuring the central counterparty's business continuity to the Bank of Russia<sup>2</sup>;
- the requirements for the management of the central counterparty's risks (credit risk, market risk, operational risk, liquidity risk, and other risks whose materialisation negatively affects the financial stability of the central counterparty) and the procedure for organising the risk management system<sup>3</sup>;
- the format, procedure, and channels for the transfer of information by the central counterparty to the Bank of Russia and the composition of such information<sup>4</sup>;
- the procedure for the Bank of Russia to exercise supervision over central counterparties<sup>5</sup>;
- the composition of information to be disclosed by the central counterparty, the requirements for the procedure and timeframes for its disclosure, and the rules for disclosure of such information by the central counterparty to clearing participants<sup>6</sup>;
- the procedure for appointing Bank of Russia authorised representative to the central counterparty and the procedure for the central counterparty to submit information and documents on its activity to Bank of Russia authorised representative<sup>7</sup>.

The planned innovations in the regulation of the central counterparty are aimed at increasing the stability and competitiveness of the Russian financial system and ensuring favourable conditions and a wide range of services and instruments to attract long-term investments to the Russian financial market.

To fulfil the requirements of Federal Law No. 222-FZ, dated 13 July 2015, when credit ratings are used by

<sup>1</sup> Bank of Russia Regulation No. 576-P, dated 30 December 2016, 'On the Requirements for the Methodologies for Risk Stress Testing and Assessment of the Accuracy of the Central Counterparty's Model, for Risk Stress Testing and Assessment of the Accuracy of the Central Counterparty's Model, and the Procedure and Timeframes for Information Disclosure on the Results of Stress Testing of the Central Counterparty's Risks to Clearing Participants'.

<sup>2</sup> Bank of Russia Ordinance No. 4258-U, dated 30 December 2016, 'On the Requirements for the Content, Procedure, and Timeframes for Submitting to the Bank of Russia the Plan for Ensuring the Central Counterparty's Business Continuity and Amendments Introduced Thereto, on the Procedure for Assessing the Plan for Ensuring the Central Counterparty's Business Continuity, on the Requirements for the Software, Hardware, and Network Communications of the Central Counterparty, and on the Procedure for Creating, Maintaining, and Storing Databases with Information on the Assets and Liabilities of the Central Counterparty and Their Movements'.

<sup>3</sup> Bank of Russia Regulation No. 575-P, dated 30 December 2016, 'On the Requirements for Risk Management, Rules for Organising the Risk Management System, Clearing Collateral, Placing Property, and Creating Assets of the Central Counterparty, as well as Entities with Which the Central Counterparty is Entitled to Open Trading and Clearing Accounts, and the Methodology for Determining the Allocated Capital of the Central Counterparty'.

<sup>4</sup> Bank of Russia Ordinance No. 4312-U, dated 13 March 2017, 'On the Requirements for the Format, Procedure, and Channels for the Transfer of Information by the Central Counterparty to the Bank of Russia and the Composition of Such Information'.

<sup>5</sup> Bank of Russia Ordinance No. 4419-U, dated 19 June 2017, 'On the Procedure for the Bank of Russia to Exercise Supervision over Central Counterparties'.

<sup>6</sup> Bank of Russia Ordinance No. 4429-U, dated 21 June 2017, 'On the Information Disclosed by the Central Counterparty, Requirements for the Procedure and Timeframes for Its Disclosure, and Determining the Rules for Information Disclosure to Clearing Participants'.

<sup>7</sup> Bank of Russia Ordinance No. 4426-U, dated 21 June 2017, 'On the Procedure for Appointing Bank of Russia Authorised Representative to the Central Counterparty, Conducting and Terminating His/Her Activity, and on the Procedure for the Central Counterparty to Submit Information and Documents on Its Activity to Bank of Russia Authorised Representative'.

systemically important FMIOs, the following were established:

- amendments regarding the use of national credit ratings by a qualified central counterparty when placing allocated capital, clearing collateral, or free funds and when opening deposits and correspondent, clearing, and trading bank accounts<sup>1</sup>;
- amendments regarding the use of national credit ratings instead of credit ratings assigned by large international rating agencies to credit institutions and foreign banks which the central depository is entitled to place funds with<sup>2</sup>.

The Bank of Russia decided<sup>3</sup> to assign the status of a central counterparty to the Nonbank Credit Institution – Central Counterparty National Clearing Centre (Joint-stock Company) starting from 28 November 2017, the date of issue of a banking licence and re-issue of a clearing licence. Also, in accordance with the transitional provisions of Federal Law No. 403-FZ, dated 29 December 2015, 'On Amending Certain Laws of the Russian Federation', Settlement Depository Company JSC and Public Joint-stock Company Clearing Centre MFB continued to perform the functions of a central counterparty.

The assignment of a central counterparty status to NCI NCC (JSC) (hereinafter, NCC) in accordance with the new regulatory requirements is a part of the reform implemented by the Bank of Russia to regulate central counterparty activity. Introduction of a special regulatory mode for the institution of the central counterparty as a nonbank credit institution preserves the existing mode of supervision over such institutions, including its intensity.

After the assignment of the status of a central counterparty to NCC, the Bank of Russia evaluates its management quality as satisfactory in accordance with Bank of Russia Ordinance No. 2919-U<sup>4</sup>, which allows the NCC's clearing participant banks to apply decreased risk ratios when calculating the required ratios.

When supervising NCC and NCI NSD JSC (hereinafter, NSD) as systemically important FMIOs, the Bank

of Russia paid special attention to the analysis of the influence of risks on the activity of NCC and NSD, including through stress testing of the risks of NCC and NSD. The results showed that these institutions would maintain their financial stability and there would not be any threat of the breach of their business continuity within the stress scenarios used.

### Credit history bureaus

During 2017, the number of CHBs entered in the state register of CHBs increased from 16 to 17. Voluntary winding up was started in two CHBs. These CHBs transferred their credit history databases to the existing CHBs which won the bidding for the sale of credit histories. In respect of one CHB, in 2017, the Bank of Russia started the procedure for striking it off the state register of CHBs through legal proceedings due to repeated violations and its failure to fulfil Bank of Russia orders.

In 2017, in the course of supervision over CHBs, inspections were held in six CHBs (five scheduled inspections and one unscheduled inspection).

In connection with discovered violations of laws on credit histories and statutory acts of the Russian Federation, seven orders were sent to CHBs to eliminate the said violations, three administrative offence reports were executed, and two cases of administrative offences were considered (warnings were issued).

In October 2017, the Bank of Russia published a consultation paper 'On the Development Strategy of the Market for Credit History Bureau Services', which formulated possible areas and measures to develop the market for CHB services.

In 2017, the Bank of Russia took part in preparing amendments<sup>5</sup> to Federal Law No. 218-FZ, dated 30 December 2004, 'On Credit Histories', which provided for the following:

- establishment of the duty to check the liabilities of a citizen under loan agreements when issuing a consumer loan;

<sup>1</sup> Bank of Russia Ordinance No. 4392-U, dated 29 May 2017, 'On Amending Appendix 1 to Bank of Russia Ordinance No. 2919-U, Dated 3 December 2012, 'On the Assessment of the Management Quality of a Credit Institution Acting as the Central Counterparty'.

<sup>2</sup> Bank of Russia Ordinance No. 4377-U, dated 19 May 2017, 'On the Requirements for Credit Institutions and Foreign Banks Which the Central Depository is Entitled to Place Funds with'.

<sup>3</sup> In accordance with Article 27<sup>1</sup> of Federal Law No. 7-FZ, dated 7 February 2011, 'On Clearing, Clearing Activities, and the Central Counterparty'.

<sup>4</sup> Bank of Russia Ordinance No. 2919-U, dated 3 December 2012, 'On the Assessment of the Management Quality of a Credit Institution Acting as a Central Counterparty'.

<sup>5</sup> As provided for by Order of the President of the Russian Federation V.V. Putin No. Pr-2563, dated 28 December 2016 (Subclauses 'a' and 'b' of Clause 3).

- increased quality and availability of credit information;
- the comprehensive modernisation of the existing credit history generation system;
- improvement of the Bank of Russia's supervisory powers in respect to the activity of CHBs.

In 2017, the Bank of Russia continued work to provide information to credit history makers via the Unified

Portal of Public and Municipal Services (Functions) using the Unified System of Interdepartmental Electronic Interaction. Furthermore, the Bank of Russia took part in the preparation of a draft Agreement on Cooperation between EAEU Member States Regarding the Exchange of Credit History Data to ensure the cross-border exchange of credit information.

## II.2.4.6. National payment system participants

The Bank of Russia oversees the compliance by funds transfer operators, payment system operators, and operators of payment infrastructure services with the requirements of Federal Law No. 161-FZ and Bank of Russia regulations adopted in pursuance thereof.

Throughout 2017, the Bank of Russia conducted 84 inspections of credit institutions (their branches) and seven inspections of payment system operators and operators of payment infrastructure services other than credit institutions to check their compliance with the requirements of Federal Law No. 161-FZ and Bank of Russia regulations adopted in pursuance thereof. Inspections revealed violations with regard to information security in the course of funds transfers and ensuring the smooth functioning of payment systems, risk management and assessment in payment systems, and ensuring the acceptance of Mir payment cards in all technical devices designed for settlements using payment cards; inspections also revealed unreliable data in statements submitted to the Bank of Russia.

In accordance with the requirements of Federal Law No. 86-FZ, as of 1 January 2018, four payment system operators which were not nationally important payment

systems formed their security deposits in full, and one payment system operator had its deposit returned in full due to its exclusion from the register of payment system operators.

To improve methodological support of oversight activity in the national payment system, in 2017, the Bank of Russia issued Regulation No. 607-P<sup>1</sup>, dated 3 October 2017. It details the requirements for risk management and methodologies for risk analysis in the payment system, management of the smooth functioning of the payment system and determination of the indicators of smooth functioning of the payment system, and the procedure for calculating smooth operation indicators; it also sets the requirements for the composition of data on incidents in the payment system.

In 2017, within the framework of re-engineering of the business process Supervision and Monitoring in the NPS, the functions of off-site supervision and monitoring were centralised at the level of a structural unit in Bank of Russia head office and were taken away from Bank of Russia regional branches, and the functions associated with organising and performing inspections of national payment system subjects were assigned to the Bank of Russia Chief Inspection.

<sup>1</sup> Regulation 'On the Requirements for the Procedure for Ensuring the Smooth Functioning of the Payment System, Indicators of Payment System Smooth Functioning, and Methodologies Used to Analyse Payment System Risks, Including Risk Profiles'.

## II.2.5. Financial rehabilitation of financial institutions

In 2017, the Bank of Russia continued its work to prevent the bankruptcy of credit institutions and ensure the financial rehabilitation of the Russian banking sector.

While implementing this work, the Bank of Russia used the instruments provided for by Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)' (hereinafter, Federal Law No. 127-FZ).

The Bank of Russia approved a Financial Rehabilitation Action Plan developed by a credit institution on its own which did not involve provision of funds by the Bank of Russia or the DIA to the credit institution. The decision to approve the Financial Rehabilitation Action Plan of this credit institution was made with due regard to information on the investing company's interest in acquiring a majority shareholding in the credit institution.

When deciding on the expediency of measures to prevent the bankruptcy of a credit institution with the participation of the Bank of Russia or the DIA, the Bank of Russia considered the systemic importance of the bank for both the banking sector as a whole and the specific region, as well as the risk of disturbance in the functioning of the financial market or its individual segments or the deterioration of the situation in sectors of the economy of the Russian Federation or of the region if the Bank of Russia decided to revoke the banking licence from the bank.

During the reporting period, the Bank of Russia, together with the DIA, implemented measures to prevent the bankruptcy of 31 banks within the framework of approved plans of DIA participation, as provided for by Article 189<sup>49</sup> of Federal Law No. 127-FZ:

- 24 banks violated one or several required ratios of banks during 2017;
- two banks conducted their activity without violating banks' required ratios;
- in five banks, the functions of a provisional administration to manage the credit institution were vested in the DIA, and subsequently, the banks' banking licences were revoked in connection with the impossibility of further accomplishment of the participation plan.

Within the framework of the plan for DIA participation in the implementation of bankruptcy prevention measures in Peresvet Bank, the bail-in procedure used in global practice was also employed (bank creditors

and shareholders expressed their voluntary desire to participate in its financial rehabilitation through the conversion of funds placed with the bank into subordinated bonds).

As of year-end, bankruptcy prevention measures continued to be implemented within the framework of approved DIA participation plans in 26 banks.

The DIA's outstanding debt to the Bank of Russia under loans received for bankruptcy prevention measures amounted to ₱1,229.51 billion as of the end of the reporting period. Information on the total debt of the DIA to the Bank of Russia is given in Table 37, Section V.4 Statistical Tables.

In 2017, the Bank of Russia took part in preparing Federal Law No. 84-FZ, dated 1 May 2017, 'On Amending Certain Laws of the Russian Federation', which provided for the direct participation of the Bank of Russia in the capital of rehabilitated banks using funds from the Fund of Banking Sector Consolidation. To implement the new financial rehabilitation mechanism, the Bank of Russia quickly performed the necessary accounting, regulatory, methodological, and personnel work.

Implementation of the new financial rehabilitation mechanism is aimed at reducing government expenditures and the time for bank rehabilitation, as well as increasing the effectiveness of monitoring of the use of the respective funds, providing higher transparency of the resolution process, and creating equal competitive conditions for the activity of credit institutions.

New powers enabled the Bank of Russia to implement measures to increase the financial stability of major credit institutions, including systemically important ones.

The Bank of Russia started implementing the aforesaid measures in Bank FC Otkritie PJSC, B&N BANK PJSC, and Promsvyazbank PJSC, acting as the main investor using the funds from the Fund of Banking Sector Consolidation.

The financial rehabilitation perimeter also included financial institutions in groups of banks, including insurance companies and non-governmental pension funds.

In accordance with the approved plans of the Bank of Russia's participation in the implementation of bankruptcy prevention measures, provisional administrations to manage the said credit institutions were appointed. Their functions were performed by

Bank of Russia employees and were also assigned to the LLC Fund of Banking Sector Consolidation Asset Management Company (hereinafter, the Management Company). Bank of Russia employees, during their participation in the provisional administrations of credit institutions, ensured the business continuity of these credit institutions (including as professional securities market participants) and of companies belonging to a group conducting professional activity in the securities market.

The powers of a provisional administration represented by the Management Company granted under the law allow the Bank of Russia to implement the necessary measures for banks' recapitalisation within a short time and to set up new management bodies in them.

To comply with the conditions established by law for banks' recapitalisation, liabilities to their subordinated creditors, to the entities controlling their activity, and to the executive employees of banks were terminated.

In December 2017, the Bank of Russia and the provisional administration implemented the necessary corporate measures enabling the recapitalisation of Bank FC Otkritie PJSC (as a result of which the Bank of Russia became the owner of over 99.9% of the ordinary shares of Bank FC Otkritie PJSC for an amount of ₹456.2 billion) and the formation of new management bodies. The ordinary shares of Bank FC Otkritie PJSC acquired by the Bank of Russia were transferred in trust management to the Management Company, which exercises all powers of an owner in respect of the bank. Elaboration of the bank's development strategy became a priority task for the Bank of Russia, the Management Company, and the new management of Bank FC Otkritie PJSC.

The target goal of financial rehabilitation of credit institutions performed under the new mechanism is their sale to a new owner. In future, the Bank of Russia is considering a possibility of restructuring banks in which it implements bankruptcy prevention measures, if necessary, and consolidating them and bringing them to the market through both searching for a strategic investor and selling them by parts or holding an IPO.

The aggregate value of bank assets in respect of which plans for DIA or Bank of Russia participation in the implementation of bankruptcy prevention measures were approved amounted to ₹10.4 trillion as of 1 January 2018, or 12.2% of the total value of banking

sector assets. The share of loans to nonfinancial organisations issued by the said banks was 8.6% and that of loans to households, 4.6%; the share of household deposits stood at 8.0%. Furthermore, three banks in which bankruptcy prevention measures are being implemented with the participation of the Bank of Russia account for 5.9% of banking sector assets, 4.1% of corporate loans, 2.0% of household loans, and 4.8% of household deposits.

The work of provisional administrations to manage credit institutions which have grounds for the implementation of bankruptcy prevention measures constitutes an important area of the Bank of Russia's activities in the field of preventing banks bankruptcy.

In 2017, 19 provisional administrations appointed to banks before the revocation of their banking licences were supervised, of which 16 provisional administrations to manage credit institutions were appointed in the reporting period:

- three provisional administrations were appointed to banks in accordance with the approved plans for the Bank of Russia's participation in the implementation of bankruptcy prevention measures, and their functions were assigned to the Management Company;
- eight provisional administrations were appointed to banks in accordance with the approved plans for the DIA's participation in the implementation of bankruptcy prevention measures;
- five provisional administrations were appointed to banks in connection with the decline in the equity (capital) of the banks as compared to their maximum value (reached over the last 12 months) by more than 30%, along with the breach of one of the required ratios established by the Bank of Russia, and in connection with other grounds, as stipulated in Article 189<sup>26</sup> of Federal Law No. 127-FZ.

### **Information provided by the Bank of Russia Chief Auditor on the utilisation efficiency of the Fund of Banking Sector Consolidation**

To participate in the implementation of bankruptcy prevention measures in credit institutions, the Bank of Russia set up the Fund of Banking Sector Consolidation (FBSC). The FBSC utilisation efficiency is assessed on an annual basis by the Bank of Russia Chief Auditor<sup>1</sup>.

<sup>1</sup> Pursuant to Article 76<sup>12</sup> of Federal Law No. 86-FZ.

In accordance with the International Standards of Supreme Audit Institutions (ISSAI)<sup>1</sup> under the INTOSAI<sup>2</sup>, the approaches of the Association of Chartered Certified Accountants (ACCA)<sup>3</sup>, and the standards of Russian government control and audit bodies, a performance audit shall mean the evaluation of the achievement of the assigned goals and desired results with the maximum yield on available resources and minimum resource consumption.

Due to the lack of possibility to apply a comparative approach for evaluating performance in terms of conformity to a target reference and taking into account the international and Russian practice of performance auditing in determining the efficiency with which the funds making up the FBSC are used, the evaluation was divided into four stages:

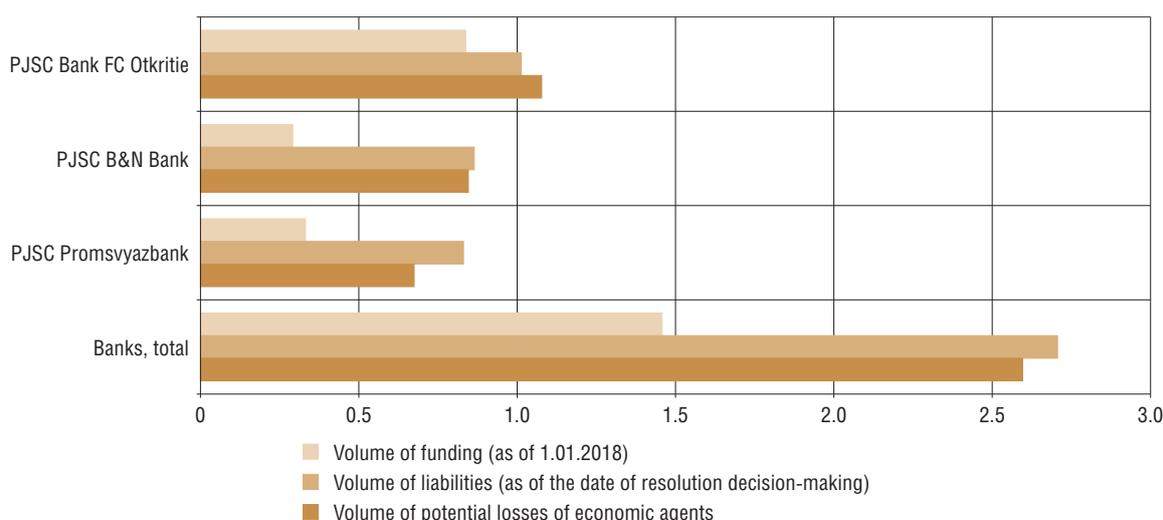
1. Comparative efficiency of the amount of funds allocated by the Bank of Russia against the amount of damage to the economy in case the scenario of the credit institution's bankruptcy materialises.
2. The optimal resource utilisation for the recovery of credit institution financial position indicators.
3. The efficiency of utilisation of funds by the credit institution's management.
4. The efficiency of the sale of shares of the credit institution by the Bank of Russia given the market situation.

Taking into account the foregoing, the evaluation perimeter for 2017 included evaluation of the comparative efficiency of the amount of funds allocated by the Bank of Russia against the amount of damage to the economy in case the scenario of bankruptcy of Bank FC Otkritie PJSC, B&N BANK PJSC, or Promsvyazbank PJSC materialises and the optimal resource utilisation for the recovery of the financial position indicators of Bank FC Otkritie PJSC.

Evaluation of the comparative efficiency was based on determining the amount of losses incurred by economic agents through simulating the scenario of bankruptcy of the credit institution, both regarding immediate creditors (direct effect) and creditors of these creditors (indirect effect) provided that the creditor's losses result in its insolvency (bankruptcy). The simulation of the bankruptcy scenario was based on the approaches set forth in the Concept of Macroprudential Stress Testing (consultation paper, 2017)<sup>4</sup>.

The approach towards evaluation of the comparative efficiency is based on studying the liabilities of the credit institution as of the date of the decision on financial rehabilitation, on the basis of the data on the balances of accounts for the analysis of possible consequences of default on these liabilities. To calculate the direct effect, the liabilities of the credit institution were assumed in full, except for the following liabilities: to

**FBSC funds used and banks' liabilities.**  
**Estimated impact on the economy in case of bank bankruptcy scenario**  
**(billions of rubles)**



<sup>1</sup> The main performance audit standards ISSAI 300 Fundamental Principles of Performance Auditing and ISSAI 3000 Implementation Guidelines for Performance Auditing.

<sup>2</sup> The International Organisation of Supreme Audit Institutions (INTOSAI).

<sup>3</sup> Approaches to F5 Performance Management and P5 Advanced Performance Management.

<sup>4</sup> Published on the Bank of Russia website, in the section Information and Analytical Materials / Consultation Papers.

nonresidents; under repo transactions secured by liquid securities; under accounts opened for the accounting of funds invested in unit investment funds where the credit institution is the only owner of units, or under other similar cases. If damage for an immediate creditor is critical and leads to its bankruptcy, the indirect effect shall be calculated, including the calculation of losses of the creditor's creditors, in accordance with a procedure similar to that described above.

The application of the aforesaid approach was limited, since the Bank of Russia only had the information received in the course of ongoing supervision of financial institutions, including their statements submitted to the Bank of Russia. This limits the possibilities for analysing the degree of shock in respect of creditors and for determining the sensitivity of response thereto. Therefore, a real shock will be greater, and the actual value of potential losses of economic agents will exceed the value calculated under this methodology.

To determine the optimal resource utilisation for the recovery of financial position indicators of the credit institution, the requirements of Bank of Russia regulations governing the activity of credit institutions were taken as a benchmark<sup>1</sup>.

The simulation of the bankruptcy scenario of Bank FC Otkritie PJSC, B&N BANK PJSC, and Promsvyazbank PJSC showed that the utilisation of FBSC funds in 2017 for the financial rehabilitation of credit institutions in the total amount of ₹1,456.2 billion made it possible to prevent losses of economic agents in the amount of no less than ₹2,594.6 billion.

Based on the results of measures taken in accordance with the Bank of Russia participation plan, the expected results were achieved in respect of ensuring smooth customer service activity and recovery of financial position indicators to an acceptable level after the recapitalisation of Bank FC Otkritie PJSC with due regard to ensuring the regular functioning of Rosgosstrakh

Insurance Company and non-governmental pension funds included in the banking group.

The total amount of financing for Bank FC Otkritie PJSC as of 1 January 2018 was ₹836.2 billion, including ₹456.2 billion allocated for recapitalisation and ₹380 billion for short-term liquidity support. In the event of the resolution of Bank FC Otkritie PJSC in another lawful manner, with the participation of the DIA, the amount of funds allocated to cover the imbalance and recapitalise the bank on preferential conditions for a 10-year period would exceed the economic effect (₹456.2 billion) almost twofold.

### Implementation of the resolution mechanism for insurance companies

Considering the great socio-economic importance of the insurance sector, in 2017, the Bank of Russia started work associated with the implementation of the resolution mechanism for insurance companies in the Russian Federation, which was among the priority areas of the Bank of Russia's activity in the short term. The Bank of Russia approved the Concept of Implementing the Resolution Mechanism for Insurance Companies, which was supported by the agencies concerned and the expert community. In accordance with this concept, the Bank of Russia and the Russian Ministry of Finance developed draft Federal Law No. 311128-7 'On Amending Certain Laws of the Russian Federation Regarding the Resolution of Insurance Companies'. The State Duma of the Federal Assembly of the Russian Federation adopted the draft Law in the final third reading on 12 April 2018. The document is aimed at improving Russian laws on insolvency (bankruptcy) by introducing the possibility of implementing bankruptcy prevention measures with the participation of the Bank of Russia. The mechanism for resolution of insurance companies was developed similarly to the mechanism for financial rehabilitation of credit institutions.

<sup>1</sup> Bank of Russia Regulation No. 395-P, dated 28 December 2012, 'On the Methodology for Measuring Bank Capital and Assessing its Adequacy (Basel III)', Bank of Russia Regulation No. 590-P, dated 28 June 2017, 'On the Procedure for Making Loss Provisions by Credit Institutions for Loans, Loan and Similar Debts', and Bank of Russia Instruction No. 180-I, dated 28 June 2017, 'On Banks' Required Ratios'.

## II.2.6. Termination of financial institutions

### Credit institutions

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

As of 1 January 2017, there were 26 provisional administrations to manage credit institutions which were appointed as a result of revocation of banking licences.

In 2017, 51 provisional administrations to manage credit institutions were appointed following the revocation of banking licences.

The activity of 65 provisional administrations to manage credit institutions which were appointed in connection with licence revocation was terminated. The activity of 51 provisional administrations was terminated due to the recognition of the credit institutions as insolvent (bankrupt) by the arbitration courts, and the activity of 14 provisional administrations was terminated in connection with the arbitration courts' ruling on their compulsory winding up.

As of 1 January 2018, there were 12 provisional administrations to manage credit institutions which were appointed as a result of revocation of the credit institutions' licences.

To inform the customers of credit institutions of the procedure for repaying outstanding loans issued by the credit institutions whose banking licences had been revoked, the Bank of Russia issued an information letter<sup>1</sup> on the publishing of details for funds transfers in repayment of outstanding loans issued by a credit institution before the revocation of its licence and a Bank of Russia

order<sup>2</sup> on measures to inform customers of credit institutions on the procedure for repaying outstanding loans issued by the credit institutions before the revocation of their banking licences.

To increase the awareness of borrowers of credit institutions, the Bank of Russia is expanding the volume of information on the process of winding up credit institutions published on its official website. Starting from March 2017, the Bank of Russia publishes up-to-date information for borrowers of credit institutions whose licences have been revoked in the section Information on Credit Institutions / Liquidation of Credit Institutions / Announcements of Provisional Administrations, with the details for funds transfers in repayment of debt. In September 2017, information on the activity of provisional administrations began to be disclosed, including information on the expenses incurred and contracts with the involved organisations which were concluded in the course of the provisional administration's activity, as well as information on the financial position of credit institutions as of the date of licence revocation and the date of termination of the provisional administration<sup>3</sup>.

The Bank of Russia prepared recommendations for provisional administrations to place announcement templates for all categories of customers of the liquidated credit institutions in the premises of the credit institution the customers have access to and on its official website no later than the day following the date of appointment of the provisional administration<sup>4</sup>.

As of 1 January 2018, 362 credit institutions, whose licences had been revoked (cancelled) and with regard to which the Bank of Russia had not received certificates of their state registration due to liquidation from the authorised registration authorities, were subject to liquidation. Liquidation procedures were implemented in 351 credit institutions and, as of 1 January 2018, in 11 credit institutions the respective court rulings had not been made after the revocation of their licences.

<sup>1</sup> Bank of Russia Information Letter No. IN-06-14/17, dated 14 April 2017, 'On Publishing Details for Funds Transfers in Repayment of Outstanding Loans Issued by a Credit Institution before Licence Revocation'.

<sup>2</sup> Bank of Russia Order No. OD-1012, dated 18 April 2017, 'On Measures to Inform Customers of Credit Institutions on the Procedure for Repaying Outstanding Loans Issued by the Credit Institutions before the Revocation of Their Banking Licences'.

<sup>3</sup> Bank of Russia Information Letter No. 06-14-4/6447, dated 14 August 2017, 'On Disclosing Information on the Activity of a Provisional Administration to Manage a Credit Institution Appointed Due to the Revocation of Its Banking Licence'.

<sup>4</sup> Bank of Russia Information Letters No. 06-14-4/4740, dated 21 June 2017, 'On the Procedure for Informing Customers of Credit Institutions with Revoked Banking Licences' and No. 06-14-4/5453, dated 12 July 2017, 'On Sending Materials to Inform Customers of Credit Institutions with Revoked Licences'.

Most (320) of the said 351 liquidated credit institutions were recognised as insolvent (bankrupt) and bankruptcy proceedings were initiated against them (in 2017, 50 credit institutions were recognised as bankrupt, and with regard to one of them the arbitration court had previously ruled on its forced liquidation). In respect of 29 credit institutions the arbitration courts ruled on their forced liquidation (in 2017, rulings on forced liquidation were made against 13 credit institutions). Furthermore, two credit institutions were liquidated voluntarily based on the decisions of their founders. As of 1 January 2018, in 334 credit institutions liquidation procedures were implemented by the DIA, of which in 311 credit institutions the DIA performed the functions of a receiver, and in 23, the functions of a liquidator.

As of 1 January 2018, entries were made in the Unified State Register of Legal Entities of state registration due to the liquidation of 2,102 credit institutions, including 44 credit institutions liquidated in 2017. Based on the reporting data submitted to the Bank of Russia, the average percentage of satisfaction of creditors' claims in 2,102 credit institutions was 17.0%, including 63.5% of claims of first line creditors (the average percentage of satisfaction of creditors' claims in 44 credit institutions was 28.9%, including 36.8% of claims of first line creditors).

The average percentage of satisfaction of creditors' claims in the liquidated credit institutions in which the functions of a receiver (liquidator) were performed by the DIA was 35.7%, including 57.2% of claims of first line creditors.

To exercise the powers vested in the Bank of Russia under Russian laws on insolvency (bankruptcy) to monitor the activity of receivers (liquidators) of credit institutions, the Bank of Russia conducted 77 inspections in 2017 in accordance with the Consolidated Plan of Inspections of Receivers (Liquidators) of Credit Institutions and seven unscheduled inspections. In 83 cases, the focus of the inspection was the activity of the DIA, and in one case, the activity of a court-appointed receiver duly accredited by the Bank of Russia as a receiver in the bankruptcy of credit institutions.

In 2017, 20 court-appointed receivers were accredited by the Bank of Russia as receivers in the bankruptcy of credit institutions, and the accreditation of 38 court-appointed receivers was extended. Moreover, 12 court-appointed receivers were denied accreditation or its extension due to their ineligibility.

As of 1 January 2018, 58 court-appointed receivers were accredited with the Bank of Russia.

## Nonbank financial institutions

As of 1 January 2017, there were 10 provisional administrations (four provisional administrations to manage non-governmental pension funds, four provisional administrations of management companies, and two provisional administrations of specialised depositories).

During 2017, the Bank of Russia appointed two provisional administrations to manage non-governmental pension funds, four provisional administrations of management companies, and two provisional administrations of insurance companies due to the cancellation (revocation) of the licences of the said financial institutions.

In 2017, the Bank of Russia decided to change the composition of five provisional administrations of insurance companies due to the revocation of the licences of these companies.

In 2017, the activity of ten provisional administrations was terminated (four provisional administrations to manage non-governmental pension funds due to the arbitration court rulings on forced liquidation of the non-governmental pension funds and due to the transfer of property, documents, and information to the liquidator; five provisional administrations of insurance companies (the activity of two provisional administrations was terminated due to the expiry of their term, the activity of one provisional administration was terminated due to the completion of the tasks assigned to the provisional administration, and the activity of two provisional administrations was terminated in connection with the arbitration court rulings to recognise the insurance companies as bankrupt); and one provisional administration of the management company due to the completion of the tasks assigned to the provisional administration).

As of 1 January 2018, there were 13 provisional administrations (two provisional administrations to manage non-governmental pension funds, two provisional administrations of insurance companies, seven provisional administrations of management companies, and two provisional administrations of specialised depositories).

In respect of the violations discovered, the Bank of Russia initiated the procedure for liquidation of nonbank financial institutions on the grounds stipulated by the laws of the Russian Federation.

Thus, in 2017, the Bank of Russia:

- took measures in respect of 1,103 CCCs and 2,264 pawnshops (lawsuits were filed with courts,

and appeals were filed with the FTS of Russia on the absence of a CCC or a pawnshop at the address specified in the Unified State Register of Legal Entities and on CCCs and pawnshops which bear the marks of an invalid legal entity);

- cancelled 25 licences, including 21 licences of management companies, two licences of specialised depositories, and two licences of non-governmental pension funds. As many as 270 licences of 122 professional securities market participants for professional activity in the securities market were cancelled<sup>1</sup>. Eighty-three professional securities market participants left the market completely;
- revoked the licences of eight insurance companies, three insurance brokers, and one mutual insurance company.

In respect of two companies that are professional securities market participants, the Bank of Russia sent requests to the court on their forced liquidation due to the failure to fulfil Russian laws as regards termination of professional activity in the securities market.

Based on the applications of licence holders to surrender the licence, the licences of 18 insurance companies and 27 insurance brokers were revoked, and the licences of two non-governmental pension funds, 20 management companies, and six specialised depositories were cancelled.

In 2017, five insurance companies were struck off the Unified State Register of Insurance Entities in connection with their winding up.

As of 1 January 2018, the DIA performed the functions of a receiver in nine insurance companies recognised as insolvent (bankrupt). Furthermore, as of

the said date, the liquidation procedures were implemented in 52 NPFs, including bankruptcy proceedings introduced in 11 NPFs (in 2017, four NPFs were recognised as bankrupt), and forced liquidation of 41 NPFs (in 2017, decisions on forced liquidation were made in respect of four NPFs). In 34 NPFs, the liquidation procedures were implemented by the DIA, in ten of which the DIA performed the functions of a receiver, and in 24, the functions of a liquidator. In 2017, the liquidation procedures were completed in four NPFs.

In pursuance of Part 6 of Article 23 of Federal Law No. 422-FZ, dated 28 December 2013, 'On Guaranteeing the Rights of Insured Persons in the Compulsory Pension Insurance System of the Russian Federation when Forming and Investing Pension Savings and Making Payments out of Pension Savings', during 2015–2016, the Bank of Russia transferred ₹66.9 billion of the pension savings of insured persons to the Pension Fund of the Russian Federation due to the cancellation of NPFs' licences for pension provision and pension insurance activities. As of 1 January 2018, 29.7% of Bank of Russia claims acquired as a result of funds transfers to the Pension Fund of the Russian Federation were satisfied.

As many as 153 termination reports were approved with respect to unit investment funds.

In 2017, the Bank of Russia initiated post-licence monitoring of 20 nonbank financial institutions which are professional securities market participants. The Bank of Russia worked on regulating the procedures associated with the return of property to the customers of professional securities market participants whose licences had been cancelled.

<sup>1</sup> 73 broker licences, 64 dealer licences, 76 securities management licences, and 57 depository activity licences were cancelled. Furthermore, 70 licences were cancelled due to violations; 99 licences, upon the requests of the companies (voluntarily); 77 licences, due to banking licence revocation; 15 licences, due to non-conduct of business for more than 18 months; and 9 licences, due to restructuring.

## II.2.7. Countering malpractice in the financial market

In accordance with the Guidelines for the Development of the Russian Federation Financial Market in 2016–2018, in 2017, the Bank of Russia continued to implement a comprehensive programme for discouraging malpractice in the financial market.

The Bank of Russia continued its work on countering the misuse of insider information and market manipulation. The outcomes of this activity of the Bank of Russia in 2017 in comparison with 2016 are given in Table 39, Section V.4 Statistical Tables.

Furthermore, we should point out a positive trend in the increase in the number of completed inspections in the reporting period regarding possible misuse of insider information and market manipulation (more than two-fold compared to the same period of the previous year) and the revealing of two cases of misuse of insider information in the reporting period. Such statistics are due, inter alia, to an improved mechanism for conducting the respective inspections by the Bank of Russia.

Furthermore, in 2017, to suppress violations of Federal Law No. 224-FZ, dated 27 July 2010, 'On Countering the Misuse of Insider Information and Market Manipulation and Amending Certain Laws of the Russian Federation', the Bank of Russia started regularly applying such corrective action as blocking the accounts of not only legal entities, but also individuals who had performed operations aimed at market manipulation.

In order to prevent possible abuses during the formation of financial indicators recognised by the Bank of Russia, throughout 2017, the Bank of Russia monitored the quality of formation of the financial indicator MOEX USD/RUB FX Fixing (administered by PJSC Moscow Exchange) and the financial indicator MosPrime Rate (administered by SRO National Financial Association). As of year-end 2017, no facts suggesting that the quality of formation of the said indicators cannot be deemed satisfactory were discovered.

As part of the programme for discouraging malpractice in the financial market, in 2017, the Bank of Russia paid close attention to the re-engineering of the business process 'Identification of Entities Conducting Unlicensed Activities in the Financial Market', which was started in late 2016.

In this regard, in late 2017, the Bank of Russia finished work on building a centralised process for countering unlicensed activity, including illegal activ-

ity of organisations and citizens to provide consumer loans (hereinafter, illegal lenders) and creating the Competence Centre for Countering Illegal Activity in the Financial Market (Krasnodar) and sections for countering illegal activity in Bank of Russia regional branches. The functions of these structural units involve proactive and reactive discovery and identification of unlicensed entities; interaction with authorised government bodies on taking measures under the laws of the Russian Federation; participation in investigative and judicial activities; development and coordination of preventative measures and measures to inform financial consumers about the respective risks; and international cooperation, including cross-border application of measures.

In 2017, as part of the implementation of a model of automated searching for illegal lenders on the Web based on Big Data technology, the Bank of Russia carried out measures to adjust the search system in order to eliminate information noise and, accordingly, increase the quality of information discovered.

Furthermore, in 2017, the Bank of Russia continued to deregister the domain names of websites bearing the marks of phishing websites under agreements signed previously with domain name registrars.

In 2017, the Bank of Russia sent 779 letters to authorised government bodies of the Russian Federation regarding 1,344 organisations which were supposed to be acting as illegal lenders and reported on 129 websites of illegal forex dealers to public prosecution bodies of the Russian Federation so that the information published on them would be deemed prohibited for dissemination and subject to blocking in judicial proceedings.

Throughout 2017, Bank of Russia regional branches continued their work in 85 interdepartmental working groups, committees, and commissions whose activity was aimed at countering economic crimes, illegal financial operations, corruption, and extremism and suppressing illegal microfinance activities and other violations in economic and social spheres (they participated in 123 meetings of such working groups).

In 2017, the number of organisations discovered by the Bank of Russia whose activity had the signs of a financial pyramid scheme declined. According to the data of regional branches of the Russian Ministry of Internal Affairs, the amount of damage from the respec-

tive activity diminished in the reporting period, as shown in Table 40, Section V.4 Statistical Tables.

Following the results of discussion of financial pyramid schemes on the platforms of the International Organization of Securities Commissions (IOSCO), the EAEU, and the Subcommittee on Interbank and Investment Cooperation between the Russian Federation and the Republic of Kazakhstan, this phenomenon was acknowledged to be of a cross-border nature. In this regard, in 2017, the Bank of Russia started organising international cooperation with foreign central (national) banks (financial market regulators) in the field of countering pyramid schemes.

In 2017, the exchange of information, including confidential information, with foreign regulators of the financial market continued to play an important role. For example, within the framework of the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information under the International Organization of Securities Commissions (IOSCO MMoU), in 2017, foreign regulators of the financial market showed increased interest in sending requests for information and documents to the Bank of Russia, which obviously reflects the attractiveness of the Bank of Russia as an international cooperation participant (Table 41, Section V.4 Statistical Tables).

An independent area of the Bank of Russia's activity in 2017 was the further development of interaction with law enforcement agencies both within the framework of prompt support of materials delivered to them and as part of building a system of long-term relations ensuring the inevitability and proportionality of punishment for crimes in the financial market.

For example, in early 2017, the Bank of Russia and the General Prosecutor's Office of the Russian Federation concluded an updated agreement on interaction.

Throughout 2017, the Bank of Russia interacted actively with the Academy of the General Prosecutor's Office of the Russian Federation to conduct a fundamental criminological study in 2018–2020 to determine the level of latency of crimes in the field of the financial market of the Russian Federation, to identify their causes and conditions, and to elaborate mea-

sures and scientific recommendations for their prevention.

In 2017, the All-Russian Scientific Research Institute of the Ministry of Internal Affairs of the Russian Federation, together with the Bank of Russia, developed draft methodological recommendations for law enforcement agencies on 'Qualification and Investigation of Pyramid Schemes'.

Furthermore, the Moscow Academy of the Investigative Committee of the Russian Federation, with the support of the Bank of Russia, prepared and submitted draft methodological recommendations on countering the misuse of insider information and market manipulation to the Bank of Russia for review.

Also, the Bank of Russia, together with law enforcement agencies, started implementing a programme of advanced financial training for law enforcement agency employees. For example, in 2017 Q4, a comprehensive training course was implemented for the employees of the Ministry of Internal Affairs of the Russian Federation, during which the module 'Countering Malpractice in the Financial Market' was introduced to the attendees.

The counteraction to malpractice in the financial market and, therefore, accomplishment of associated objectives are closely connected with the improvement of the respective regulation. For example, in 2017, the Bank of Russia continued to work on a draft law<sup>1</sup> aimed at increasing the effectiveness of regulation of the system for countering the misuse of insider information and market manipulation and optimising the administrative load on market participants. Following the results of interdepartmental interaction, amendments to the draft law were prepared by the Government of the Russian Federation and submitted to the State Duma of the Federal Assembly of the Russian Federation.

During 2017, the Bank of Russia developed and improved a draft Bank of Russia Ordinance<sup>2</sup> which updated the list of persons classified as insiders and adjusted and supplemented the list of insider information of issuers and a number of nonbank financial institutions. This regulation was registered by the Ministry of Justice of the Russian Federation in December 2017.

Furthermore, in 2017, the Ministry of Justice registered a Bank of Russia regulation aimed at improving the mechanism for the Bank of Russia to check viola-

<sup>1</sup> Draft Federal Law No. 925980-6 'On Amending the Federal Law 'On Countering the Misuse of Insider Information and Market Manipulation and on Amending Certain Laws of the Russian Federation'.

<sup>2</sup> 'On Amending Bank of Russia Ordinance No. 3379-U, dated 11 September 2014, 'On the List of Insider Information of the Entities Mentioned in Clauses 1–4, 11 and 12 of Article 4 of the Federal Law 'On Countering the Misuse of Insider Information and Market Manipulation and Amending Certain Laws of the Russian Federation'.

tions of prohibitions established by laws of the Russian Federation in the field of countering the misuse of insider information and market manipulation<sup>1</sup>.

The Bank of Russia also took an active part in the improvement of the draft Federal Law 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation', which stipulated that agreements meeting the criteria of the so-called 'bina-

ry options' may be concluded with an individual or at his/her expense only by gambling organisers and only in casinos and slot machine halls located in gambling zones.

For the comprehensive implementation of ethical standards of conduct in the financial market, an official Russian translation of the FX Global Code was made and published, inter alia, on the Bank of Russia website.

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<sup>1</sup> Bank of Russia Ordinance No. 4447-U, dated 4 July 2017, 'On Amending Bank of Russia Instruction No. 167-I, Dated 10 August 2015, 'On the Procedure for the Bank of Russia to Check Compliance with 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 Regulations Adopted in Pursuance Thereof'.

## II.2.8. Foreign exchange regulation and foreign exchange control

In 2017, the Bank of Russia worked on implementing a package of measures to liberalise the requirements of Russian foreign exchange legislation for the purpose of simplifying foreign exchange control procedures for foreign trade participants<sup>1</sup>.

As a result of this work, the Bank of Russia issued a number of regulations.

For example, in April 2017, the requirement for mandatory submission to authorised banks of supporting documents for transactions with an amount of liabilities equal to or less than the equivalent of \$1,000 by residents was eliminated<sup>2</sup>.

Furthermore, Bank of Russia published Instruction No. 181-I<sup>3</sup>, dated 16 August 2017, which established the procedure for accounting foreign trade contracts and loan agreements by authorised banks instead of the requirement for residents to execute a transaction specification.

It provided for the maximum simplification of the procedure for registration of export contracts, the increase in the amount of liabilities which required registration under foreign trade export contracts from \$50,000 to ₪6,000,000<sup>4</sup>, the removal of transactions for an amount not exceeding ₪200,000<sup>5</sup> from the foreign exchange control system, and the reduction in the number of documents to be submitted by residents to authorised banks during foreign exchange control procedures.

In accordance with new approaches towards foreign exchange control, the Bank of Russia also established

the procedure for transferring information by authorised banks to foreign exchange control bodies (FCS of Russia and FTS of Russia) on the contracts<sup>6</sup> entered into the register and amended the procedure for transferring information on violations of the requirements of foreign exchange laws<sup>7</sup> by the customers of authorised banks.

Household demand for cash foreign currency increased. In 2017, the amount of cash foreign currency purchased by the population from authorised banks increased by 7% against 2016 and amounted to \$35.5 billion (here and below in this Section, all figures are given in dollar terms). The amount of cash foreign currency sales to authorised banks decreased by 9% to \$15.6 billion.

Net demand for cash foreign currency, which was defined as the difference between the amount of cash foreign currency sold to individuals or withdrawn from their foreign currency accounts and the amount of cash foreign currency purchased from individuals or credited to their accounts, went up by 33% compared to 2016 and amounted to \$21 billion.

Amid growing net demand of households for cash foreign currency, authorised banks increased its imports into the country. Overall, in 2017, \$48.7 billion of cash foreign currency was imported, which was twice as much as in 2016. The volume of cash foreign currency exported by authorised banks went up by 25% compared to 2016, to \$10.1 billion.

<sup>1</sup> Order of the President of the Russian Federation V.V. Putin No. Pr-912, dated 7 May 2017; Orders of the Government of the Russian Federation No. ISh-P13-6512, dated 31 October 2016, and No. ISh-P13-6749, dated 11 November 2016; the Bank of Russia Action Plan ('road map') for 2017–2019 for Improving the Foreign Exchange Laws of the Russian Federation and Bank of Russia Regulations in the Field of Foreign Exchange Control No. PM-01-12/14, dated 28 April 2017.

<sup>2</sup> Bank of Russia Ordinance No. 4360-U, dated 25 April 2017, '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 Nonresidents, the Procedure for Executing Transaction Specifications, and the Procedure for Accounting and Monitoring Foreign Exchange Transactions by Authorised Banks'.

<sup>3</sup> Bank of Russia Instruction No. 181-I, dated 16 August 2017, 'On the Procedure for Residents and Nonresidents to Submit Documents and Information Confirming Foreign Exchange Transactions to Authorised Banks, on Single Accounting and Reporting Forms Related to Foreign Exchange Transactions, and the Procedure and Timeframes for Their Submission' was published to replace 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 Nonresidents, the Procedure for Executing Transaction Specifications, and the Procedure for Accounting and Monitoring Foreign Exchange Transactions by Authorised Banks'. This Instruction came into force on 1 March 2018.

<sup>4</sup> In accordance with Bank of Russia Instruction No. 138-I, the amount of liabilities requiring that the resident execute a transaction specification with an authorised bank under a foreign trade contract was \$50,000.

<sup>5</sup> In accordance with Bank of Russia Instruction No. 138-I, the amount of transaction to which the requirement that residents submit documents associated with the transaction did not apply was \$1,000.

<sup>6</sup> Bank of Russia Ordinance No. 4512-U, dated 30 August 2017, 'On the Scope and Procedure for Authorised Banks Operating as Foreign Exchange Control Agents to Submit Information to Foreign Exchange Control Agencies'.

<sup>7</sup> Bank of Russia Ordinance No. 4498-U, dated 16 August 2017, 'On the Procedure for Authorised Banks and the State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) to Transfer to Foreign Exchange Control Agencies Information about Violations of the Foreign Exchange Laws of the Russian Federation and Acts of Foreign Exchange Regulatory Bodies by Entities Conducting Foreign Exchange Operations'.

## II.2.9. Countering the legalisation (laundering) of criminally obtained incomes and the financing of terrorism

In 2017, the Bank of Russia continued to exercise the powers granted by Federal Law No. 115-FZ, dated 7 August 2001, 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' (hereinafter, Federal Law No. 115-FZ). Special attention was paid to enhancing the effectiveness of the system of anti-money laundering and countering the financing of terrorism (AML/CFT).

As part of the Bank of Russia's activity to improve the legislative framework of the Russian AML/CFT system, including for the purpose of reducing the regulatory load on financial market participants without compromising the effectiveness of their 'anti-legalisation' control procedures, in 2017, a number of conceptual amendments were introduced to Federal Law No. 115-FZ with the participation of the Bank of Russia:

- a mechanism for interactive remote identification of individual customers of credit institutions using their biometric personal data and their details contained in the Unified System of Identification and Authentication, which enables a credit institution to open an account (deposit) for an individual without his/her personal presence via the Internet, was formalised in legislation<sup>1</sup>;
- a mechanism for the 'rehabilitation' of customers who were denied service in the course of the exercise of powers stipulated by the AML laws was formalised in legislation, including through interaction between the customers and authorised officers of financial institutions in reviewing customers' applications and through removal of information about such persons which had been sent earlier to the Federal

Financial Monitoring Service by financial institutions. Furthermore, an interdepartmental commission is to be created under the Bank of Russia to review customers' applications<sup>2</sup>;

- the list of entities whose operations to credit or debit an account (deposit) or covered (secured) letter of credit were subject to mandatory control was supplemented with new categories. They included federal unitary enterprises which were of strategic importance for the defence industry and security of the Russian Federation, companies under their direct or indirect control, and state corporations, state companies, and public companies. Furthermore, the limit of the amount of mandatory control of the said operations was decreased from ₴50 million to ₴10 million<sup>3</sup>;
- requirements for the business reputation of special officers responsible for the implementation of the internal control rules in credit institutions, insurance companies, non-governmental pension funds, management companies of investment funds, unit investment funds and non-governmental pension funds, and microfinance companies were established<sup>4</sup>.

In 2017, the Bank of Russia paid special attention to bringing the regulatory framework of AML/CFT in line with the new legislative requirements in this field<sup>5</sup>.

In 2017, the Bank of Russia continued to take measures to reduce the volumes of transactions to illegally withdraw funds abroad and fictitious transactions with cash funds and to reduce the scale of fictitious transit transactions in the banking sector<sup>6</sup>.

<sup>1</sup> Federal Law No. 482-FZ, dated 31 December 2017, 'On Amending Certain Laws of the Russian Federation' (comes into force with regard to amendments introduced to Federal Law No. 115-FZ starting from 30 June 2018).

<sup>2</sup> Federal Law No. 470-FZ, dated 29 December 2017, 'On Amending Certain Laws of the Russian Federation' (came into force with regard to amendments introduced to Federal Law No. 115-FZ starting from 30 March 2018).

<sup>3</sup> Federal Law No. 267-FZ, dated 29 July 2017, 'On Amending Certain Laws of the Russian Federation'.

<sup>4</sup> Federal Law No. 281-FZ, dated 29 July 2017, 'On Amending Certain Laws of the Russian Federation with Regard to Improving Mandatory Requirements for Founders (Members), Management Bodies, and Officers of Financial Institutions' (came into force on 28 January 2018).

<sup>5</sup> Bank of Russia Regulation No. 600-P, dated 20 September 2017, 'On Submitting by Credit Institutions Information on Customer Operations, Beneficial Owners of Customers and Movement of Funds Across Customer Accounts (Deposits) at the Request of the Federal Financial Monitoring Service'; Bank of Russia Ordinance No. 4567-U, dated 5 October 2017, 'On Amending Chapter 3 of 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'; Bank of Russia Ordinance No. 4568-U, dated 5 October 2017, 'On Amending Chapter 3 of Bank of Russia Regulation No. 445-P, Dated 15 December 2014, 'On the Requirements for Internal Control Rules of Nonbank Financial Institutions for the Purpose of Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'.

<sup>6</sup> Bank of Russia Methodological Recommendations No. 4-MR, dated 2 February 2017; No. 5-MR, dated 9 February 2017; No. 18-MR, dated 21 July 2017; and No. 19-MR, dated 21 July 2017.

The work performed by the Bank of Russia resulted in a sustainable reduction in the volumes of the said fictitious transactions. The amount of illegal withdrawal of funds abroad in 2017 decreased by 58.3% as compared to 2016 (from ₱183 billion to ₱77 billion), the amount of funds cashed in the banking sector decreased by 37.5% (from ₱522 billion to ₱326 billion), and the amount of fictitious transit transactions also decreased by 37.5% (from ₱3.9 trillion to ₱2.5 trillion).

In 2017, in the course of exercising its supervisory functions, the Bank of Russia completed 200 inspections of credit institutions (their branches) on matters related to AML/CFT laws, which accounted for 44% of all scheduled and unscheduled inspections of credit institutions (their branches) completed in 2017.

In 2017, 24 credit institutions had their banking licences revoked for a breach of legislative requirements, including in the field of AML/CFT (51 licences of credit institutions were revoked in 2017 in total).

In 2017, one nonbank financial institution had its licence of a professional securities market participant cancelled, including for the breach of provisions of AML laws.

In 2017, for the breach of the requirements of AML/CFT regulations and Federal Law No. 115-FZ<sup>1</sup>, preventative measures were taken against 224 credit institutions in the form of letters notifying of shortcomings in their work and meetings with their executives. Punitive measures were taken against 248 credit institutions, including fines against 161 credit institutions; restrictions on performing certain operations against 40 credit institutions; prohibition on performing certain operations against one credit institution; and demand to eliminate violations of AML/CFT regulations against 126 credit institutions.

In the course of exercising its supervisory functions, in 2017, the Bank of Russia completed 73 inspections of nonbank financial institutions regarding their compliance with the requirements of AML/CFT legislation. Issues related to AML/CFT laws were considered in

26% of all completed scheduled and unscheduled inspections of NFIs.

In 2017, the Bank of Russia continued to exercise its powers related to the initiation and consideration of cases of administrative offences associated with the failure by nonbank financial institutions and their officers and by the officers of credit institutions to comply with the requirements of laws on AML/CFT.

In 2017, the Bank of Russia initiated 479 cases of administrative offences under Article 15.27 of the Code of Administrative Offences of the Russian Federation against officers of 236 credit institutions. In 2017, the consideration of 486 cases of administrative offences (including cases initiated in 2016) was completed; under these cases 139 rulings on imposition of fines, 186 rulings on issuance of warnings, and 161 rulings on the termination of proceedings in cases of administrative offences were issued with regard to officers of credit institutions.

Also in 2017, 2,028 punitive measures were taken against 1,713 NFIs for violations of AML/CFT regulations and for the breach of the requirements of Federal Law No. 115-FZ, including orders to eliminate violations in 1,927 cases. As many as 709 preventative measures were taken against 541 NFIs, in particular, letters notifying of shortcomings in their work were sent, and meetings were held.

Throughout 2017, the Bank of Russia initiated 3,001 cases of administrative offences against NFIs, as provided for by Article 15.27 of the Code of Administrative Offences of the Russian Federation (including 1,309 cases against officers). In 2017, the consideration of 3,019 cases of administrative offences (including cases initiated in 2016) was completed; under these cases 266 rulings on imposition of fines (including 105 rulings with regard to NFI officers), 2,553 rulings on issuance of warnings (including 1,144 rulings with regard to NFI officers), and 200 rulings on the termination of proceedings in cases of administrative offences (including 97 rulings with regard to NFI officers) were issued.

<sup>1</sup> Except for Clause 3 of Article 7 of Federal Law No. 115-FZ.

## II.2.10. Improving financial and commodity market instruments and infrastructure

To ensure financial market resilience and mitigate risks in the financial sector, the Bank of Russia is implementing a project to transfer standardised OTC derivatives to clearing involving a central counterparty (CCP clearing) as well as a project for margining non-CCP-cleared OTC derivatives.

The Bank of Russia carried out consultations and published a final report 'On mandatory margining of non-centrally cleared OTC derivatives'. Work on improving close-out netting and financial collateral was continued<sup>1</sup>.

As part of the project 'Development of the financial assets securitisation market (Securitisation)', on 28 September 2017, draft standards of simple, transparent and comparable securitisation (STC Securitisation) were introduced by the Bank of Russia Expert Board on Financial Assets Securitisation. Draft Bank of Russia Regulation 'On the Procedure for Calculating Securitisation Exposure by Banks' was submitted for approval to financial market participants.

The Bank of Russia Expert Board on Financial Assets Securitisation approved the Concept for the Development of Securitisation Legislation. This Concept consolidates recommendations of the professional community and draws on the analysis of the best international practices.

In 2017, the Bank of Russia took part in setting up a legal framework for the issue of a new financial instrument<sup>2</sup> with the option of partial security for capital. This instrument entitles its holder to the repayment of its total or partial nominal value and/or payment of income contingent upon some circumstances specified in the decision to issue such securities (structured bonds).

According to the draft law, the issuers of structured bonds may be credit institutions, brokers, dealers or specialised structured products companies.

The draft law on structured bonds was adopted by the State Duma of the Russian Federation in the first reading on 8 November 2017.

Considering the existing economic situation and taking into account the decline of interest rates on tra-

ditional bonds, the new type of issue-grade securities is expected to offer market participants more attractive products with higher income.

The Bank of Russia took part in preparing Federal Law No. 176-FZ, dated 18 July 2017, 'On Amending the Federal Law 'On Clearing, Clearing Activities and the Central Counterparty' and Certain Laws of the Russian Federation' to further develop the central counterparty's activities and introduce a mechanism for corporate funds placement under bank deposit agreements with the central counterparty.

In 2017, the Bank of Russia continued to evaluate, on a voluntary basis, the quality of the formation of financial indicators and the operation of organisations which develop financial indicators. Based on the review of a petition, in 2017 Q1, the quality of the financial indicator MosPrime Rate and the operation of the self-regulatory organisation National Finance Association as the administrator of that financial indicator was recognised to be satisfactory.

The quality of formation by the Moscow Exchange of the financial indicator MOEX USD/RUB FX FIXING, which had been previously acknowledged by the Bank of Russia as satisfactory during the initial evaluation, was determined by the Bank of Russia as satisfactory in the course of quarterly monitoring.

From the point of view of developing organised trading in commodities and expanding the list of commodity market instruments, one may single out the following key events that occurred in 2017:

1. On 19 December 2017, the start of trading in grade B carbamide admitted to the section 'Mineral stock and chemicals' at the Saint Petersburg International Mercantile Exchange. To a certain extent, the start of trading in mineral fertilisers is an example of the collaboration of organised commodity markets, when the suppliers (manufacturers of nitrogen fertilisers) at one commodity market are also consumers of an exchange commodity at another market (the natural gas market).
2. On 27 November 2017, the start of trading in timber and wood products in the Perm Territory. Thus, this

<sup>1</sup> Draft federal laws 'On Amending Certain Laws of the Russian Federation to Develop Financial Market Instruments', 'On Amending the Federal Law 'On the Securities Market' to Improve the Regulation of Certain Financial Contracts', and 'On Amending Part 2 of the Tax Code of the Russian Federation'.

<sup>2</sup> Draft Federal Law No. 211550-7 'On Amending the Federal Law 'On the Securities Market' and Other Laws of the Russian Federation Regarding Regulation of Structured Receipts'.

is already the second region (after the Irkutsk Region) in the Russian Federation in which timber pricing is now carried out, inter alia, through exchange trading mechanisms.

3. 2017 Q4, elaboration and approval of the Action Plan for the Development of Organised Trading in Agricultural Products on JSC National Mercantile Exchange by relevant agencies (the Bank of Russia, FAS of Russia, Russian Ministry of Agriculture and FTS of Russia). As part of the proactive implementation of its provisions, on 6 March 2017, trades in financial derivatives for grain and sugar were launched.

Furthermore, starting 1 November 2017, the Bank of Russia became a full-fledged participant of the organised trading in precious metals on the Moscow Exchange. The Bank of Russia places daily bids for gold purchases aimed at the general public. Thus, the Bank of Russia is now able to replenish its international reserves in the organised market besides the conservative channel, i.e. OTC auctions.

Another important event in the market of precious metals in 2017 was the signing on 13 September 2017 of the Memorandum of Understanding between the Bank of Russia and the People's Bank of China on interaction in the sphere of gold exchange trading, which would make it possible not only to increase the volume of trades by Russian participants in the organised precious metals market but also to diversify the geography of physical gold supplies and to foster cooperation

between the Moscow Exchange and Shanghai Gold Exchange.

From the point of view of developing the post-trading infrastructure of the commodity market and efforts to ensure the performance of contracts concluded in organised trading, it should be noted that one of the two commodity delivery operators (CDOs) was Transneft, the largest transporter of oil and oil products via the system of long-distance pipelines in the Russian Federation.

Besides, in the field of statutory regulation of post-trading infrastructure in the commodity exchange markets, the Bank of Russia worked on amending Federal Law No. 7-FZ, dated 7 February 2011, 'On Clearing, Clearing Activities and the Central Counterparty' to install a discretionary approach towards the conduct, control and accounting of OTC commodity deliveries (without concluding an asset storage contract and without opening commodity trading accounts).

In 2018, the Bank of Russia will continue to create an organised commodity market in the Russian Federation under the aegis of the Exchange Committee. In the medium term, there are plans to introduce market pricing for new commodity groups (coal, non-ferrous and ferrous metals, precious metals, construction materials, bioresources, cereals, fodder and vegetable crops, maize, rapeseed, motor oil, petrochemical products, etc.).

## II.2.11. Improving the accounting and the accounting (financial) statements of financial institutions

In accordance with the goal of implementing IFRS principles in Bank of Russia regulations on accounting for credit institutions and nonbank financial institutions and in statutory acts on preparing accounting (financial) statements for NFIs, 2017 saw the implementation of the following measures.

In accordance with the decision of the National Council for Financial Stability, the Bank of Russia issued regulations based on the principles of IFRS 9 'Financial instruments'.

In respect of credit institutions, in 2017, a package of documents was issued consisting of seven regulations with a focus on the implementation of the principles of IFRS 9 'Financial instruments' in accounting.

The package of these documents constitutes comprehensive regulation of accounting for the majority of operations performed by credit institutions: operations for raising and placing funds, and operations with securities and financial derivatives. Currently, it is the most large-scale change introduced to the regulatory framework for accounting in credit institutions.

The said regulations will come into force from 1 January 2019, which gives credit institutions enough time to implement the new requirements.

With regard to NFIs, in 2017, the Bank of Russia worked to improve the methodological framework for accounting procedures and accounting (financial) statements in accordance with IFRS. The Bank of Russia issued a package of documents providing for simplified accounting rules for NFIs (under certain conditions) compared to other sectoral standards for accounting at NFIs.

In connection with the issuance of Order of the Russian Ministry of Finance No. 50n, dated 30 March 2017, 'On the Enactment of the Document of International Financial Reporting Standards in the Russian Federation', which entitles non-governmental pension funds, insurance companies and mutual insurance companies, which meet the criteria established in Clause 20B of IFRS 4 'Insurance Contracts', to be temporary exempt from the application of IFRS 9 'Financial Instruments', the Bank of Russia issued an ordinance amending 21 regulations.

Seven regulations were issued to amend three regulations governing accounting procedure with a view to

provide NFIs with the possibility of using a simplified method for calculating depreciated value; one regulation governing the procedure for accounting income, expenses and other comprehensive income; and three regulations governing the procedure for drawing up the annual accounting (financial) statements of NFIs.

As part of the Concept for the Development and Improvement of Accounting Procedures in Nonbank Financial Institutions approved by the Bank of Russia Board of Directors, a new accounting procedure and procedure for preparing accounting (financial) statements according to the approved sectoral accounting standards (SAS) came into force from 2017 for insurance entities; non-governmental pension funds; credit rating agencies; joint-stock investment funds; specialised depositories of an investment fund, unit investment fund and non-governmental pension fund (in respect of operations with property into which the funds of non-governmental pension funds have been invested and with the property of insurance companies); and management companies of an investment fund, unit investment fund and non-governmental pension fund (in respect of operations with property under a contract for trust management of the funds of non-governmental pension funds and insurance companies). Starting 2018, the requirements to transition to the SASs came into force for professional securities market participants; management companies of an investment fund, unit investment fund and non-governmental pension fund (except operations with property under a contract for trust management of the funds of non-governmental pension funds and insurance companies, with regard to which SASs apply starting 1 January 2017); specialised depositories of an investment fund, unit investment fund and non-governmental pension fund (except operations with property into which the funds of non-governmental pension funds have been invested and with the property of insurance companies, with regard to which SASs apply starting 1 January 2017); trade organisers; central counterparties; clearing companies; credit history bureaus and microfinance organisations. The Bank of Russia decided to postpone the transition to SASs for CCCs and HSCs to 2019, and for ACCCs – to 2020<sup>1</sup>.

<sup>1</sup> Bank of Russia Ordinance No. 4641-U, dated 7 December 2017, 'On the Application of Certain Bank of Russia Regulations Related to Accounting and Accounting (Financial) Statements'.

In respect of the work on implementing the collection and processing of financial institutions' statements based on XBRL (eXtensible Business Reporting Language), the Bank of Russia took the following measures in 2017.

Starting with reporting for 2018 Q1, insurance companies, professional securities market participants, trade organisers, clearing organisations and entities performing the functions of a central counterparty and non-governmental pension funds shall submit their accounting (financial) statements to the Bank of Russia in XBRL data format in the form of a list of indicators broken down by analytical features, using unique codes making it possible to unambiguously identify indicators and their specific analytical features.

During 2018–2020, there are plans to gradually transition other categories of nonbank financial institutions to the submission of statements to the Bank of Russia using XBRL taxonomy and discuss the corresponding timeframes of the transition for credit institutions.

The application of XBRL technology in preparing statements will make it possible to achieve a number of priority objectives, such as eliminating redundancy

and duplication of reporting data, increasing the accuracy and quality of reporting data, improving the transparency and openness of financial information and, in future, unifying interdepartmental and international electronic data exchange formats and integrating Russian business into the international information environment.

The Bank of Russia prepared a number of regulations and an XBRL taxonomy containing accounting (financial) and supervisory and statistical reporting indicators and control ratios describing the logic of relationships between the indicators and/or their values. Control ratios are used to check the quality of reporting data presented in XBRL format.

In addition to the regulations and taxonomy, the Bank of Russia developed and published on its website methodological recommendations, support documents for the taxonomy and a document named 'Rules for Drawing up Statements in XBRL Format and Submitting Them to the Bank of Russia', which constitutes a set of additional rules and instructions to be observed by reporting organisations when drawing up an XBRL statement for further submission to the Bank of Russia.

## II.3. EXPANDING FINANCIAL INCLUSION FOR HOUSEHOLDS AND BUSINESSES

### II.3.1. Financial consumer and investor protection

In 2017, the Bank of Russia continued the system-wide development and enhancement of financial consumer protection and ensuring financial inclusion and financial literacy.

#### Processing appeals of citizens

Processing appeals of citizens remains one of the main priorities of the Service for Consumer Protection and Financial Inclusion (hereinafter, the Service). In 2017, the Bank of Russia received 244,000 complaints against nonbank financial institutions, parties to corporate relations and credit institutions.

In the structure of appeals, the share of complaints against credit institutions was the largest (50.1%) compared to other financial market sectors. Most complaints against credit institutions (44,400 or 39%) were associated with consumer lending, where problems of debt repayment remained the central topic of complaints, as well as mortgages (14%) and the use of banking cards and ATMs (8%).

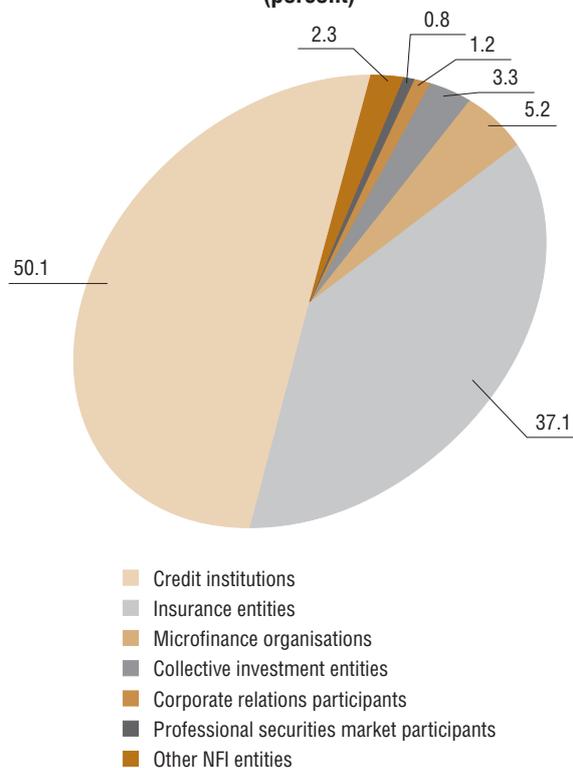
Insurance companies held second place by the share of complaints in the total volume (37.1%). In 2017, 90,500 complaints were filed against insurance entities, 86% of which were associated with problems arising at the moment of concluding and in the course of performing CMTPLI (compulsory motor third party liability insurance) agreements. They were followed by microfinance organisations (5.2% of the total complaints) and collective investment entities (3.3%). Other sectors accounted for 4.3% of all complaints.

The Bank of Russia notes a considerable drop (by 68%) in the number of complaints about hard-selling of additional services and refusal to conclude a CMTPLI agreement in 2017. In the opinion of the Bank of Russia, this was the result of the systemic implementation of large-scale supervisory measures, including on-site measures, conducted directly in the points of sale in those regions where the said problem was the most pressing. In 2017, the minimum time during

which a consumer was able to withdraw from a voluntary insurance contract was extended to 14 days, which made it possible not only to increase the protection of the rights and lawful interests of insured persons but also to mitigate the adverse consequences of insurers' misconduct related to the hard-selling of additional insurance services. At the same time, the introduction of mandatory sale of electronic CMTPLI policies starting 1 January 2017 was conducive to the decline in the number of complaints about hard-selling of services under CMTPLI agreements.

The number of complaints related to the application of a bonus-malus coefficient (BMC) when concluding a CMTPLI agreement remained high (over 38,000 complaints in 2017, which accounted for almost 50%<sup>1</sup> of all complaints related to CMTPLI). To address the aforesaid issues and assist people in re-establishing their

Breakdown of complaints by supervised entity in 2017 (percent)



<sup>1</sup> For reference: in 2016, the share of complaints associated with the application of BMC also accounted for 50% of complaints related to CMTPLI.

infringed rights, a simplified procedure for the restoring of BMC values (so-called BMC+), which was repeatedly explained by the Bank of Russia, was introduced. Thus, in this case, the increase in the number of complaints was brought about in part by the growth of awareness, along with the high effectiveness of the programme for the restoration of correct BMC values.

The Bank of Russia, JSC Agency for Housing Mortgage Lending<sup>1</sup>, the Russian Ministry of Finance and the Russian Ministry of Construction, Housing and Utilities continued their efforts aimed to alleviate social tension in the sector of mortgage housing lending in foreign currency. For example, to examine the complicated financial situation of each borrower and seek a possible solution for bringing its payment obligations to an adequate level, the Bank of Russia Public Reception received citizens who had loans denominated in foreign currency. The Bank of Russia conducted awareness-raising work among credit institutions, provided them with methodological support in restructuring housing mortgage loans with the biggest number of borrowers' complaints, summarised best practices for restructuring housing mortgage loans, identified and gave recommendations for the specific aspects of interaction between lenders when implementing Russian Federation Government Resolution No. 961<sup>2</sup>.

As a result, statistical monitoring data demonstrated reduced social tension in this lending segment: the number of households who do not agree with creditors' proposals dropped, and the share of restructured loans grew. One may also note a 1.3% decline in the share of loans denominated in foreign currency in the total volume of mortgage lending as of 1 January 2018 (compared to 5.0% as of 1 January 2017). The amount of overdue debt in this segment contracted by 19.8% over 2017, primarily due to the restructuring of loans in foreign currency and their conversion into the currency of the Russian Federation.

## Conduct supervision of the activity of financial market participants

### Protection of banking and microfinance service consumers

One important area of work is identifying violations committed by entities supervised by the Bank of Russia related to the compliance with the law governing inter-

action between creditors and debtors. Heightened attention to such complaints (sending requests for the following materials: procedures for handling overdue debt, contracts on the engagement of third parties, the history of interaction and audio recordings of negotiations with borrowers, and interaction with the Federal Bailiff Service), improving household awareness about their rights and duties in relations with creditors, creditors' own measures (personnel training, implementation of IT systems, regulation of recovery procedures and enhanced control) were all conducive to the further stabilisation of the number of appeals on this topic at a lower level after they reached their maximum readings at the end of Q1 (over 700 complaints per month).

The Service focuses its attention on matters related to compliance with the requirements of legislation on consumer loans, including hard-selling of additional services. The monthly number of complaints about hard-selling of insurance services doubled by the end of the year (from 500–600 to more than 1,000 per month). Apart from statutory regulation, in the course of preventive supervisory measures, the Service holds regular meetings with the management of credit institutions, where they speak of the inadmissibility of such practices and the need to provide customers with exhaustive information on additional products, including the customer's right to refuse them when entering into lending transactions. Specifically, banks are advised to inform customers of their right to terminate the insurance contract during the cooling off period both verbally and in writing and to mention this right in the documents provided to customers.

Credit institutions are also advised to make a revision of their relations with insurance companies and offer their customers, when making such transactions, insurance products with conditions more advantageous to the customer in case of early termination of contracts, which shall, in particular, contain the right to a refund of a part of the insurance premium not only if the customer terminates the contract during the cooling off period but later on as well. In addition, the Service also communicated information on positive market practices to banks during supervisory meetings. It paid special attention to the following issues:

- the interaction of banks and customers after concluding agreements in order to learn the customer's opinion on the credit product and related services provided to the customer;

<sup>1</sup> Starting 2 March 2018, JSC DOM.RF.

<sup>2</sup> Decree of the Government of the Russian Federation No. 961, dated 11 August 2017, 'On the Further Implementation of the Support Programme for Certain Categories of Borrowers with Housing Mortgage Loans Who Experience Financial Hardships'.

- ensuring the satisfaction of customers with services and customer servicing;
- delivery of additional information to customers on their rights to refuse a service.

These measures, along with the cap on the total cost of loan with a rate of over 20% p.a.<sup>1</sup>, in the opinion of the Bank of Russia, will help to mitigate the risk of excessive loan burden for households. However, some households in this situation may seek the services of 'black-market' lenders, whose activity is not regulated by the Bank of Russia. Therefore, the Bank of Russia, the Russian Ministry of Finance, several deputies of the State Duma and members of the Federation Council initiated the development of a draft law on toughening responsibility for illegal lending, up to the application of criminal sanctions. The Bank of Russia finds it expedient to adopt such a draft law in the near future.

During the handling of complaints, the Service sent 29,500 requests to banks. A pilot project is underway in the banking sector for voluntary resolution of problems specified in complaints, which mitigates social tension in this segment. For example, as a result of Bank of Russia requests to credit institutions, banks settled half of the problem cases mentioned in the requests on their own. In other financial market sectors, Bank of Russia requests also contribute to the settlement of consumer claims against financial institutions.

Appeals of financial consumers regarding the activity of credit institutions and microfinance organisations also contained complaints against the violation of laws on credit histories by those institutions and organisations. Supervision conduct measures revealed violations of the rights of credit history holders by credit institutions which transferred inaccurate information about 3 million customer accounts to credit history bureaus. As a result of supervisory measures, as of December 2017, about 30% of them had been updated. Completion of all credit history updating was planned for the end of April 2018. The Bank of Russia started a system-wide inspection of compliance with the legislative requirements for data transferred to credit history bureaus by microfinance market participants.

On 1 January 2017, legislative provisions aimed at protecting the interests of borrowers of microfinance organisations developed with the participation of the Bank of Russia came into force<sup>2</sup>. These provisions reduced the limit on interest income accrual on short-term (up to one year) consumer loans from four times to three times of the amount of the loan and also limited the accrual of interest income on short-term (up to one year) consumer loans to double of the amount of the outstanding part of the loan in the event of overdue obligations.

During 2017, based on the results of review of complaints, the Service sent to supervised non-bank financial institutions over 4,600 orders, issued 1,600 resolutions on the imposition of administrative penalties and 1,800 rulings (resolutions) on administrative penalties imposed by courts (judges) following the review of reports on administrative offences drawn up by the Service.

To expand interaction with financial consumers, the Bank of Russia Public Reception continued to hold live consultations. During the year, the Public Reception serviced 2,400 individuals, including representatives of legal entities, foreign citizens and individual entrepreneurs. The majority of questions (74%) addressed to the specialists of the Public Reception were associated with the activities of credit institutions (consumer lending; mortgage lending, mostly in foreign currency; deposit operations, including the operation of the deposit insurance system; and others), insurance companies (CMTPLI, motor hull insurance, life insurance, in particular, life investment contracts, and others) and MFOs (provision of loans, fundraising by MFOs, etc.). Questions related to the activities of insurance companies and MFOs accounted for 10% of appeals in total.

#### **Protection of insurance service consumers**

Starting in January 2017, amendments<sup>3</sup> to the Law 'On Compulsory Third Party Liability Insurance of Vehicle Owners' came into force and established insurers' duty to conclude CMTPLI agreements in the form of electronic documents, in connection with which the Bank of Russia developed and adopted regulations re-

<sup>1</sup> For detailed information on the revision of the existing risk ratio scale on consumer loans depending on the total cost of loan, see Subsection II.2.1.2 'Macroprudential regulation measures to ensure financial stability'.

<sup>2</sup> In accordance with Federal Law No. 230-FZ, dated 3 July 2016, 'On Protecting Rights and Lawful Interests of Individuals When Collecting Overdue Debt and on Amending the Federal Law 'On Microfinance Activities and Microfinance Organisations'.

<sup>3</sup> Federal Law No. 214-FZ, dated 23 June 2016, 'On Amending the Federal Law 'On Compulsory Third Party Liability Insurance of Vehicle Owners'.

quiring the smooth and uninterrupted provision of this service on the Internet<sup>1</sup>.

Introduction of electronic CMTPLI reduced the number of complaints about refusals to conclude a CMTPLI agreement, including due to the absence of insurance policy forms.

Throughout 2017, important objectives were not only thorough inspections regarding each complaint and application of measures upon the discovery of violations but also implementation of comprehensive measures aimed at ensuring that insurance companies maintain the uninterrupted operation of their websites and creation of proper conditions for the availability of electronic CMTPLI in case an insurer experiences technical problems.

In 2017, the Bank of Russia, together with Yandex, introduced the marking of websites in the Yandex search engine for insurance entities whose details have been entered in the Unified State Register of Insurance Agents<sup>2</sup>.

### Protection of rights when changing insurers in mandatory pension insurance

Following the results of the 'transitional campaign' of 2016 (which implied the review by the Pension Fund of the Russian Federation (PFR) of individual requests for a change of insurers in the mandatory pension insurance system and for the transfer of pension savings to new insurers), the Service recorded a considerable increase in the number of appeals associated with the possible breach of citizens' rights when switching from one NPF to another, or from the PFR to an NPF. To protect the rights of insured persons to hold their pension savings in the funds they have selected and the investment income earned when investing pension savings and, as a result, to form trust among households in the non-governmental pension system as a whole, the Bank of Russia developed corresponding framework and integrated it into the draft Bank of Russia Ordinance 'Requirements for the Core Standards of Activity for Protecting the Rights and Interests of Individuals and Legal Entities Receiving Financial Services Provided by the Members of Self-

regulatory Organisations in the Financial Market Uniting Non-governmental Pension Funds'.

### Implementation of preventive conduct supervision

Creation of a system of conduct supervision is one of the Bank of Russia's strategic objectives, which is closely connected with building up trust among the population in the financial market, with increasing the quality and availability of financial services, and with the development of the financial market as a whole. Implementation of conduct supervision will enable the comprehensive achievement of these objectives since it establishes control over the conduct of financial companies towards their consumers.

Core standards of consumer protection, which the Bank of Russia is gradually creating in all nonbanking sectors of the financial market, will be one of the elements of the control. This tool will make it possible to eliminate unfair practices existing in the financial market and establish a high level of quality for companies in the financial sector.

In 2017, the requirements for the contents of the Basic Standard for Financial Consumer Protection of microfinance organisations, forex dealers, consumer credit cooperatives, professional securities market participants, insurance companies and insurance brokers came into force. The Bank of Russia approved the Basic Standard for Financial Consumer Protection of Microfinance Organisations and the Basic Standard for Financial Consumer Protection of Consumer Credit Cooperatives, which comprise rules for the provision of information to financial consumers and conditions on the minimum amount of information to be provided.

The introduction of conduct supervision will raise the level of consumer satisfaction with the quality of financial services owing to the fuller and more responsible notification of consumers about the specifics of products and services and existing risks.

In the course of conduct supervision, the Bank of Russia plans to include not only the supplier but also

<sup>1</sup> Bank of Russia Ordinance No. 4190-U, dated 14 November 2016, 'On the Requirements for the Use of Electronic Documents and the Procedure for Electronic Information Exchange in the Process of Compulsory Third-Party Liability Insurance of Vehicle Owners'.

Bank of Russia Ordinance No. 4191-U, dated 14 November 2016, 'On the Requirements for the Smooth and Uninterrupted Functioning of the Websites of Insurers and the Professional Association of Insurers for the Purpose of Making Electronic Compulsory Insurance Agreements'.

Bank of Russia Ordinance No. 4192-U, dated 14 November 2016, 'On Amending Bank of Russia Regulation No. 431-P, Dated 19 September 2014, 'On the Rules of Compulsory Third Party Liability Insurance of Vehicle Owners'.

<sup>2</sup> To support regular updating of information used for website marking, the Bank of Russia issued information letter No. IN-015-53/1, dated 9 January 2018, 'On Marking Financial Institutions' Websites in the Yandex Search System'.

the seller of a financial service, for example, the agent, in its perimeter.

As part of the transition to the conduct supervision model with regard to financial market participants, the Bank of Russia implemented a series of measures aimed at suppressing unfair practices pursued by supervised entities:

- it published an information letter forwarded to credit institutions on recommendations for raising the awareness of households when offering them financial instruments and services in credit institutions<sup>1</sup>;
- it held working meetings with the representatives of SROs and supervised organisations. This format involves the rolling out of preventive measures aimed at reducing the number of violations by other supervised entities and also obtaining an effective feedback from the market for the implementation by organisations of positive practices of interaction with their customers.

Starting December 2017, 'Consultations for corporate customers' section has been functioning on the Bank of Russia website. The section contains up-to-date practical cases and Bank of Russia recommendations related to the activities of professional securities market participants (registrars, depositories and brokers) and collective investment agents (non-governmental pension funds).

For the purpose of consumer lending market regulation, in 2017, amendments to federal laws were prepared and approved<sup>2</sup>. These envisage additional notification of citizens about enhanced borrower risks associated with loans in foreign currency and loans at a floating rate, including those secured by mortgage. The total cost of loan is calculated as effective annual interest rate and in monetary terms. This procedure applies both to consumer loans and to household loans which are granted for purposes not associated with business activity and which are not secured by mortgage.

The Bank of Russia is introducing requirements for raising the awareness among financial consumers about risks associated with investment in the financial market. In late February 2017, the Bank of Russia issued an information letter containing recommendations for credit institutions regarding notification of their customers about the possible risks of investment in the financial market when offering them the respective financial services or financial instruments. In early June 2017, the Bank of Russia issued an information letter containing recommendations for financial institutions and self-regulatory organisations operating in the financial market to warn consumers about websites imitating the official websites of nonbank financial institutions.

<sup>1</sup> Bank of Russia Information Letter No. IN-01-59/10, dated 27 February 2017.

<sup>2</sup> Federal Law No. 378-FZ, dated 5 December 2017, 'On Amending Article 9.1 of the Federal Law 'On Mortgage (Pledge of Real Estate)' and the Federal Law 'On Consumer Loans'.

## II.3.2. Increasing financial literacy of the population

In the 21<sup>st</sup> century, financial literacy has become as important as the ability to read, count or use a computer. Furthermore, the level of financial literacy of the population influences the level of confidence in the financial system and, as a result, its stability.

In 2017, the Bank of Russia and the Russian Ministry of Finance developed the Strategy for the Improvement of Financial Literacy in the Russian Federation in 2017–2023, which was approved by Russian Federation Government Directive No. 2039-r, dated 25 September 2017, and by Bank of Russia Order No. OD-3150, dated 2 November 2017<sup>1</sup>. The Strategy is the first concept-based paper in Russia which sets aims and objectives in the field of financial literacy. It lays groundwork for creating the financially literate behaviour of the population, which will make it possible to improve the quality of their life, inter alia, through the use of financial products and services.

When elaborating programmes for improving financial literacy, the Bank of Russia pays special attention to children and youth. In 2017, the Bank of Russia and the Russian Ministry of Education and Science signed a joint action plan for 2017–2021 in the field of improving financial literacy.

The supply of modern training materials to schools was one of the most important objectives in the field of financial literacy development. The Bank of Russia sent over 11,000 free of charge teaching aids ‘The Basics of Financial Literacy’ to 78 regions of the country. Today, the financial literacy project is being implemented in 450 pilot and hub schools.

The Bank of Russia continues to work actively on giving open lessons in schools and higher educational institutions: as of year-end 2017, it had organised over 4,000 such events countrywide.

The 2<sup>nd</sup> All-Russian Contest of the Best Methodological Manuals for Improving the Financial Literacy of Students was held. 1,247 applications from 75 regions were submitted to the contest.

The Bank of Russia together with educational institutions developed programmes for the professional training and advanced training of teachers and financial literacy tutors. In 2017, tutors were trained at the educational institution Academy of Professional Development and Re-training of Educators.

Nine cooperation agreements were concluded between the Bank of Russia and higher educational institutions in the field of improving the financial literacy of the Russian population.

During the 2<sup>nd</sup> All-Russian Forum ‘Children’s Camp – A New Educational Environment’, a presentation was held on the premises of the International Children’s Camp Artek on creating financial infrastructure in the territory of federal children’s centres and testing the future financial game ‘Invest in Success!’.

The Bank of Russia concluded 87 agreements with the administrations of constituent entities and state authorities of the Russian Federation in the field of education on cooperation aimed at improving the financial literacy of the population. To implement those agreements, regional lists of measures for improving financial literacy were approved.

The launch of the informational and educational web resource ‘Financial Culture’ (fincult.info) in 2017 was a key stage in the Bank of Russia’s programme for improving financial literacy.

The website is intended for a wide audience with varying degree of economic knowledge and various financial opportunities. The website materials analyse situations which everyone may face – from planning a personal budget to searching for an optimal strategy for the formation of one’s future pension – in a simple form. In addition to informational materials, the web resource contains the following service functions: credit and deposit calculators, tests and a web page for verifying the legitimacy of financial institutions, which is directly linked to the Bank of Russia’s official data. A separate section is intended for teachers, specialists in teaching methods and volunteers of financial educational services. It includes training and methodological aids, recommendations and links to useful resources and special activities for those who are involved in financial education.

In 2017, the Bank of Russia launched a number of specialised educational projects for special target audiences. For example, the Bank of Russia developed the training course ‘Lessons in Financial Culture’ for senior citizens, which will give them the opportunity to learn about safe and efficient ways to use bank-

<sup>1</sup> Bank of Russia Order, dated 2 November 2017, ‘On Implementing the Strategy for the Improvement of Financial Literacy in the Russian Federation in 2017–2023’.

ing services and modern online technology, and help them to avoid becoming the victims of banking fraud. The pilot project is rolled out in 25 Russian regions. In 2018, there are plans to further replicate this project with the help of volunteers and non-governmental organisations.

Holding seminars for regional journalists who cover social and economic topics was another line of activity. Such instruction not only helps to improve the competence of journalists but also is conducive to the appearance of unbiased and appropriate materials dedicated to financial issues. As a result, professionally prepared media materials help the population to understand difficult issues in the financial industry and create a foun-

ation for enhancing financial literacy and building the trust of citizens in the financial system.

The Bank of Russia and the Russian Ministry of Defence approved the Action Plan for Improving the Financial Literacy of Servicemen of the Armed Forces of the Russian Federation in 2018–2019.

The Bank of Russia supported and participated in the following financial literacy activities in 2017: the 3<sup>rd</sup> All-Russian Congress of Volunteers of Financial Education of Citizens, the 12<sup>th</sup> All-Russian Financial Literacy Competition, the Financial Literacy Festival in Moscow, the 26<sup>th</sup> International Financial Congress 'Finance for Development', and the FINFAIR Financial and Stock Exchange Services Fair.

### II.3.3. Expanding financial inclusion

In 2017, in accordance with the Guidelines for the Development of the Russian Financial Market in 2016–2018, the Bank of Russia developed the draft Strategy for the Improvement of Financial Inclusion in the Russian Federation in 2018–2020; the Bank of Russia Board of Directors approved the draft on 26 March 2018.

The Bank of Russia set the following priority goals in the field of financial inclusion for the period of 2018–2020:

1) to improve the accessibility and quality of financial services for financial consumers in remote, sparsely populated or hard-to-reach areas, SMEs and under-banked population groups (low-income individuals, disabled and elderly persons and other mobility-impaired population groups);

2) to raise the speed and quality of access to financial services for the population with access to the Internet.

Implementation of the second goal is closely interrelated with the current state of the communications infrastructure; therefore, ensuring the complete coverage of the population and small businesses with remote financial services constitutes a long-term goal.

Guided by the methodology updated to incorporate the latest international recommendations, the Bank of Russia held the third annual measurement of financial inclusion indicators and, based on the results thereof, prepared the second annual issue of the Overview of Financial Inclusion in the Russian Federation. Data on the satisfaction of the population with financial products and services were analysed for the first time, and a corresponding composite index was calculated<sup>1</sup>.

Infrastructure supporting financial services in Russia is characterised by the uneven distribution of the points of access to financial services due to geographic, social and economic factors.

People living in large cities usually enjoy full access to a wide range of financial services, whereas access to reliable, convenient and high-quality financial services for the residents of small towns and rural localities (especially in remote and hard-to-reach areas) remains a serious issue.

The further development of remote and digital financial services will become one of the factors compensating for the low physical accessibility of financial services in remote regions of the country. However, the insufficient level of Internet access coverage in Russia constitutes another obstacle to the expansion of financial inclusion in distant, sparsely populated or hard-to-reach areas.

In accordance with existing Bank of Russia regulations, credit institutions received broad options for organising cash services, including the right to open mobile cash points, which are actively used by a number of credit institutions.

The Bank of Russia plans to stimulate the expansion of physical accessibility of financial services in distant, sparsely populated or hard-to-reach areas by introducing special regulation aimed at increasing the efficiency of use of the existing infrastructure and its further development. Provision of access to basic financial services (savings, money remittances and payments, lending and insurance) in various settlements with Russian Post offices, including with the use of the capabilities of new, ‘light’ formats of banking offices, is considered a priority objective.

The Bank of Russia also considers the use of financial service delivery channels on the basis of satellite television and other alternative technologies to be promising for regions without adequate mobile communication coverage and is planning to roll out a number of pilot projects in this area.

Implementation of the three-year Strategy<sup>2</sup> throughout the Russian Federation is expected to more than double basic financial inclusion for settlements with a population of less than 3,000 persons.

Implementation of the priority project of the Government of the Russian Federation ‘Small business and support for individual business initiative’, launched in December 2016, continued. The project seeks to ensure employment for the population by increasing the number of unique individual and small business entities (who have opened or expanded their business) using various types of support and the average number of staff employed by such entities. In 2017, with-

<sup>1</sup> All publications are posted on the Bank of Russia website.

<sup>2</sup> The Bank of Russia Board of Directors approved the Strategy for the Improvement of Financial Inclusion in the Russian Federation in 2018–2020 on 26 March 2018, and it has been published on the Bank of Russia website in the section ‘Financial markets / Financial market development / Financial inclusion’.

in the framework of the priority project, the Bank of Russia implemented measures in the following areas: facilitating the development of uniform standards for SME lending, changing the quality category of guarantees and sureties issued by JSC Russian Small and Medium Business Corporation (hereinafter, JSC RSMB Corporation) and increasing the level of financial literacy of entrepreneurs.

The Bank of Russia Working Group for SME Financing at its meetings discussed and approved uniform standards for SME lending which will serve, among other things, as the basis for multi-originator securitisation transactions for banks partnering with JSC RSMB Corporation.

Work on assigning quality category 1 to guarantees and sureties issues by JSC RSMB Corporation was completed; indicators of sustainable performance of JSC RSMB Corporation were approved, which will make the guarantee support of JSC RSMB Corporation more attractive to the banking community.

The working group developed two financial literacy educational programmes for entrepreneurs with a focus on the management of risks associated with the use of financial instruments and services by SME entities. In 2017, the Bank of Russia prepared and held 30 events: a cycle of 21 webinars for small and micro business entities attended by over 200,000 trainees; nine regional conferences for medium business entities attended by 1,800 trainees.

In order to increase the availability of loans to small and medium businesses, the Bank of Russia's Instruction 'On Banks' Required Ratios'<sup>1</sup> introduced the following amendments to the conditions for the application of a reduced risk ratio of 75%<sup>2</sup> on receivables to small business entities for the purpose of calculating required ratios:

- it increased the maximum amount of claims to a small business entity from ₹50 million to ₹60 million;
- the diversification ratio of a small business loan portfolio was changed from 0.2% of the total number of loans in the portfolio to 0.5%<sup>3</sup> of the bank's equity (including off-balance sheet liabilities calculated as part of the portfolios of homogeneous contingent credit liabilities), where the minimum number of in-

dividual borrowers in the respective portfolio of the bank equals 100.

To develop market financing for SMEs, in July 2017, PJSC Moscow Exchange launched a new market segment, i.e. the Growth Sector set up for public circulation of securities (shares and bonds) of small and medium-sized businesses. The Growth Sector may list securities of issuers existing no less than one year, with the total revenue not exceeding ₹10 billion over the past year. The main goal underlying the establishment of this segment is to assist small companies in getting access to the organised equity market by simplifying placement procedures and making them more affordable.

In October 2017, the Working Group for the development of the Growth Sector at PJSC Moscow Exchange was set up with the participation of the Bank of Russia. Its main objectives are to facilitate implementation of the government policy for supporting small and mid cap issuers and develop infrastructure for SMEs to attract capital.

In 2017, owing to inflation's slowdown to the target and the decline of market interest rates in the economy, the relevance of specialised refinancing facilities of the Bank of Russia (hereinafter, the specialised facilities) used to support lending in certain areas of economic activity decreased. Over the year, the total debt on specialised facilities increased by merely 2.8% to ₹285.0 billion.

The Bank of Russia used specialised facilities to support banking lending across certain areas of economic activity: SMEs, project financing, military mortgage and non-commodity exports. The maturity of loans was up to 3 years, with credit institutions being entitled to an early repayment. During the year, the Bank of Russia Board of Directors made decisions on interest rates on specialised facilities concurrently with its monetary policy decision-making and with due regard thereto. Interest rates on loans supporting project financing and military mortgages were reduced in line with Bank of Russia key rate cutting, whereas lower interest rates on SME lending remained at the level of 6.5%. The Bank of Russia anchored the interest rate on the specialised facilities aimed to back up non-commodity exports at the level of 6.5% starting 2 May 2017.

<sup>1</sup> Bank of Russia Instruction No. 180-I, dated 28 June 2017, 'On Banks' Required Ratios'.

<sup>2</sup> Established by Bank of Russia Ordinance No. 3855-U, dated 30 November 2015, 'On Amending Bank of Russia Instruction No. 139-I, Dated 3 December 2012, 'On Banks' Required Ratios' (effective from 1 January 2016).

<sup>3</sup> The maximum permissible value as a percentage of the credit institution's capital, as established by Chapter 5 of Bank of Russia Regulation No. 590-P, dated 28 June 2017, 'On the Procedure for Making Loss Provisions for Loans, Loan and Similar Debts' for the purposes of making provisions for a homogeneous loan portfolio.

Starting March 2017, according to the decision of the Bank of Russia Board of Directors, following the reduction in interest rates on any of the specialised facilities, such reduced interest rate shall also apply to the loans issued before the date of the respective change.

July 2017 saw an increase in the limit set for the specialised facilities aimed to back up SME lending from ₹125 billion to ₹175 billion. Furthermore, the Bank of Russia provided for the uniform distribution of the additional limit between two groups of banks:

- regional pivotal banks<sup>1</sup> and banks with a basic licence (if such banks are created), without any limitations as to the type of lending;
- systemically important banks limited to the provision of loans only for investment purposes.

The Bank of Russia approved the introduction of amendments to Programme 6.5<sup>2</sup>, namely:

- supporting the inclusion of microfinance organisations for business financing in the list of recipients of concessional loans under Programme 6.5 in order to expand financial support measures for SMEs;
- increasing the number of banks participating in Programme 6.5;
- approving the inclusion of storage and warehousing activities (code 52.10 under OKVED 2, All-Russian Classifier of Economic Activities) in the list of priority sectors.

Taking into account the transition to economic growth and decline in market rates, in September 2017, the Bank of Russia Board of Directors approved the mid-term strategy of phased withdrawal of Bank of Russia specialised refinancing facilities (hereinafter, the Strategy). The Strategy is aimed at the gradual reduction of concessional lending as it is replaced with market mechanisms. One of the key principles of the Strategy is to avoid the worsening of conditions on previously issued loans. At the first stage of implementing the

Strategy (starting 2 October 2017), the Bank of Russia stopped increasing the limits on all specialised facilities.

Establishment of insurers' duty to conclude CMTPLI agreements in the form of electronic documents raised the level of CMTPLI accessibility (see Subsection II.3.1). In 2017, over 7.8 million electronic CMTPLI agreements were concluded (about 20% of the total number of CMTPLI agreements concluded during the said period). The operation of this service prompted many questions due to its novelty, and at the first stage the Bank of Russia, when responding to applicants, provided consultation support and explained the mechanism of its operation. A number of issues regarding the availability of the electronic policy remained unaddressed; therefore, the monitoring of this matter will be among the priorities of the conduct supervision in 2018.

Another measure aimed at increasing the availability of insurance services was to establish the priority of the in-kind compensation of damage over monetary compensation in CMTPLI.

In March 2017, the Bank of Russia set up the Working Group for improving financial inclusion for disabled and mobility-impaired population groups.

The Working Group developed the Action Plan ('road map') for improving the financial inclusion for disabled, mobility-impaired and senior individuals in 2017–2019<sup>3</sup>, discussed and coordinated it with the Ministry of Labour of Russia, and finally approved it in July 2017.

Information letters were issued for credit and non-bank financial institutions with recommendations to ensure the availability of their services to disabled, mobility-impaired and senior individuals<sup>4</sup>.

Based on the results of regular monitoring of crowdfunding platforms and in cooperation with market participants, in 2017, the Bank of Russia prepared the draft law 'On Alternative Ways to Attract Investment (Crowdfunding)'<sup>5</sup>, which specifically defines the proce-

<sup>1</sup> Credit institutions which meet the following performance criteria:

- the credit institution performs banking operations mostly in the regions of the Russian Federation;
- the banking products of the credit institution satisfy the needs of the population and businesses mostly in the territory of a constituent entity of the Russian Federation where it is registered;
- the source of capital formation of the credit institution is mostly of regional origin;
- regional authorities may be founders, co-founders or owners of the credit institution; however, regional budget funds are not the dominating sources of financing of the credit institution's activity;
- within the constituent territory, where the credit institution does most of its business, it is strategically important for the economic development of the region and performs its functions with due regard to the regional interests.

<sup>2</sup> Programme 6.5 is a programme for stimulating SME lending implemented by JSC RSMB Corporation jointly with the Bank of Russia (approved on 28 July 2015 by the Board of Directors of JSC RSMB Corporation, as amended).

<sup>3</sup> See the Bank of Russia website.

<sup>4</sup> Bank of Russia Information Letters No. IN-03-59/20, dated 12 May 2017, and No. IN-01-59/50, dated 23 October 2017.

<sup>5</sup> The provisions of the said project published on the Bank of Russia website on 28 January 2018 were subsequently incorporated in draft Federal Law No. 419090-7 'On Alternative Ways to Attract Investment (Crowdfunding)' submitted to the State Duma of the Federal Assembly of the Russian Federation on 20 March 2018.

ture for the Bank of Russia's interaction with market participants (platforms). The Bank of Russia reached an agreement with the main market participants and the members of the Bank of Russia Working Group for

monitoring, consumer risks assessment and proposal development for the regulation of crowdfunding sector regarding the voluntary testing of the suggested regulatory model.

## II.3.4. Regulation, control and supervision of corporate relations

In 2017, the Bank of Russia continued its work on implementing one of the priority areas of financial market development in the Russian Federation: increasing the attractiveness of equity financing of public companies by improving corporate governance<sup>1</sup>. The Bank of Russia sought to improve corporate legislation, set up the framework for the application of the effective federal laws governing corporate relations, improve the quality of corporate governance in public joint-stock companies, ensure the protection of the rights of shareholders and investors and increase the investment attractiveness of joint-stock companies.

To improve the quality of corporate governance and up-grade Russia's position in the Doing Business ranking of the World Bank for the indicator 'Protecting minority investors', the Bank of Russia took part in the implementation of the Action Plan ('road map') for Improvement of Corporate Governance<sup>2</sup>.

In particular, the Bank of Russia worked along the following lines:

- clarifying the criteria for determining the amount of dividends on preferred shares;
- optional creation of an audit commission in public joint-stock companies;
- compulsory formation of an audit committee of the board of directors by public joint-stock companies and compulsory organisation of a risk management system and internal control and internal audit systems;
- elimination of barriers hindering optimal distribution of powers between the general meeting of shareholders and the board of directors;
- provision to shareholders of a preemptive right to acquire preferred shares offered for the first time;
- clarification of the requirements for determining the

repurchase price of shares admitted to on-exchange trading.

For the purpose of reforming the regulation of major transactions and related-party transactions, the Bank of Russia established requirements for the procedure for sending notifications to persons who may be recognised as interested parties to transactions of a joint-stock company and the form of such notification<sup>3</sup>, and set maximum amounts on the transactions of joint-stock companies and limited liability companies upon exceeding of which such transactions may be recognised as related-party transactions<sup>4</sup>.

For the purpose of fuller and better disclosure of information on the remuneration of members of the Board of Directors (Supervisory Board), executive bodies and other top management of a company and the inclusion of such information in the annual report of joint-stock companies, the Bank of Russia prepared corresponding recommendations containing forms for the disclosure of the said information on remuneration<sup>5</sup>.

The Bank of Russia continued its efforts<sup>6</sup> to improve the legal regulation of the procedure for acquiring large blocks of shares of public joint-stock companies with a view to maintaining the balance of interests of all parties to respective relations. The work is to be finished in 2018.

To improve regulation of the procedure for listing preferred shares by including them in quotation lists, the Bank of Russia amended requirements for the minimum number of preferred shares in free circulation.

In 2017, the Bank of Russia published information letters on the most topical and pressing issues in the sphere of corporate relations; these letters were aimed

<sup>1</sup> See the Guidelines for the Development of the Russian Financial Market in 2016–2018.

<sup>2</sup> The Action Plan ('road map') for Improvement of Corporate Governance approved by Directive of the Government of the Russian Federation No. 1315-r, dated 25 June 2016.

<sup>3</sup> Bank of Russia Ordinance No. 4338-U, dated 3 April 2017, 'On the Requirements for the Sending Procedure and Form of Notifications to Persons Who May Be Deemed Interested in Transactions Performed by a Joint-stock Company'.

<sup>4</sup> Bank of Russia Ordinance No. 4335-U, dated 31 March 2017, 'On Setting Maximum Amounts on the Transactions of Joint-stock Companies and Limited Liability Companies upon Exceeding of Which Such Transactions May Be Recognised as Related-party Transactions'.

<sup>5</sup> Bank of Russia Letter No. IN-06-28/57, dated 11 December 2017, 'On Recommendations for a Public Joint-stock Company to Disclose Information on the Remuneration of Members of the Board of Directors (Supervisory Board), Executive Bodies and Other Top Management of the Public Joint-stock Company in its Annual Report'.

<sup>6</sup> The Bank of Russia is finalising draft Federal Law No. 1036047-6 'On Amending the Federal Law 'On Joint-stock Companies' and Certain Other Laws of the Russian Federation' (as regards improvement of the legal regulation of the purchase of large blocks of shares of public joint-stock companies) for the second reading in the State Duma of the Federal Assembly of the Russian Federation.

at shaping the uniform application of the provisions of Russian laws on joint-stock companies<sup>1</sup>.

To elaborate balanced approaches towards resolving the problem of shareholders' passivity in matters of corporate governance of public joint-stock companies, the Bank of Russia prepared a consultative report 'On approaches to encouraging the active participation of shareholders and investors in the management of Russian public joint-stock companies', which looked into the issues of shareholders' participation in the management of corporate property, gave examples from global practice of stimulating investors' active involvement in corporate governance, and also put forward approaches to resolving the existing problem of the passivity of institutional investors in Russian companies. The summary of the discussion of the said report shall serve the basis for elaborating specific measures aimed at addressing the issue of shareholders' and investors' passivity.

As part of its efforts to improve corporate governance, the Bank of Russia continued to implement the best corporate governance practices in Russian public joint-stock companies. In 2017, the Bank of Russia monitored the compliance by public joint-stock companies with the principles and recommendations of the Corporate Governance Code<sup>2</sup> (hereinafter, the Code) on the basis of data disclosed by public companies in their annual reports. The monitoring findings are reflected in the respective reviews of corporate governance practice in Russian public companies. April 2017 saw the publication of a pilot review based on the results of analysis of annual reports prepared by public companies for 2015; December 2017 saw the publication of the second review prepared on the basis of analysis of annual reports for 2016.

The data in the reviews suggest that Russian public companies have made certain progress in the implementation of the principles and recommendations of the

Code. In 2016, the average level of compliance with the principles of the Code grew by 11 pp to 69% (compared with 58% in 2015). The number of public companies which declared a high level of implementation of the Code provisions (75% or more of principles set forth in the Code) almost doubled as compared to 2015 and reached roughly 40%. The Bank of Russia sent letters to public companies whose shares were included in the Moscow Exchange quotation lists with clarifications and recommendations for improving the quality of explanations of the causes of non-compliance (partial compliance) with the principles of the Code; these letters were intended to help companies to optimally organise their work on preparing annual reports for subsequent reporting periods. The Bank of Russia performed sampling verification of information disclosed by public companies in their reports on compliance with the principles and recommendations of the Code.

To encourage the compliance of public companies with the recommendations of the Code and proper disclosure of information in annual reports on the causes of deviations from the practices recommended by the Code, the Bank of Russia offers comprehensive methodological support in preparing reports on companies' compliance with the principles and recommendations of the Code, maintains direct interaction with joint-stock companies and holds training activities.

Throughout 2017, the Bank of Russia considered a total of over 1,800 queries of individuals and legal entities, state authorities and other entities on corporate relations and information disclosure. It reviewed 610 packages of documents as part of state oversight of the acquisition of large blocks of shares. It considered 246 packages of documents on the release of issuers from the duty to disclose information. In the course of supervision of corporate relations and information disclosure, the Bank of Russia issued over 5,000 orders and compiled over 1,000 reports on administrative offences.

<sup>1</sup> Bank of Russia Letter No. IN-06-28/27, dated 8 June 2017, 'On Certain Issues of the Procedure for Preparing a General Meeting of Shareholders'; Bank of Russia Letter No. IN-015-28/41, dated 4 August 2017, 'On the Sources of Remuneration to Members of the Board of Directors (Supervisory Board) of a Joint-stock Company'; Bank of Russia Letter No. IN-015-28/42, dated 4 August 2017, 'On Recognising Ultimate Market Value of Securities Recommended for the Purpose of Individual Provisions of Chapter XI.1 of Federal Law No. 208-FZ, Dated 26 December 1995, 'On Joint-stock Companies'; Bank of Russia Letter No. IN-06-28/60, dated 19 December 2017, 'On Recommendations for Preparing and Holding a General Meeting of Shareholders of a Joint-stock Company'.

<sup>2</sup> Approved by the Bank of Russia Board of Directors on 21 March 2014 and recommended for application in Bank of Russia Letter No. 06-52/2463, dated 10 April 2014.

### II.3.5. Development of the bond and syndicated loan market

As part of the development of the equity and debt securities market, including the bond market, Federal Law No. 164-FZ, dated 18 July 2017 'On Amending Article 30 of the Federal Law 'On the Securities Market' and Articles 3 and 4 of the Federal Law 'On Consolidated Financial Statements' was adopted. In pursuance thereof, certain entities were allowed to establish other starting and closing dates of the reporting period besides the calendar year for the purpose of drawing up consolidated financial statements. This innovation is aimed at a more unbiased and complete reflection of financial standing, financial performance results and changes to financial standing in consolidated financial statements, proceeding from the business cycle of respective entities.

In 2017, for the purpose of developing the market of bonds issued to finance public-private partnership projects, the Bank of Russia set up the Expert Council for Long-Term Investment Market.

The Bank of Russia took part in preparing Federal Law No. 486-FZ, dated 31 December 2017, 'On Syndicated Loans and on Amending Certain Laws of the Russian Federation'.

In 2017, Bank of Russia Main Branches held regional conferences (covering regions falling within the competence of the corresponding Main Branches of the Bank of Russia) in Yekaterinburg, Novosibirsk, Vladivostok, Nizhny Novgorod, Krasnodar, Saint Petersburg and Ryazan. The Bank of Russia's regional branches developed detailed road maps for the further development of the bond market in the regions.

Drawing on the best practices identified in the course of regional activities and using the support of the relevant committee of the Federation Council of the Federal Assembly of the Russian Federation, the constituent territories of the Russian Federation were advised to subsidise from regional budgets the expenses for organising the first (debut) bond issue and/or the expenses for paying coupons on the bonds for enterprises implementing priority investment projects in the territory of the region.

To create the necessary conditions for the Ministry of Finance of Russia to place government bonds denominated in yuan, amendments were introduced to the General Terms of Issue and Circulation of Federal Government Bonds, and the Russian Federation and the People's Republic of China signed a joint statement on the further development of comprehensive partner-

ship and strategic interaction, including assistance in admitting Chinese investors for participation in a possible offering of OFZs denominated in yuans in the Russian market.

The 18<sup>th</sup> Meeting of the Subcommittee on Cooperation in Financial Issues of the Russian-Chinese Commission for the Preparation of Regular Meetings between the Heads of Government took place. The meeting formalised arrangements for the further intensification of cooperation between regulatory organisations in the financial market and the approval of the issue of bonds in yuans by Russian organisations in the Russian and Chinese markets. The parties also signed the Memorandum of Understanding on Cooperation in the Sphere of Gold Exchange Trading between the People's Bank of China and the Central Bank of the Russian Federation.

In 2017, the Bank of Russia took part in drafting Federal Law No. 319413-7 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation with Regard to Improving the Legal Regulation of Securities Issuance', which was aimed at simplifying the issuance of debt securities and reducing the time required for their issuance.

The said draft law is, in particular, aimed at:

- abolishing the procedure for approval of issuance documents for bonds and simplifying the signing procedure of issuance documents for all kinds of issue-grade securities;
- eliminating the division of issue-grade securities into certified and uncertified and, as a result, eliminating duplicate documents during the issue of securities;
- extending the possibility of issuing bonds under a simplified procedure, within the frames of a bond programme, to any bonds that are not convertible into shares;
- granting an exchange the right to register mortgage-backed bonds;
- establishing the possibility of a preliminary volume of the issue under a bond programme;
- introducing the practice of the central depository performing the functions of the representative of bondholders in the event of the issuer's bankruptcy;
- simplifying the procedure for summing up the results of bond placement;
- establishing the possibility of state registration of bonds issues in electronic form in legislation;

- 
- optimising the list of conditions under which an issue does not have to be accompanied by the registration of a securities prospectus;
  - optimising requirements for the form and contents of a securities prospectus, inter alia, depending on the type of securities offered and specifics of the issuer's activity.

## II.4. DEVELOPMENT OF THE NATIONAL PAYMENT SYSTEM

### II.4.1. Cash circulation management

The Bank of Russia's most important tasks are to ensure continuous supply of banknotes and coins, enhance the effectiveness of cash circulation business processes and mitigate risks.

In 2017, the economy's demand for cash funds was satisfied in full and on time.

In the reporting year, cash in circulation increased<sup>1</sup> (including cash in cash offices at Bank of Russia establishments) by ₹745.7 billion; inter alia, the amount of banknotes increased by ₹738.8 billion, and the amount of coins increased by ₹6.9 billion. The growth rate of this indicator in 2017 was 8.5% (2016: 3.2%).

As of 31 December 2017, there was ₹9,548.0 billion worth of Bank of Russia token money in circulation, including coins made of precious metals, of which ₹9,451.9 billion were banknotes (6.2 billion pieces), ₹95.7 billion were coins (65.6 billion pieces) and ₹0.4 billion were coins made of precious metals. Banknotes accounted for 99.0% of the total value of cash in circulation, and coins accounted for 1.0%. In the total number of cash in circulation banknotes accounted for 8.6% and coins – for 91.4%.

In 2017, the number of banknotes increased by 0.1 billion pieces, and the number of coins (excluding

coins made of precious metals) increased by 1.2 billion pieces.

In 2017, the Bank of Russia introduced into payment turnover the 2017 series ₹200 and ₹2,000 banknotes, with an enhanced set of security elements and a new design.

In the note structure of cash in circulation, the share of ₹5,000 banknotes expanded from 72.4% to 74.5% in the reporting period. At the same time, the shares of ₹1,000 banknotes and ₹500 banknotes both contracted (from 22.2% to 20.4% and from 3.6% to 3.2% respectively). The respective shares of ₹100, ₹50, ₹10 and ₹5 banknotes essentially remained at 2016 levels.

In 2017, ₹10 banknotes were replaced with coins with the same face value, and the number of such coins increased by 8.8%.

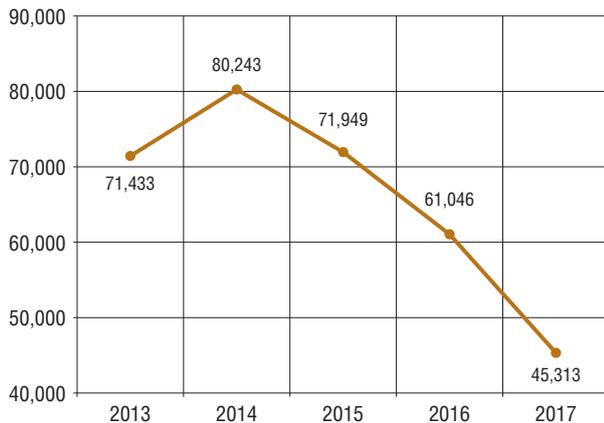
The Bank of Russia monitored cash turnover and examined its structure, analysing the note structure of cash in circulation and the reserves of Bank of Russia establishments to make sure that it matched the needs of payment turnover.

At the end of 2017, cash turnover through the cash offices of Bank of Russia establishments and credit institutions increased by 0.5% compared with the previous year to ₹100.0 trillion (2016: to ₹99.4 trillion).

**Cash in circulation  
(billions of rubles)**



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

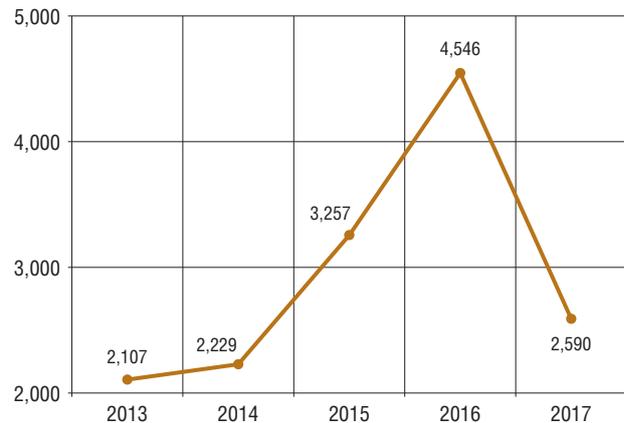
**Detection of counterfeit Bank of Russia notes and coins  
(pieces)**

In 2017, the Bank of Russia improved its regulations related to the organisation of cash circulation, cash issuance, other cash operations, as well as the storage, transportation, and collection of cash, with consideration of changes in the economic conditions and Russian legislation.

As of 1 January 2018, Bank of Russia establishments provided cash services to 4,691 credit institutions and their divisions and 8,603 non-credit institutions. In 2017, the number of credit institutions and their divisions that used the cash services of Bank of Russia establishments decreased by 844 as a result of structural changes in the banking sector. The number of non-credit institutions using the cash services of Bank of Russia establishments decreased by 2,609 due to the closing of bank accounts in Bank of Russia regional branches.

The Bank of Russia continued its efforts to optimise the number of cash offices and reduce the cost of cash processing, storage, and transportation, as well as efforts to improve the working conditions of cash clerks.

In 2017, Bank of Russia establishments carried out 0.93 million expert assessments of Bank of Russia token money, including 0.49 million expert assessments of suspicious token money and 0.44 million control assessments of the accuracy with which banknote and coin were exchanged. In the reporting year, 45,313 counterfeit Bank of Russia banknotes and coins were detected in the banking system of the Russian Federation,

**Detection of counterfeit foreign banknotes  
(pieces)**

withdrawn from circulation and handed over to law-enforcement agencies; which is 25.8% less than in 2016. The number of counterfeit ₱1,000 banknotes decreased from 22,321 in 2016 to 17,218 in 2017; the number of counterfeit ₱5,000 banknotes decreased from 36,184 in 2016 to 26,948 in 2017.

The share of counterfeit ₱1,000 banknotes in the total number of counterfeit banknotes was 38.0% in 2017 (2016: 36.6%). The share of counterfeit ₱5,000 banknotes increased by 0.2 pp to 59.5%.

The largest number of counterfeit token money was detected in the Central and North-Western Federal Districts.

The share of counterfeit Bank of Russia token money identified by credit institutions contracted by 1.2 pp compared with 2016 to 37.6% of the total number of detected forgeries.

In 2017, Bank of Russia establishments and credit institutions identified 2,590 counterfeit banknotes of foreign countries (groups of foreign countries) and delivered them to law-enforcement agencies; this is 43.0% less than in 2016.

In 2017, the Bank of Russia issued 39 kinds of precious metal coins into circulation (one gold coin and 38 silver coins) and 15 types of commemorative base metal coins, including four coins with coloured paintwork in souvenir packaging.

The implementation of the 2018 FIFA World Cup coin programme continued.

## II.4.2. Development of national payment instruments

In 2017, the Bank of Russia continued its activity aimed at the development of the National Payment Card System (hereinafter, the NPCS). Promotion of the national payment instrument, Mir cards, was one of the priority areas of such development. As of year-end 2017, 374 credit institutions participated in the Mir payment system, of which 365 accepted the national payment instruments in their infrastructure and 157 credit institutions issued them.

In 2017, readiness of the payment infrastructure for the acceptance of Mir cards throughout the Russian Federation was ensured, and the Mir payment system carried out a large-scale issuance of the new national payment instrument. The target for the issuance of Mir cards for 2017 was exceeded twofold. By the beginning of 2018, over 31 million Mir cards had been issued (almost 18 times more than the year before). The efficiency of their use improved as well: the number of operations using Mir cards grew by more than 70 times compared with 2016, and the value of operations was almost 40 times greater (up to 730.3 million operations for an amount of ₺1.8 trillion). The share of cashless operations in the total number and value of operations with Mir cards reached 77.6% and 44.1% respectively, and cash withdrawal operations amounted to 22.4% and 55.9% respectively.

Furthermore, in 2017, according to the requirements established by the Russian legislation, the Bank of Russia and NPCS JSC jointly with state executive authorities transitioned budget sector employees to Mir cards. As of year-end, over 90% of budget sector employees (16.8 million people) who received payments to the cards of international payment systems started using Mir cards.

In 2017, projects for placing non-finance applications on Mir cards were implemented in Rostov-on-Don, Saransk, Ufa, Yekaterinburg, Saint Petersburg and other regions of the Russian Federation. The scheduled transition of the holders of Moscow resident's social card to Mir cards began. Implementation of the pilot project for payments from the Social Insurance Fund of the Russian Federation to the Mir cards of insured persons was successful, and now its implementation is underway in the regions.

As part of the development of promising payment products and NPCS services, a secure e-commerce platform and a loyalty programme were launched, the possibility of contactless payment was implemented, and the availability of the mobile contactless payment service Samsung Pay was provided for the holders of national payment instruments.

For the purpose of promoting Mir cards outside the Russian Federation, the issuance of Mir-UnionPay co-badged cards was launched.

Furthermore, as part of the formation of the single EAEU payment area, in 2017, intersystem interaction was organised between the Russian payment system Mir and the Armenian payment system Armenian Card for the mutual acceptance of payment cards in the banking infrastructure of the two countries. The first transactions with Mir cards in the Armenian Card infrastructure were performed in July 2017. The Russian payment system also interacted with other EAEU countries (Kyrgyzstan, Belarus and Kazakhstan) and popular outbound tourism destinations (Turkey, the UAE, Vietnam, Thailand and others) regarding the acceptance of Mir cards in the territories of those countries.

### II.4.3. Development of the Bank of Russia payment system

Within the framework of the Bank of Russia payment system (hereinafter, the Bank of Russia PS), in 2017, 1.5 billion funds transfers for an amount of ₺1,440.9 trillion were made (an increase of 6.5% and 7.5% respectively). Over the year, the number of customers served by the Bank of Russia declined by 15.4% to 2,567 as of 1 January 2018.

The Bank of Russia continued to improve its services and functions provided to customers, including financial market participants. To expand the single time interval for access to payment services, the Bank of Russia established an earlier starting time of the regular session of the banking electronic speedy payment (BESP) system and of the acceptance of orders of Bank of Russia customers for execution in the regional components (no later than 04:00am Moscow time). In order to speed up funds transfers during settlements under financial market operations, the Bank of Russia PS made it possible to effect large-value payments (over ₺100 million) exclusively in real time mode. As a result, over 80% of the cash flow of the Bank of Russia PS was concentrated in the speedy transfer system (almost twice as much as in 2016).

To encourage its customers to use electronic exchange, the Bank of Russia introduced a restrictive tariff in the amount of ₺350 starting 1 October 2017 for the service of funds transfer based on customers' instructions submitted to the Bank of Russia in hard copy. In 2017, the share of such instructions in the total number and volume of transfers in the Bank of Russia PS was less than 0.5%.

In accordance with the Bank of Russia settlement network optimisation programme, 46 cash settlement

centres were shut down in 2017 (29.7% of the total number of centres operating as of the beginning of the year).

To meet customer demands and foster financial market development, the Bank of Russia is implementing measures to create a system of forward-looking Bank of Russia payment services consisting of a unified payment platform, centralised database of the accounts of payment system participants and unified system of operational management and monitoring, and the expansion of the range of services provided.

In the course of implementing the forward-looking solution, the new rules of the Bank of Russia PS<sup>1</sup> effective from 2 July 2018 were published and technical and project documents for the automated system supporting the functioning of the system of forward-looking Bank of Russia payment services were approved.

In 2017, the number of users of the Bank of Russia financial messaging system (hereinafter, the FMS) increased to 378, and they sent 2.7 million messages within the FMS. FMS participants may use this service 23 hours a day five days a week at competitive rates.

In the course of supervision in the national payment system, in 2017, the Bank of Russia performed another evaluation of the conformity of the Bank of Russia PS to the standard of the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions 'Principles for Financial Market Infrastructures'. That evaluation confirmed the findings of the previous evaluation on a high level of conformity of the Bank of Russia PS to the said principles, and ratings for a number of principles were raised to the maximum possible level.

<sup>1</sup> Bank of Russia Regulation No. 595-P, dated 6 July 2017, 'On the Bank of Russia Payment System' (published on the Bank of Russia website).

## II.4.4. Development of other payment systems

In 2017, funds transfers within the payment systems included in the register of payment system operators increased by 21% by number and by 18.5% by volume as compared to 2016 (to 7.4 billion transfers for an amount of ₺213.6 trillion).

88.3% of the total transfers in the payment systems were large-value payments made via the systemically important NSD PS, and 4.8% were transfers made via the socially important Sberbank payment system.

Over 99% of the total number of transfers in the payment systems were funds transfers made via socially important payment systems (Sberbank, Zolotaya Korona, MasterCard and Visa).

In accordance with Federal Law No. 161-FZ, in the course of supervision of systemically and socially important payment systems, evaluations of the conformity of the Bank of Russia payment system and Zolotaya Korona payment system to the international standard of the Payments and Market Infrastructure Committee and the International Organization of Securities Commissions 'Principles for Financial Market Infrastructures' (hereinafter, the PFMI) were completed, and the systemically important NSD PS was evaluated<sup>1</sup>. The results of the evaluations confirmed a high level of the payment systems' conformity to the PFMI. To disclose the level of conformity of the

important payment systems to international standards, the Bank of Russia published the evaluation findings on its website.

Based on the evaluation results, the Bank of Russia gave recommendations to the operators of the evaluated payment systems for improving their activity in the Russian Federation, which were included in the action plans for changes in activity prepared by the payment system operators and approved by the Bank of Russia.

In 2017, the operators of the socially important payment systems Sberbank, MasterCard and Visa continued to implement measures in the framework of the corresponding plans approved by the payment system operators after the first evaluation cycle. The Bank of Russia will carry out the evaluation of the said payment systems, including the implementation status of the action plans for changes in activity, in accordance with the plan approved by the Bank of Russia for the evaluation of important payment systems in 2018.

In 2017, the Bank of Russia continued development of its international cooperation with the central (national) banks of EAEU member states under bilateral agreements on cooperation in the field of supervision (oversight)/observation of payment systems for the purpose of exchanging experience in the field of payment systems development.

<sup>1</sup> Evaluation of the systemically important NSD PS was completed on 31 January 2018.

## II.5. TECHNOLOGY DEVELOPMENT AND INNOVATION SUPPORT IN THE FINANCIAL MARKET

### II.5.1. Development of financial technologies

In pursuance of the list of Orders of the President of the Russian Federation No. Pr-2132, dated 21 October 2017, the Russian Ministry of Finance jointly with the Bank of Russia and other involved government authorities and organisations prepared draft Federal Law No. 419059-7 'On Digital Financial Assets' and submitted it to the State Duma of the Federal Assembly of the Russian Federation. The draft law provides for the definition of the status of digital technologies applicable in the financial field and terms used in that field (including such terms as 'cryptocurrency', 'token', 'smart contract'), taking into consideration the risks associated with the turnover of cryptocurrencies in the Russian Federation.

The Bank of Russia continues to study and analyse innovative technology in the financial market. In December 2017, the Bank of Russia published on its website consultative reports 'Development of Distributed Ledger Technology' and 'Development of Open APIs in the Financial Market'.

Federal Law No. 482-FZ, dated 31 December 2017, 'On Amending Certain Laws of the Russian Federation' sets forth the possibility for banks to conduct remote identification of individual customers for the remote delivery of financial services using biometric personal data (face image and voice) via the Unified System of Identification and Authentication and the Unified Biometric System.

The implementation of remote identification will enable the delivery of banking services to individuals without their personal presence and will enhance financial inclusion for all categories of citizens, including those living in remote regions, and for disadvantaged persons, reduce the cost of financial services and increase competitiveness in the financial market. The implementation of a remote identification mechanism is one of the key tasks for the digitalisation of financial services.

At the present time, the technology infrastructure is being developed for the implementation of the aforesaid mechanism, and credit institutions are upgrading their

information systems and preparing them for the collection of biometric personal data. Implementation of the technology is scheduled for July 2018.

In 2017, at the initiative of the Bank of Russia, the FinTech Association, established by the Bank of Russia together with financial market participants, started the elaboration of the following lines of activity: distributed ledger technology, retail payment space, open APIs, as well as digital identification and digital identity management.

The concept of faster payments platform was prepared together with the participants of the FinTech Association. The next stage will be to create a prototype for the target solution of this platform.

The faster payments platform will enable real time funds transfers between individuals, and also transfers to legal entities for goods and services within the established limits, with the ability to use simple and user-friendly identifiers (e.g., mobile telephone number, QR code<sup>1</sup>) for making payments. The implementation of the platform will develop the payment services market and lay the groundwork for the launch of high-tech financial services, and will also increase the attractiveness of cashless settlements.

The Bank of Russia, jointly with the financial market participants, completed the creation of the Masterchain platform based on distributed ledger technology. At the moment, the FinTech Association is conducting pilot projects to keep records of electronic mortgages, digital letters of credit and digital bank guarantees.

As part of creating a special regulatory platform on the basis of the Bank of Russia for piloting innovative financial technologies, products and services, the Bank of Russia together with the Russian Ministry of Finance, the Russian Ministry of Economic Development and the Russian Ministry of Telecom and Mass Communications prepared relevant proposals and submitted them to the President of the Russian Federation. The Bank of Russia's regulatory platform is to be launched in the beginning of 2018.

<sup>1</sup> Quick Response Code, a code readable by scanning devices.

Within the framework of interaction with EAEU states, the Bank of Russia together with the central (national) banks of the EAEU states developed the Action Plan of the Working Group on Harmonising National Payment Systems Development for 2018 and approved it in November 2017. The Action Plan formulates objectives in the field of legal regulation of the use of financial technologies, creation of a single payment space using new technology and also defining approaches towards digital identification and open APIs.

For the purpose of sharing experience among financial market participants in the field of implementing modern financial technology and innovations and for presenting the cutting-edge domestic and foreign products and solutions, on 5–6 October 2017, Sochi hosted FINOPOLIS 2017, an innovative financial technology forum. The Forum attracted over 1,400 top managers from the largest financial companies, IT developers, startups, representatives of the scientific community, etc. The programme of FINOPOLIS 2017 included the first Fintech Youth Day and a competition of fintech startups.

In December 2017, the Bank of Russia Board of Directors approved the Guidelines for Financial Tech-

nology Development in 2018–2020, which provide for the implementation of measures for the financial market and the Bank of Russia in the following key areas:

- legal regulation in the field of using financial technology, including protection of consumer rights and personal data;
- development of digital technologies in the financial market, including the study, analysis and development of proposals on the application of financial technologies and the creation and development of financial infrastructure;
- transition to electronic interaction between the Bank of Russia, general governmental, financial market participants and their customers;
- creation of a regulatory platform at the Bank of Russia for the testing of innovative financial technologies, products and services;
- interaction within the EAEU, inter alia, in respect of the formation of a single payment space for EAEU member states;
- ensuring security and sustainability when using financial technologies;
- development of human resources in the area of financial technology.

## II.5.2. Development of electronic interaction mechanisms

The Bank of Russia continues to work on organising access for financial institutions to electronic data contained in the state information systems. To expand the list of data available to credit institutions using the unified System of Interdepartmental Electronic Interaction and the Unified Portal of Public and Municipal Services (Functions), Resolution of the Government of the Russian Federation No. 2147-r, dated 3 October 2017, was published, and work on implementing the technical capability for credit institutions to obtain the said data is underway.

On 1 October 2017, the new rules set forth by Federal Law No. 86-FZ came into force. They give the Bank of Russia the right to interact with credit institutions by creating an information resource on the Bank of Russia website in the form of a personal account<sup>1</sup>.

Through the personal account opened on the Bank of Russia website, credit institutions receive requests, orders and explanations regarding the application of various statutory acts. In turn, credit institutions use their personal accounts to send replies and requests to the Bank of Russia.

Currently, all banks are connected to personal accounts.

All categories of nonbank financial institutions also use personal accounts, inter alia, for submitting their reporting.

The set of implemented measures allows the Bank of Russia to successfully and effectively manage legally significant electronic document workflow in the course of interaction with parties to information exchange from all points of the Bank of Russia's presence in the Russian Federation and enhance the efficiency of the Bank of Russia's activity in the course of performing the functions of regulation, control and supervision owing to the automation of paperless interaction processes during the exchange both of confidential and public information with financial market participants.

In 2017, to support the adoption by nonbank financial institutions the submission of reporting to the Bank of Russia by means of XBRL taxonomy<sup>2</sup>, the Bank of Russia published Converter software and XBRL Editor Form software for converting reporting data into XBRL format, validating them (according to the taxonomy) and generating a package of reports for submission to the Bank of Russia. Training for financial market participants is provided on a regular basis.

To expand electronic document workflow in the financial market and to reduce the share of paper documents, the Bank of Russia developed the Concept for Storing and Using Electronic Documents and Ensuring Their Legal Effect for the Financial Market<sup>3</sup> and prepared a road map (action plan) for its implementation together with the Russian Ministry of Telecom and Mass Communications and the Federal Archival Agency.

<sup>1</sup> The procedure for such interaction is governed by Bank of Russia Ordinance No. 4600-U, dated 3 November 2017, 'On the Procedure for the Bank of Russia to Interact with Credit Institutions, Nonbank Financial Institutions and Other Parties to Information Exchange via Bank of Russia Information Resources, Including Personal Accounts', which came into effect on 26 January 2018.

<sup>2</sup> See Subsection II.2.11 'Improving the accounting and the accounting (financial) statements of financial institutions'.

<sup>3</sup> The Concept was approved on 31 March 2017 at the meeting of the subcommittee for using information technology in provision of governmental and municipal services under the Governmental Commission for Using Information Technology for Improving the Quality of Life and Conditions of Business Conduct.

### II.5.3. Ensuring information security and enhancing cyber resilience

Ensuring cyber resilience in credit and financial institutions is an important area of the Bank of Russia's activity.

With regard to the functioning of the unified system for countering information threats to credit and financial institutions, the Bank of Russia is working on:

- mitigating the risk of the financial destabilisation of banks and financial institutions and their customers as a result of computer attacks;
- mitigating the risk of direct financial damage to the customers and counterparties of banks and financial institutions associated with unauthorised financial transactions;
- ensuring the confidence of customers and counterparties of banks and financial institutions in the security of implemented electronic technologies and services.

The Bank of Russia focuses its attention on:

- information and payment resources and services of the Bank of Russia;
- payment services provided by the national payment card system;
- services and payment resources of other banks and financial institutions.

The Bank of Russia, jointly with federal legislative and executive authorities, takes measures to prevent the theft of cash funds in the financial market of the Russian Federation.

The amount of unauthorised funds transfers persistently declined and as of year-end 2017 totalled ₽2.53 billion (₽2.98 billion in 2016; ₽4.95 billion in 2015). In 2017, the Bank of Russia identified one attempt to steal money from the correspondent accounts of credit institutions opened with the Bank of Russia payment system in the amount of ₽27 million (in 2015–2016, it identified 21 large-scale attempts for an amount exceeding ₽2.5 billion, of which funds transfer finality was registered for an amount of about ₽1 billion).

The share of unauthorised funds transfers as of year-end 2017 is 0.0016% of the total amount of funds transfers (1.6 kopecks per 1,000 rubles in funds transfers). This indicator does not exceed the 0.005% target established by the Bank of Russia for the share of un-

authorised transactions in the total payment card-based transactions and falls within the limits recommended by international payment systems.

In 2017, prompt information exchange between the Bank of Russia, law enforcement agencies and credit and financial institutions on incidents associated with the breach of requirements for information protection during funds transfers continued to improve. As of 1 January 2018, 419 banks, 17 nonbank credit institutions and 128 nonbank financial institutions took part in information exchange on a voluntary basis.

The Bank of Russia takes part in the improvement of Russian laws aimed at developing the legal framework for countering fraud in the financial market and creating an automated system for countering misappropriation of funds in the financial market in terms of:

- empowering the Bank of Russia (along with authorised federal executive authorities) to make a decision to include web resources used to commit fraudulent actions in the financial market in the Unified Register of domain names, web page indices and network addresses which enable the identification of websites containing information prohibited for distribution in the Russian Federation, for the purpose of their subsequent possible blocking;
- establishing the duty of a funds transfer operator to analyse the signs of funds transfers made without a customer's consent;
- establishing an extrajudicial legal mechanism for returning funds which have been transferred without authorisation from the accounts of corporate customers;
- creating a legal framework for the activity of the Bank of Russia Financial Sector Computer Emergency Response Team (FinCERT) with regard to exchanging information on committed (anticipated) computer attacks against the information infrastructure which are linked to actual or attempted unauthorised funds transfers;
- expanding the Bank of Russia's mandate to regulate information protection issues at credit and nonbank financial institutions in the course of their banking activity and activity in the financial markets, for the purpose of countering funds transfers without a cus-

customer's consent (by agreement with authorised federal executive authorities).

In 2017, the Bank of Russia elaborated information security standards<sup>1</sup> which set technical requirements for information protection in financial institutions and defined the methodology for evaluating the conformity

of information protection at financial institutions to the technical requirements of national standards.

Transition to the new standards will enable financial institutions to raise their level of protection against cybercrimes and to provide stable and uninterrupted services to their customers.

<sup>1</sup> On 1 January 2018, the national standard of the Russian Federation GOST R 57580.1-2017 'Security of Financial (Banking) Operations. Protection of the Information of Financial Institutions. Core Set of Organisational and Technical Measures' came into effect.

On 1 July 2018, Bank of Russia standard STO BR IBBS 1.4-2018 'Information Security in the Organisations of the Banking System of the Russian Federation. Management of Information Security Violation Risk while Using Outsourced Services' came into effect.

On 1 September 2018, the national standard of the Russian Federation GOST R 57580.2-2018 'Security of Financial (Banking) Operations. Protection of the Information of Financial Institutions. Conformity Evaluation Methodology' came into effect.

## II.6. OTHER ACTIVITIES

### II.6.1. Information policy

The information policy of the Bank of Russia in 2017 was aimed at building public confidence in the Bank of Russia's activities and creating a system of communications with financial market participants with a view to make the regulation of financial institutions' activities more effective. Regular and timely information disclosure, the completeness and accuracy of such information contribute to the achievement of this goal. Another important area of the Bank of Russia's communication policy is to provide the population with the knowledge about financial services sufficient to lay the foundation of financial culture and protect their rights.

In 2017, the Bank of Russia brought down inflation to the target level of about 4%, which is an important prerequisite of successful economic development and social well-being. The information transparency policy plays an important role in achieving the inflation target, as well as in reducing and stabilising inflation expectations. In 2017, the Bank of Russia stepped up its communications with the professional community markedly to achieve a clearer perception of monetary policy signals by them. In order to make the goals and results of the Bank of Russia's inflation control policy clear to the population, regardless of their place of residence and social status, an information campaign was held in several Russian regions. Regular meetings and exchange of opinions with the representatives of regional businesses, banks, local authorities, the expert and research community, and also mass media make it possible to explain monetary policy decisions and receive feedback for the purpose of future decision-making. The decline of inflation expectations among the professional community and the population to their all-time lows became a sign of the emergence of trust in the policy implemented by the Bank of Russia.

The most significant part of the information policy consists in supporting the Bank of Russia's activities in the areas of banking sector regulation and supervision, and monetary policy. Communications were aimed at raising the awareness of market participants, explaining the Bank of Russia's position to the population, and building trust-based relations between the Bank of Russia and the public. Information support of the readings of draft laws in the State Duma on the new

mechanism of bank resolution and proportionate regulation was the most important aspect of activity in this field. It was aimed, among other things, at creating the conditions for the earnest discussion of the provisions of the draft laws. Installation of a new mechanism of financial rehabilitation of banks using the money of the Fund of Banking Sector Consolidation, transformation and centralisation of banking supervision functions, and explanations of the Bank of Russia's decisions on the revocation of licences of credit institutions were always in the focus of attention of mass media and expert community representatives.

Given the social importance and sensitivity of most supervisory and regulatory decisions, the Bank of Russia adjusts its information policy in this area on an ongoing basis and tries to be as transparent and comprehensible as possible.

In 2017, amendments in the CMTPLI law came into force, making electronic sales of CMTPLI policies obligatory and establishing the priority of compensation in kind. The innovations were intended to improve the quality of CMTPLI services both at the stage of selling the policy and at the stage of settling insurance losses. In order to raise awareness among motor vehicle owners of the new opportunities in the CMTPLI system, the Bank of Russia organised and held large-scale federal and regional media campaigns. The situation with the availability of CMTPLI service, especially in so-called troubled regions, improved, inter alia, thanks to systemic communications.

Another important area of work in 2017 was the preparation and holding of an information campaign to introduce new ₴200 and ₴2,000 banknotes into circulation. The main objective was to tell the public about the external appearance of the new banknotes, their main security features and the stages of their introduction into circulation. Thanks to this work, the recognisability of the new monetary units of the Bank of Russia improved considerably, which facilitated their circulation in the Russian Federation.

In 2017, the Bank of Russia continued to actively raise public awareness about the national payment instrument – the Mir card. Given the social importance of the project, the information campaign was focused on

explaining to the public the key legislative amendments which came into force in 2017. This made it possible to clarify in a timely manner the specifics of the transition to the national payment instrument of certain categories of citizens such as budget funds recipients and pensioners. In 2017, the Bank of Russia held a multi-stage media campaign to inform the public of the legislative innovations which had come into effect and limited the maximum debt burden of the borrowers of microfinance organisations. The most active and large-scale awareness-raising work was conducted across the regions of the Russian Federation, inter alia, through training provided to the local mass media. Special attention was paid to the differences between MFOs and illegal lenders and the risks associated with the latter. Federal Law No. 230-FZ<sup>1</sup>, which has come into effect and governs professional activities related to overdue debt recovery, alleviated the tensions surrounding this topic in the mass media, yet required further information support and better public awareness about the division of responsibilities.

In 2017, issues related to consumer credit cooperatives became particularly pressing: the Bank of Russia initiated an information campaign to clarify the key principles underpinning the activities of microfinance organisations, their specifics and associated risks. Given that CCCs and MFOs play an important role in ensuring financial inclusion for the population in remote, sparsely populated regions, including small and medium-sized businesses, consistent efforts aimed to raise the level of financial literacy in this area will be continued in 2018.

Last year, active work on clarifying the fundamentals of cyber security in the financial sphere continued. Informing the public of the social engineering methods used by cyber fraudsters to steal money from citizens was in the centre of attention. Such awareness-raising work along with other measures contributed to a decline in the volume of theft from Russians' bank cards, while the number of attempts to steal money continues to in-

crease against the background of an overall increase in cashless payments.

The project promoting the issuance of bonds as a fundraising instrument became a new area of the Bank of Russia's expanding information activity. The information campaign conducted over 2017 across all federal districts of Russia was primarily targeted at regional enterprises and organisations and helped to fill in the knowledge gaps of potential issuers about the capital market.

In 2017, the practice of raising public awareness of the Bank of Russia's proposals on topical issues of financial market regulation, supervision and development continued. Over the course of 2017, 15 consultative reports were published on the official website. The topics discussed with the professional and expert community included the use of informed judgement in the supervisory practice of the Bank of Russia; improvement of dealer activities' regulation; development of agricultural insurance with government support, life insurance and medical insurance; and creation of guarantee systems in the securities market and in the credit cooperation market. The regulator also focused on FinTech issues, risk management methods based on the indicators of borrower's debt burden and the specifics of macroprudential stress testing.

The format of the consultative reports implies the receipt of feedback from the general public, including the professional and expert community. The results of discussion of consultative reports, as well as the remarks and proposals received from market participants and stakeholders were published on the Bank of Russia website.

In 2018, the Bank of Russia will continue to pursue the policy aimed at the timely and systemic communication of information on the Bank of Russia's activities to all segments of the population. To do this, the Bank of Russia website ([cbr.ru](http://cbr.ru)) and the web resource Financial Culture ([fincult.info](http://fincult.info)), created for the financial education of citizens, will be upgraded. Furthermore, the regulator will expand its presence in social networks.

<sup>1</sup> Federal Law No. 230-FZ, dated 3 July 2016, 'On Protecting Rights and Lawful Interests of Individuals When Collecting Overdue Debt and on Amending the Federal Law 'On Microfinance Activities and Microfinance Organisations'.

## II.6.2. Economic research

Among the most promising areas of research conducted by the Bank of Russia in 2017, the following can be highlighted:

- inflation and monetary policy;
- economic growth and financial stability;
- banks and the state of the banking system;
- development of the model framework.

In 2017, the Bank of Russia performed the quantification of household inflation expectations; this work is used in assessing inflation expectations. The findings are included in materials published on the Bank of Russia website, in particular, 'Inflation expectations and consumer sentiment' monthly review, which the Bank of Russia prepares in collaboration with inFOM. The Bank of Russia held three seminars on this topic with representatives of the expert community.

Another important step in the development of approaches to the analysis of inflation and inflation expectations was the elaboration of an approach that is uniform for the Bank of Russia for the seasonal smoothing of inflation in accordance with the best global practices and analysis of the robustness of the seasonally smoothed inflation estimates. Bank of Russia employees described the main principles of seasonal smoothing applicable in the Bank of Russia. These principles are in line with the global practices and have been approved by the expert community. The performed work resulted in a proposal for a uniform methodology for the seasonal smoothing of inflation. The results derived using the methodology are robust, and the data updates which are typical for seasonally smoothed ranges are not critical. The study was presented at the Bank of Russia's seminar attended by the representatives of the expert community in May 2017.

Among the main areas of the Bank of Russia's research performed in 2017 were the analysis of inflation and the study of the specifics of monetary policy in emerging economies. In the article 'Evaluating underlying inflation measures for Russia', published in the journal *Macroeconomics and Finance in Emerging Market Economies*, its authors compare several methods of evaluating core inflation for Russia and find the most accurate option.

Furthermore, Bank of Russia employees published the article 'A note on money creation in emerging market economies' in the *Journal of Financial Economic Policy*, in which they discussed the mechanism of mon-

ey supply growth in the banking systems of emerging market economies, particularly in the course of external transactions. This work is of interest owing to the recommendations contained therein for the implementation of monetary policy and macroprudential regulation.

The identification and study of linkages between the indicators of the financial and real sectors in Russia was an important area of research in 2017. In the report 'Macrofinancial linkages: the role of liquidity dependence', published on the Bank of Russia website, an econometric model for forecasting the GDP of the European countries was built, which could improve forecasting quality as compared to the methods available in the research literature.

At the same time, the Bank of Russia conducted a study to identify correlations between the real and financial variables on the basis of microdata. The article 'Analysis of the debt burden in Russian economy sectors', published in the *Russian Journal of Economics*, looks into the heterogeneity of the debt burden across Russian economic sectors. The results demonstrate that standard variables such as profitability, company size and asset turnover in the course of business activity do not fully explain the variation in the debt levels of companies in different sectors. Central banks should take this practical conclusion into account when implementing monetary policy and macroprudential regulation.

Another study, also resting upon microdata, processed and analysed the results of population surveys conducted by NRU HSE (the RLMS database) for the purpose of a deeper analysis of household lending and the debt burden of households. These results made it possible to verify a number of key premises describing the macroeconomic model of household consumption in the Russian economy 'from the inside', from the microlevel. Based on the analysis, a box in the June Monetary Policy Report was prepared (No. 2 (18), 2017). The results of the study were also used in the preparation of the Appendix to the Monetary Policy Guidelines for 2018–2020 on debt burden and credit availability.

In 2017, the Bank of Russia developed a high-frequency indicator reflecting the dynamics of economic activity in Russia using text mining for news articles and machine learning methods. The paper 'Text mining-based economic activity estimates' presents the

results of that research. The study, published on the Bank of Russia website, showed that the high-frequency economic activity indicator delivers more accurate one-day forecasts of business activity in the official statistics than standard forecasting methods.

*Analysis of the state of the banking sector of the Russian Federation and its key trends* was one of the key areas of the Bank of Russia's research activity in 2017. Real-time forecasting of the credit cycle is an important task in this area. For these purposes, the Bank of Russia has suggested a method for improving the reliability of the established approaches towards the evaluation of the credit cycle phase. The new methodology was described in the paper 'Real-time determination of credit cycle phases in emerging markets'<sup>1</sup>.

Another important research topic in this area is to analyse how the Bank of Russia's policy for banking sector resolution and clearance of nonviable and mala-fide banks from the banking sphere affects the dynamics of competition and banking sector stability. The paper 'Impact of banking supervision enhancement on banking system structure: conclusions delivered by agent-based modelling' showed on the basis of a theoretical model that such a policy will improve banking sector efficiency and stability in the medium term. The paper 'Effect of banking sector resolution on competition and stability' presents more detailed quantification of this result. The analysis described in that paper revealed that, since the beginning of the Bank of Russia's banking sector resolution policy, the volatility of lending growth rates has declined noticeably. This, in turn, may point to the growth of banking sector stability.

In 2017, the Bank of Russia continued to *develop and improve the model framework* for the analysis and short-term forecasting of individual economy indicators which are used to prepare macroeconomic scenarios underlying the monetary policy decision-making process.

The Bank of Russia also developed and tested a dynamic stochastic general-equilibrium model (DSGE model) with the banking sector for the Russian economy. Such models are used to forecast and explain the impact of monetary policy on economic indicators. The paper 'DSGE model of the Russian economy with the banking sector' demonstrates the high predictive capability of the DSGE model developed by the Bank of Russia<sup>1</sup>.

As part of improving the model framework and in-depth detailing of mid-term forecasting, the Bank of

Russia is actively developing a financial programming model which would make it possible to build forecasts on a quarterly basis for a wide range of macroeconomic indicators of the real, monetary, fiscal and external sectors of the economy. The model constitutes a complex structure describing the Russian economy. The possibility to work with a wide range of indicators without losing the coherence of forecasts is an advantage of the financial programming model as compared to other macroeconomic analysis and mid-term forecasting tools, including structural and semi-structural types of models. The results of the work on the financial programming model were presented at the Bank of Russia round table 'Current Issues of Monetary Policy' in Tula in October 2017.

An alternative to the New Keynesian approach to the analysis of economic cycles is shown in a research paper whose results Bank of Russia employees published in the *Journal of the New Economic Association* (No. 3, 2017). The article explores an approach to describing the economic cycle using a predator-prey model. The main variables of the model are productive capital and surplus value which change in time along damped oscillations trajectories. Within the present approach, the economic dynamics are seen as a sequence of damped fluctuations, each of which is characterised by own specific parameters (amplitude, duration), which, in turn, depend on fostered innovations and their specific diffusion in the economy.

Bank of Russia employees took part in international conferences dedicated to modelling and forecasting. On 28–29 October 2017, the 13th Dynare Conference was held in Tokyo, Japan; this software product is widely used for macroeconomic modelling. Bank of Russia employees presented a report on Bayes estimates of DSGE models using a filter of particles, which presented advanced methods of macroeconomic modelling considered to be relevant by central banks today. On 9–10 November 2017, the Federal Reserve Bank of St. Louis organised the *Central Bank Forecasting Conference at the Federal Reserve Bank of St. Louis*, where the Bank of Russia presented the report 'Macrofinancial linkages: the role of liquidity dependence'.

*Participation in international research and practical conferences and seminars* is an important element of the Bank of Russia's collaboration with the Russian and international expert community. For example, at

<sup>1</sup> Published on the Bank of Russia website in the Research section.

the 18th April International Academic Conference on Economic and Social Development in Moscow, which was organised by NRU HSE on 11–14 April 2017, the Bank of Russia organised a section dedicated to monetary policy in conditions of uncertainty. That section presented, among other research, papers of Bank of Russia staff on evaluating an uncertainty-tolerant monetary policy rule for the Russian economy and on the financial dependences and macroeconomic effects of financial shocks. At the same time, at other sections of the conference, Bank of Russia employees presented the reports ‘Assessment of the marginal propensity to consume in Russia (on the basis of a survey of consumer finance)’ and ‘The pension system and the complementarity of fiscal policy instruments’.

During the 2017 International Financial Congress, the Bank of Russia held the first Summer Macroeconomic School for Master’s and Postgraduate Students, Young Researchers, and Teachers of Economics. The programme of the event consisted of a two-day course and covered issues related to the modern macroeconomic concept and monetary theory as applicable to Russia, banking regulation, financial stability and macroprudential regulation. In its operation, the school drew on the results of economic research conducted by the Bank of Russia in the field of macroeconomics, individual markets and sectors of the Russian economy and sought to address a wide range of real-world problems associated with ensuring financial and price stability and developing the banking sector and financial market. The Bank of Russia plans to hold a similar summer school in 2018.

The international seminar ‘Current Issues of Monetary Policy’, organised by the Bank of Russia in October 2017, was a venue for discussing a wide range of real-world issues associated with analytical support for, and with the operating component of, the monetary policy. The seminar covered various approaches pursued by central banks when preparing and coordinating an integrated macroeconomic forecast, with a special focus on the discussion of the further use of financial programming models for these approaches. There was also a discussion of the role of inflation expectations when making monetary policy decisions and the advantages and disadvantages of various methods for their measurement and quantification. A separate section of the seminar featured papers on the specifics of operating procedure and liquidity management in EAEU and EU member states.

On 20 November 2017, the Bank of Russia held an international workshop on economic studies

‘Macroeconomic models for central banks: challenges and perspectives’. Workshop participants discussed the use of three classes of models: dynamic general equilibrium models (DSGE models), large-scale econometric models and theoretical agent-based models. They looked into various areas for using such models in forecasting, developing monetary policy and macroprudential regulation. The seminar covered practical aspects of building forecast models subject to structural changes based on the experience of Italy and Russia, the choice of the optimal monetary policy in a country exporting oil, and specific aspects of macroprudential policy modelling.

Furthermore, in 2017, the Bank of Russia continued to hold regular seminars to present the research findings of its staff members and invited experts on topics important to the Bank of Russia’s policy. The list of invited experts includes representatives of many higher educational institutions, research organisations and federal executive authorities.

Apart from holding conferences and seminars, the Bank of Russia maintains interaction with the scholarly and expert community with a view to promote research conducted by the Bank of Russia, participate in international research projects and organise practical training. For example, since 2017, the reports published on the Bank of Russia website have been indexed in the international *IDEAS/RePEc (Research Papers in Economics)* database aimed at increasing the availability of the results of research studies in the field of economics. Bank of Russia reports are also quoted in the *Central Bank Research Hub* organised by the Bank for International Settlements (BIS).

In 2017, the Bank of Russia became a member of the *International Banking Research Network (IBRN)*. This is an international research consortium which unites the central banks of advanced and emerging economies and is coordinated by the Federal Reserve Bank of New York. The central banks participating in the consortium can exchange the results of empirical studies carried out on the basis of the banking reporting data of their countries. The last round of studies in the consortium was dedicated to studying how changes in monetary policy in large economies, such as the USA or the euro area, affect the economies of other countries via various transmission channels.

The next round of studies under the IBRN project will be dedicated to two important topics: studying the consequences of the increasing complexity of the organisation and operation of financial institutions for the

economy and studying the interaction of macroprudential and monetary policies. Researchers set the goal of examining how these two macroeconomic policies shall apply in combination with each other. These issues are of great practical importance for the Bank of Russia's policy.

Practical training of foreign researchers in the Bank of Russia and practical training of Bank of Russia employees in foreign central banks constitute another form of cooperation with the international expert community. In 2017, within the framework of the Agreement on Research Cooperation between the Bank of Russia and the Bank of Finland in 2015–2017, two-week practical trainings were arranged for an employee of the Bank of Finland Institute for Economies in Transition (BOFIT) at the Bank of Russia (Moscow) and for a Bank of Russia employee at BOFIT (Helsinki). During those practical

trainings, the employees worked within the framework of joint research projects and held seminars with the presentation of the preliminary findings of their research.

In 2017, the Bank of Russia decided to turn the 'Russian Journal of Money and Finance' into a refereed open-access research publication and to focus on publishing mostly academic papers. The main objective of the journal in its new format will be to form a well-regarded platform for the discussion of research ideas, problems and tasks in the field of economics, finance, banking activity and financial technology. This complex of factors will serve as an important prerequisite for the development of economics in Russia, as well as for the promotion of research studies and the expansion of their audience. The first issue of the updated 'Russian Journal of Money and Finance' appeared in March 2018.

### II.6.3. Statistical activities

In accordance with the Bank of Russia Strategy of Statistical Activity for 2016–2020, work in the field of statistics in the reporting year was aimed at the systemic development of macroeconomic financial statistics for the compilation and publication of new sets of statistical data in accordance with advanced international standards and initiatives, improvement of quality and reduction of timeframes for preparing statistical publications, and development of promising areas for data processing.

As a result of implementing the recommendations of the second phase of international organisations' and G20 countries' Data Gaps Initiative with regard to statistical data, in 2017, the Bank of Russia was one of the first among the central banks of G20 countries that switched to the quarterly presentation of statistical data on residents' portfolio investment in foreign securities in the format of the enhanced IMF's SDDS+ standard<sup>1</sup>. The list of publications was expanded to include data characterising the currency composition of the international investment position and the geographic breakdown of foreign assets and liabilities of the banking sector. Within the framework of participation in the international banking statistics developed by the BIS, the Bank of Russia continued to compile detailed statistical data on the banking sector of the Russian Federation and submit them to the BIS database.

In 2017, the Bank of Russia started quarterly publication of financial accounts and sectoral balance sheets of financial assets and liabilities of the System of National Accounts of the Russian Federation, which constitute an important information base for analysing the financial condition in various sectors of Russia's economy. At the same time, it expanded the range of statistical resources used for the analytical support of decision-making in the field of monetary policies and financial stability. For these purposes, in 2017, the Bank of Russia launched the publication of a new early monthly indicator: the debt of the non-financial sector and households under bank loans and issued debt securities. Among other publications that appeared in 2017 and were in demand with domestic users were regional statistical data on invested and raised funds which were compiled by the borrower's location and the location of credit institutions, their branches and inter-

nal units, as well as regional data on interest rates for housing mortgage loans extended during the reporting month.

For the purpose of increasing user satisfaction with the timeliness of disseminating statistical information, in 2017, the Bank of Russia consistently migrated to using shorter timeframes for preparing statistical publications and expanded the list of publications released according to the calendar posted on the Bank of Russia official website. In the reporting year, users also received new capabilities for analysing the published data using pivot tables and modern means of data visualisation.

Creation in the Bank of Russia of a harmonised system for preparing statistical data, use of modern methods and means of information processing and development of regular statistical data exchange among the EAEU member states ensured improvement of the quality of statistical information. In 2017, Bank of Russia specialists, along with the representatives of 25 national banks of foreign states and international organisations, actively participated for the first time in a new initiative of the IMF on the platform of the working group for bilateral comparisons of direct investment statistics.

The Bank of Russia paid considerable attention to the development of micro-datasets as a promising information tool for supporting decision-making in the conduct of monetary policies and supervisory activities. Within the framework of declared plans for expanding work with microdata and creating a unified model of banking system data, the Bank of Russia issued methodological recommendations for the compilation of source data in credit institutions by various subject area; the recommendations were aimed at unifying the requirements for the preparation of information in the accounting and operating systems of credit institutions. In the course of joint efforts with credit institutions to improve the quality of loans' microdata, the Bank of Russia published for the first time on its website the rules of control over loans' microdata. In addition, a key focus of attention in the reporting year was on the improvement of methodological approaches to the analysis of microdata, which would enable, on the basis thereof, the compilation of aggregate statistical indicators and allow to subsequently abolish the submission of aggregated reporting forms of credit institutions to the Bank of Russia.

<sup>1</sup> SDDS is special data dissemination standard.

## II.6.4. International cooperation

In 2017, interaction with the IMF was one of the key areas of international cooperation for the Bank of Russia. During the staff visit on Article IV Consultations, international experts gave a positive assessment of the progress achieved by the Bank of Russia in fulfilling the recommendations of the IMF and the World Bank under the Financial Sector Assessment Program (FSAP) held in 2015–2016.

On behalf of the Russian Federation, the Bank of Russia performs the operations and transactions as provided for by the IMF Articles of Agreement and contracts with the IMF. On 20 February 2017, the Bank of Russia Board of Directors made the following decisions:

- on the further participation in IMF Financial Transactions Plans within the quota of the Russian Federation;
- on extending participation in the New Arrangements to Borrow<sup>1</sup> to 16 November 2022;
- on concluding a new Bilateral Borrowing Agreement till 31 December 2019 with the option to extend it till 31 December 2020.

Being the developer of monetary and financial statistical data and external sector statistical data and the agent of official statistical accounting of the Russian Federation, the Bank of Russia, acting within its remit, maintains active information exchange with international organisations, including the IMF, and is engaged in the implementation of all key statistical standards and recommendations set forth by those organisations. As part of implementing the second phase of international organisations' and G20 countries' Data Gaps Initiative<sup>2</sup>, in 2017, the Bank of Russia published the currency structure of the international investment position of the Russian Federation and switched to conducting on a quarterly basis of the Coordinated Portfolio Investment Survey<sup>3</sup> in the format of the enhanced IMF's SDDS+.

In 2017, interaction with the BRICS countries remained an important area of international cooperation of the Bank of Russia. During the chairmanship of the PRC at the BRICS forum, Bank of Russia representatives took part in the March and June meetings of the 'Big Five' Finance Ministers and Central Bank

Governors, the April meeting of their deputies, and the meetings of the management bodies of the BRICS Contingent Reserve Arrangement.

The Bank of Russia submitted its proposals on the PRC's initiative approved by the BRICS leaders at the summit held on 4–5 September 2017 in Xiamen (China) to set up a BRICS Local Currency Bond Fund and took part in the meetings of the Working Group for the elaboration of the technical parameters of that financial mechanism.

In the reporting year, the Bank of Russia also maintained interaction with the central banks of BRICS states within the system of exchange in macroeconomic information under the BRICS Contingent Reserve Arrangement in accordance with the decisions made at the Xiamen summit.

In September 2017, the Bank of Russia organised the next meeting of the Central Bank Governors' Club of the Central Asia, Black Sea region and Balkan countries, which was attended by the representatives of 20 central banks, including delegations from the PRC and EAEU member states. The main topics of the meeting included financial technologies and the effects of the normalisation of the monetary policy of the European Central Bank and the Bank of England.

In 2017, the Bank of Russia continued active interaction with the G20, the FSB<sup>4</sup>, the IAIS<sup>5</sup> and a number of other international forums and associations. Within the framework of interaction with the G20, the Bank of Russia took part in elaborating mechanisms for achieving strong, sustainable, balanced and inclusive economic growth in the G20 states and in monitoring the fulfilment of obligations assumed by the states to raise the aggregate growth rates of the G20 by 2 pp by 2018 as compared to the IMF forecast as of the end of 2013. In the reporting year, work continued to update national economic growth strategies and to develop reforms of financial regulation and international financial architecture.

Within the framework of cooperation with the FSB, the Bank of Russia took part in preparing the annual monitoring exercise to assess global trends and risks

<sup>1</sup> New Arrangements to Borrow, NAB.

<sup>2</sup> Data Gaps Initiative, DGI-2.

<sup>3</sup> Coordinated Portfolio Investment Survey, CPIS.

<sup>4</sup> Financial Stability Board, FSB.

<sup>5</sup> International Association of Insurance Supervisors, IAIS.

from the shadow banking system, progress reports on OTC derivatives market reforms, as well as in implementing 'FSB Principles for Sound Compensation Practices: Implementation Standards' and the FSB's recommendations for implementing the best compensation practices. The Bank of Russia took part in the next evaluation by the FSB of the progress in implementing the Key Attributes of Effective Resolution Regimes for Financial Institutions with regard to banks and insurance companies, in the FSB survey on regulation and supervisory practices associated with the risks of malicious use of information and telecommunication technology, and in studying approaches to fintech regulation.

In December 2017, the 7th meeting of the FSB Regional Consultative Group for the CIS took place with the participation of the Bank of Russia, during which the following issues were discussed: performance results of the FSB and G20 in 2017, priority areas of the FSB's activities for 2018, development of financial innovations and potential risks associated with new technology in the financial sector, execution of the FSB action plan for the assessment and elimination of the problem posed by the reduction of correspondent banking services, and the introduction of a financial ombudsman institution.

Within the framework of cooperation with the International Association of Insurance Supervisors (IAIS), the Bank of Russia took part in preparing analytical reports on supporting index insurance, using digital technology for the expansion of access to insurance, filling in questionnaires on regulatory measures in the segment of inclusive insurance and on current trends in the insurance market. During the year, active interaction was maintained as part of the regional IAIS cooperation. In December 2017, the IAIS confirmed the conformity of the Russian Federation to the requirements of the IAIS Multilateral Memorandum of Understanding for cooperation and information exchange; and in January 2018, the Bank of Russia officially acceded to the IAIS MMoU<sup>1</sup>.

In 2017, the Bank of Russia continued development of the global Legal Entity Identifier system. In December,

the Nonbank Credit Institution Joint-stock Company National Settlement Depository (NCI JSC NSD), the Russian local operating unit of the corresponding system<sup>2</sup>, was successfully accredited with the Global Legal Entity Identifier Foundation<sup>3</sup> and thus confirmed its conformity to all quality standards established by the GLEIF and the Regulatory Oversight Committee<sup>4</sup>. The accreditation allowed the NSD to continue work as a LOU after the end of the transition period in 2017; starting 2018, all new LOUs shall undergo mandatory accreditation with the GLEIF.

Within the framework of interaction with the International Organization of Securities Commissions<sup>5</sup>, in 2017, the Bank of Russia submitted an application to host the meeting of the Growth and Emerging Markets Committee<sup>6</sup> in Saint Petersburg in 2020. Based on the results of the competition held by IOSCO, it was decided to accept the Bank of Russia's application. Additionally, in 2017, work commenced on analysing the possibilities, means and expediency of acceding to the Enhanced IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information<sup>7</sup>.

In 2017, the road maps approved by the Bank of Russia management were adopted for further execution with a view to bring Russian laws in line with the IOSCO Objectives and Principles of Securities Regulation and with the Insurance Core Principles, Standards, Guidance and Assessment Methodology of the IAIS prepared based on the results of FSAP assessment activities.

The Bank of Russia is implementing the following projects within the framework of its interaction with the European Commission and the European Securities and Market Authority<sup>8</sup>: assisting Bank NCC (JSC) in acquiring the status of a central counterparty recognised in the EU by the ESMA in accordance with the European Market Infrastructure Regulation<sup>9</sup>, recognising Russian regulation of credit rating agencies as equivalent to Regulation (EC) No. 1060/2009, dated 16 September

<sup>1</sup> Multilateral Memorandum of Understanding (IAIS MMoU).

<sup>2</sup> Local Operating Unit, LOU.

<sup>3</sup> Global Legal Entity Identifier Foundation, GLEIF.

<sup>4</sup> Regulatory Oversight Committee, ROC.

<sup>5</sup> International Organization of Securities Commissions, IOSCO.

<sup>6</sup> Growth and Emerging Markets, GEM.

<sup>7</sup> Enhanced IOSCO MMoU.

<sup>8</sup> European Securities and Market Authority, ESMA.

<sup>9</sup> European Market Infrastructure Regulation, EMIR. EMIR shall mean not only Regulation No. 648/2012 of the European Parliament and of the Council, dated 4 July 2012, on OTC derivatives, central counterparties and trade repositories, but also Commission Delegated Regulations (EU) No. 148-153/2013, dated 19 December 2012.

2009, On Credit Rating Agencies<sup>1</sup>, recognising Russian regulation of repositories as equivalent to the EMIR, and ensuring the release of Bank of Russia operations with European counterparties in the financial markets from requirements set forth by the EMIR.

Cooperation with the BIS<sup>2</sup> is of considerable interest for the Bank of Russia. By means of regular participation in the meetings of the supreme executive bodies of the BIS, the Bank of Russia continued to strengthen its interaction at the level of BIS steering committees, such as the Basel Committee on Banking Supervision, the Committee on Payments and Market Infrastructure, the Irving Fisher Committee on Central Bank Statistics and their working bodies.

Participation in BCBS activities was carried out, inter alia, on the platforms of a number of dedicated groups and subgroups, including the Policy Development Group, Supervision and Implementation Group, Market Risk Group, Working Group on Capital, Accounting Experts Group, Working Group on Liquidity, Quantitative Impact Study Working Group, as well as the Working Group on Disclosure according to Pillar 3 requirements under Basel II and Pillar 2 Working Group under Basel II.

Numerous studies and publications of the BIS prepared with the participation of the Bank of Russia in 2017 have become an important source of international experience when elaborating proposals for improving the quality of financial market regulation and ensuring financial stability, inter alia, within the framework of the Bank of Russia's efforts to develop financial market infrastructure, protect the financial sector against threats linked to cyber risks and work with Big Data.

In 2017, the Bank of Russia continued to interact with the Organisation for Economic Cooperation and Development (OECD). The main areas of cooperation between the Bank of Russia and the OECD were liberalisation of capital flows, foreign investment statistics, pension support, corporate governance and improving financial literacy. Furthermore, within the framework of implementation of the OECD standards in the Russian legislation, the Bank of Russia took part in preparing proposals for amending federal laws, inter alia, for countering corruption and for the international automatic exchange of financial information, and in negotiating the draft road map for the comprehensive

analysis of the expediency of Russia's accession to the OECD Declaration on International Investment and Multinational Enterprises.

In the reporting period, the Bank of Russia interacted actively with the leading international associations in the field of financial consumer protection and financial inclusion.

In January 2017, the Bank of Russia became a member of the International Financial Consumer Protection Organisation (FinCoNet) and took active part in the activity of FinCoNet's standing working committees.

Within the framework of its participation in the IOSCO Committee on Retail Investors, the Bank of Russia took part in three working groups: for introducing the concept of behavioural finance in investor education, for organising the World Investor Week and for OTC securities.

From 2 to 8 October 2017, the World Investor Week (WIW) was organised in Russia as a pilot project under the auspices of the Bank of Russia and the Moscow Exchange. This investor week event is held in more than 80 countries.

The Bank of Russia participated in the Alliance for Financial Inclusion (AFI) in 2017 as part of the AFI Management Unit and on the platforms of a number of working groups and their subgroups, including the Digital Financial Services Working Group, the Proportionate Application of Global Standards Working Group, the Financial Inclusion Data Working Group and the SME Finance Working Group. In September 2017, the Bank of Russia won the competition for holding the 10<sup>th</sup> Anniversary AFI Global Policy Forum. The Forum will be held on 3–7 September 2018 in Sochi, with over 500 foreign participants expected to attend it. This annual AFI event will take place in the Eastern Europe and Central Asia region for the first time.

Within the framework of implementing the Memorandum of Understanding between the Bank of Russia and the Islamic Development Bank (IDB) Group, the Bank of Russia's delegation visited IDB headquarters. Following the visit, areas for further cooperation between the Bank of Russia and the IDB were agreed upon.

The Bank of Russia held a presentation of the standards of the Accounting and Auditing Organisation for Islamic Financial Institutions<sup>3</sup>, which had been translated into Russian. Interaction was maintained with

<sup>1</sup> Regulation (EC) No. 1060/2009 of the European Parliament and of the Council, dated 16 September 2009, on credit rating agencies.

<sup>2</sup> Bank for International Settlements, BIS.

<sup>3</sup> Accounting and Auditing Organization for Islamic Financial Institutions, AAOIFI.

the General Council for Islamic Banks and Financial Institutions<sup>1</sup>.

A decision was made to consider issues of the development of partnership (Islamic) banking on a regular basis at the meetings of the Eurasian Council of Central (National) Banks, the subcommittees for inter-bank and investment cooperation between the Russian Federation and the Republic of Kazakhstan, and the Eurasian Group on Combating Money Laundering and Financing of Terrorism.

In 2017, a priority focus was on deepening integration cooperation within the EAEU.

In 2017, in pursuance of Decision No. 6 of the Supreme Eurasian Economic Council, dated 26 December 2016, 'On the Elaboration of the Concept for Developing the EAEU Common Financial Market', the Bank of Russia and the financial regulators of the EAEU member states concentrated their main efforts on elaborating the concept for developing the EAEU common financial market. That document was aimed to supplement and further the corresponding provisions of the Treaty on the EAEU in the field of financial integration and refine the scenarios, timeframes, key areas and stages of consistent advances toward the creation of a full-fledged common financial space. Participation of the Bank of Russia in the activities of the Eurasian Council of Central (National) Banks helped to address relevant matters of mutual cooperation. In particular, the Council worked to update recommendations for credit institutions to ensure the transparency of the market of funds transfers made by individuals to foreign states without opening a bank account and develop a methodology for compiling statistical data on bilateral settlements to minimise statistical discrepancies.

Furthermore, the Bank of Russia took an active part in drafting the following EAEU documents:

- the road map for the formation of a common exchange space;
- the agreement on the harmonisation of the national legislations of the EAEU member states in the financial market sector and the plan for the harmonisation of the national legislations of the EAEU member states in the financial market sector;
- the agreement on auditing activities in the EAEU;
- the agreement on mutual access of brokers and dealers of an EAEU member state to the national stock exchanges (trade organisers) at the session;

- the agreement on cooperation between EAEU member states on credit history data exchange;
- the agreement on harmonised approaches to the regulation regarding foreign exchange and the adoption of liberalisation measures.

The Bank of Russia also developed cooperation within the framework of other regional integration associations. Bank of Russia representatives participated in the meetings of the supreme and coordination bodies of the CIS and CIS bodies of sectoral cooperation on financial and banking issues and in the activities of the Shanghai Cooperation Organisation.

Within the framework of cooperation in the CIS, the Bank of Russia participated in the activities of the Council of the Heads of Authorised Bodies on Securities Markets Regulation of the CIS Member States (hereinafter, the Council); in particular, in December 2017, the Council members approved recommendations for regulating the activities of joint-stock companies in the field of information disclosure for the purpose of protecting investors' and shareholders' rights and in the field of legislation governing prudential supervision in the securities market. Furthermore, the Bank of Russia reviewed a number of advisory documents on various areas of activities of the Council which had been prepared by the authorised bodies of other CIS member states.

Within the framework of the Union State, the interaction of the Bank of Russia with the National Bank of the Republic of Belarus continued. At the meetings of the Interbank Currency Council the two regulators discussed topical issues of foreign currency and financial relations, and in September 2017 a bilateral Memorandum of Understanding in the Field of Banking Supervision was signed.

Representatives of the National Bank of the Republic of Kazakhstan visited the Bank of Russia to share experience in the field of banking supervision.

In 2017, the Bank of Russia continued to develop bilateral international cooperation both in the form of interaction with the central banks and national financial regulators of foreign states and as part of intergovernmental commissions.

The most active work evolved in the sphere of Russian-Chinese interbank cooperation. The Bank of Russia opened a representative office in Beijing. A clearing centre for settlements in yuans was launched operation in Moscow. The Bank of Russia participated

<sup>1</sup> General Council for Islamic Banks and Financial Institutions, CIBAFI.

actively in the project for placing yuan-denominated OFZs on the Russian stock exchange.

The Bank of Russia continued to strengthen cooperation with the State Bank of Vietnam, the Central Bank of the Islamic Republic of Iran and the Central Bank of the Republic of Turkey on the further development of banking infrastructure for servicing bilateral trade with Russia, creating the conditions for expanding the use of national currencies in bilateral contracts, organising the interaction of national payment card systems and starting the trading of foreign exchange pairs on the Moscow Exchange.

Close dialogue continued with the Reserve Bank of India on key issues of collaboration in the financial sector: development of settlements in national currencies, interbank interaction and cooperation in the field of insurance.

For the purpose of developing and strengthening bilateral cooperation, in 2017, the Bank of Russia concluded agreements with the financial regulators of the PRC, Vietnam, Iran, Turkey, Lebanon, South Africa and the Republic of Seychelles. Work was done on negotiating draft agreements with the supervisory authorities of other 11 countries.

## II.6.5. Bank of Russia stakeholdings in Russian economic entities

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 holds stakes in the authorised capital of Sberbank of Russia (Sberbank) and in the authorised capitals of organisations which support the Bank of Russia's operations: Public Joint-stock Company MICEX-RTS Moscow Exchange (PJSC Moscow Exchange) and Stock Company Saint Petersburg Currency Exchange (JSC SPCEX). The Bank of Russia's participation in these organisations is aimed at implementing the strategic objectives of the state economic policy and consistent upgrading the financial market's infrastructure for successful financial market operations.

The Bank of Russia's stake in the authorised capital of Sberbank was unchanged in 2017, at 50% plus one voting share. The amount of dividends received<sup>1</sup> by the Bank of Russia in the reporting year from Sberbank for 2016 was ₹67.8 billion (2015: ₹22.2 billion). The amount of dividends grew considerably as a result of an increase in Sberbank's net profit under IFRS and the share thereof allocated by Sberbank to dividend payment, from 20% to 25%.

During the reporting period, the Supervisory Board of Sberbank reviewed and approved a new version of the Regulation on the General Meeting of Shareholders at the annual General Meeting of Shareholders at the end of 2016, according to which shareholders will, among other things, be able to participate remotely in meetings and vote electronically. Furthermore, the Supervisory Board of Sberbank approved amended versions of the Development Strategy until 2020 and the Regulation on the Dividend Policy of Sberbank, which reflected the aspiration of Sberbank to gradually and consistently increase the share of dividend payments in the net profit of Sberbank Group under IFRS to 50%.

The stake of the Bank of Russia in the authorised capital of PJSC Moscow Exchange in 2017 grew to 11.78% (2016: 11.77%) following the reduction of the authorised capital of PJSC Moscow Exchange by way of redemption of its treasury shares according to the decision made by the annual General Meeting of

Shareholders of PJSC Moscow Exchange at the end of 2016. The dividends for 2016 that PJSC Moscow Exchange paid to the Bank of Russia in 2017 amounted to ₹1.8 billion (2015: ₹1.7 billion). Furthermore, according to the decision of the extraordinary General Meeting of Shareholders, PJSC Moscow Exchange paid interim dividends to shareholders for 2017 H1 for the first time, which included ₹0.6 billion in dividends paid to the Bank of Russia. At the aforesaid meeting, the possibility of remote electronic voting of shareholders based on an e-voting platform designed by the National Settlement Depository was implemented for the first time.

In 2017, PJSC Moscow Exchange established a 100% subsidiary company, MOEX Innovations limited liability company, for the purpose of developing innovative technology and cooperating with FinTech startups.

The Bank of Russia's stake in the capital of JSC SPCEX did not change in 2017 and stood at 8.9%. The Bank of Russia holds a stake in JSC SPCEX because Saint Petersburg is the country's second largest financial centre, and JSC SPCEX may be used as a backup trading floor. 2017 marked the 25th anniversary of the first trading in JSC SPCEX. Under the decision by the General Shareholders' Meeting of JSC SPCEX, the profit generated by the exchange in 2016 was allocated to JSC SPCEX funds.

The Bank of Russia is the sole shareholder of National Payment Card System Joint-stock Company (NPCS JSC), which was created in 2014 pursuant to Parts 1 and 2 of Article 30.2 of Federal Law No. 161-FZ for the purpose of ensuring the sovereignty and integrity of the payment space of the Russian Federation. The dividends the Bank of Russia received from NPCS JSC in 2017 based on the results for 2016 amounted to ₹0.65 billion (2015: ₹0.3 billion).

The Bank of Russia is the sole shareholder of Joint-stock Company Russian National Reinsurance Company (JSC RNRC) established in 2016 as per Part 1 of Article 131 of Russian Federation Law No. 4015-1, dated 27 November 1992, 'On the Organisation of Insurance Business in the Russian Federation', for the purpose of providing the Russian reinsurance market with additional capacity for creating a mechanism to

<sup>1</sup> In accordance with Federal Law No. 415-FZ, dated 19 December 2016, 'On the Federal Budget for 2017 and the Plan Period of 2018 and 2019', income that the Bank of Russia received in 2017 from its stakeholdings in Sberbank according to the results of 2016 shall be transferred by the Bank of Russia to the federal budget by 1 August 2017. The part of profit received by the Bank of Russia according to the results of 2017 which is to be transferred to the federal budget shall be reduced by the said amount.

protect the property interests of the insured against which sanctions have been imposed by the decisions of foreign bodies or international organisations and for ensuring the financial stability of insurers.

2017 was the first full year of JSC RNRC's operation within the framework of the condition effective from 1 January 2017 on the compulsory cession of reinsurance obligations by reinsurers (insurers) to JSC RNRC (compulsory cession).

In 2017, the Bank of Russia Board of Directors decided to issue a guarantee to JSC RNRC for the amount of ₹49.7 billion to provide full reinsurance coverage for the property interests of Russian legal entities affected by international restrictions.

The Supervisory Board of JSC RNRC approved the Development Strategy of JSC RNRC for 2017–2021, according to which the company is to become an unconditional leader in the Russian reinsurance market and one of the global high-tech and professional centres of insurance competences by 2022.

To implement bankruptcy prevention measures at banks, as provided for by Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)

(hereinafter, Federal Law No. 127-FZ), within the framework of a new financial rehabilitation mechanism, the Bank of Russia, as the sole participant, established Limited Liability Company Fund of Banking Sector Consolidation Asset Management Company (FBSC AMC Ltd.) in July 2017 with an authorised capital of ₹1.5 billion; acting on behalf of the Bank of Russia, the company participate in the implementation of bankruptcy prevention measures at banks and uses the money of the Fund of Banking Sector Consolidation within the framework of the said measures.

According to Federal Law No. 127-FZ, FBSC AMC Ltd. shall:

- implement bankruptcy prevention measures at banks in accordance with the Bank of Russia's plan approved by the Bank of Russia Board of Directors for participation in the implementation of bankruptcy prevention measures at banks and measures under the Bank of Russia's plan for participation in the implementation of measures for settling bank liabilities;
- be engaged by the Bank of Russia for the analysis of the financial standing of banks;
- perform the functions of provisional administration.

## II.6.6. Bank of Russia stakeholdings in credit institutions undergoing financial rehabilitation

According to the approved plan for the Bank of Russia's participation in the implementation of bankruptcy prevention measures in Bank FC Otkritie PJSC, in December 2017, the Bank of Russia and the provisional administration for the management of the credit institution Bank FC Otkritie PJSC, whose functions were assigned to Limited Liability Company Fund of Banking Sector Consolidation Asset Management Company,

implemented necessary corporate measures which allowed the recapitalisation of Bank FC Otkritie PJSC in accordance with the requirements of Russian laws and the formation of new management bodies.

As a result of the said recapitalisation, the Bank of Russia became the owner of over 99.9% of ordinary shares in Bank FC Otkritie PJSC for an amount of ₴456.2 billion.

## II.6.7. Bank of Russia stakeholdings in international organisations

Pursuant to Article 9 of Federal Law No. 86-FZ, in 2017, the Bank of Russia held stakes 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). The Bank of Russia also shows the stakes held by the Russian Federation in the Moscow-based Interstate Bank in its balance sheet. The Russian Federation holds 50% of the Interstate Bank's authorised capital and a corresponding percentage of the votes in the bank's Board, which is its highest management body.

In accordance with Article 4 of Federal Law No. 86-FZ, the Bank of Russia is the depository of IMF funds in the currency of the Russian Federation and performs the operations and transactions provided for by the articles of the IMF Articles of Agreement and contracts with the IMF. Starting 2011, the Russian Federation's quota with the IMF has been included on the Bank of Russia's balance sheet, which amounted to SDR12,903.7 million as of 31 December 2017. The stake of the Russian Federation in the aggregate quotas (capital) of the IMF did not change during 2017 and as of 31 December 2017 amounted to 2.71%, representing 2.59% of the total number of its member countries' votes.

## II.6.8. Improving legislation

During 2017, about 50 federal laws aimed at improving banking legislation and legislation governing the financial market as a whole were approved, with the active involvement of the Bank of Russia.

One of the key areas of the Bank of Russia's work in 2017 was the reform of the banking system and the introduction of a differentiated approach towards the regulation of credit institutions' activities. To implement the concept of proportionate regulation in the banking area, Federal Law No. 92-FZ, dated 1 May 2017, 'On Amending Certain Laws of the Russian Federation' was adopted, in accordance with which banks may be of two types: banks with a universal licence and banks with a basic licence. The main goals of the amendments are creating conditions for the preservation of small banks (banks with a basic licence), consistent implementation of simplified regulation for them and reduction of costs associated with their compliance with international standards, which will be generally conducive for the development of small and medium-sized businesses and will enhance financial inclusion in the Russian Federation.

Creation of a new bank resolution mechanism was another principal area of the Bank of Russia's activity. Federal Law No. 84-FZ, dated 1 May 2017, 'On Amending Certain Laws of the Russian Federation' established an additional mechanism for the financial rehabilitation of banks; this stipulated the use of the Bank of Russia's funds to finance bank resolution through Fund of Banking Sector Consolidation Asset Management Company set up by the Bank of Russia. The implementation of the new bank resolution mechanism makes it possible to minimise the budget funds allocated for financial rehabilitation measures in banks and reduce the timeframes for bankruptcy prevention measures.

At the same time, Federal Law No. 328-FZ, dated 25 November 2017, 'On Amending the Federal Law 'On Mortgage (Pledge of Real Estate)' and Certain Law of the Russian Federation' amended the rules set forth by Federal Law No. 127-FZ concerning participation of the Bank of Russia in bankruptcy prevention measures at banks (inter alia, the establishment of the specifics of holding the general meeting of shareholders (participants) of such banks).

To optimise the interaction of credit institutions with the Bank of Russia, Federal Law No. 153-FZ, dated

1 July 2017, 'On Amending the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' was adopted, which entitles the Bank of Russia to interact with credit institutions by means of personal accounts of credit institutions on the Bank of Russia website enabling credit institutions to receive documents (including orders) from the Bank of Russia and submit reporting and documents to the Bank of Russia.

Federal Law No. 482-FZ, dated 31 December 2017, 'On Amending Certain Laws of the Russian Federation' is dedicated to the objectives of digitalising financial services and expanding financial inclusion for consumers. It provides for the implementation of a mechanism for remotely identifying an individual customer using his/her biometric personal data contained in the unified biometric system and information about such person contained in the unified system of identification and authentication, which would allow credit institutions to open accounts (deposits) for an individual customer subject to his/her consent and without his/her personal presence via the Internet.

Adoption of a package of federal laws produced a significant effect on the overall functioning of the financial market in Russia.

First of all, one should mention Federal Law No. 212-FZ, dated 26 July 2017, 'On Amending Parts 1 and 2 of the Civil Code of the Russian Federation and Certain Laws of the Russian Federation', which comes into force as of 1 June 2018 and introduces comprehensive amendments to the chapters of the Civil Code of the Russian Federation dedicated to financial transactions and settlements. Specifically, the law provides for the introduction of new types of bank account agreements to the legislation of the Russian Federation—public deposit account agreement, joint account agreement, precious metals account agreement and precious metals deposit agreement. The law prescribes detailed regulation for savings certificates and certificates of deposit, which may be issued in registered certified form only. Certain amendments are introduced to the provisions of the Civil Code of the Russian Federation with regard to settlements to stipulate the specifics of settlements using funds transfer orders without opening bank accounts and to set forth rules for the new type of letter of credit, i.e. a transferable letter of credit.

Due to the inclusion of provisions on the precious metals account agreement and precious metals deposit

agreement in the Civil Code of the Russian Federation, Federal Law No. 343-FZ, dated 27 November 2017, 'On Amending Parts 1 and 2 of the Tax Code of the Russian Federation' provides for the regulation of relations associated with the claims of tax authorities on precious metals account (deposit).

With regard to credit institutions, insurance companies, non-governmental pension funds, microfinance companies and management companies of investment funds, unit investment funds and non-governmental pension funds, Federal Law No. 281-FZ, dated 29 July 2017, 'On Amending Certain Laws of the Russian Federation with Regard to Improving Mandatory Requirements for Financial Institutions' Founders (Participants), Management Bodies and Officials' a single set of requirements for the business reputation and professional competence of executives and other officials of the said financial institutions and requirements for the business reputation and financial standing of founders (participants) and persons acquiring more than 10% of shares (stakes) in the said financial institutions and their controlling entities.

Federal Law No. 486-FZ, dated 31 December 2017, 'On Syndicated Loans and on Amending Certain Laws of the Russian Federation' was adopted to eliminate legal uncertainties concerning the regulation of syndicated loan agreements. The law governs the relationship arising between parties to the syndicate of creditors (lenders), on the one part, and the borrower, on the other part, and also relations within the syndicate of creditors (lenders). The provisions of the law are based on the current rules of the civil legislation of the Russian Federation and also establish the specifics of the institute of syndicated loans.

Federal Law No. 378-FZ, dated 5 December 2017, 'On Amending Article 9.1 of the Federal Law 'On Mortgage (Pledge of Real Estate)' and the Federal Law 'On Consumer Loans' is dedicated to creating additional protection for individuals receiving credit (loans). It extends the effect of a number of requirements of the law on consumer loans onto credit agreements and loan agreements, concluded with an individual for purposes not associated with business activities conducted by such individual, whereunder the borrower's obligations are secured by mortgage. The law also introduced an obligation to inform individual borrowers of elevated risks associated with a loan issued in a currency that differs from the currency of the borrower's income and updated the procedure for determining the total cost of a consumer loan.

A number of federal laws adopted in 2017 were aimed at improving regulation of compulsory motor third party liability insurance of vehicle owners.

Among them, we should emphasise Federal Law No. 49-FZ, dated 28 March 2017, 'On Amending the Federal Law 'On Compulsory Third Party Liability Insurance of Vehicle Owners', which establishes the priority of insurance indemnification by the insurer for the harm inflicted to a motor vehicle by way of organising and/or paying for the repair of the damaged vehicle of the injured person over the compensation of damage in the monetary form.

Federal Law No. 448-FZ, dated 29 December 2017, 'On Amending Articles 11.1 and 12 of the Federal Law 'On Compulsory Third Party Liability Insurance of Vehicle Owners' improves the procedure for executing documents on a road traffic accident (RTA) without the police when as a result of such accident damage has been inflicted to vehicles only, irrespective of whether RTA participants have any disagreements as regards its circumstances.

In addition, Federal Law No. 197-FZ, dated 26 July 2017, 'On Amending Articles 14.1 and 24 of the Federal Law 'On Compulsory Third Party Liability Insurance of Vehicle Owners' seeks to establish a pretrial procedure for the settlement of disputes between insurers during direct compensation of losses inflicted as a result of an RTA.

Another document is also worth mentioning, i.e. Federal Law No. 176-FZ, dated 18 July 2017, 'On Amending the Federal Law 'On Clearing, Clearing Activities and the Central Counterparty' and Certain Laws of the Russian Federation', which stipulates grounds for terminating the status of a central counterparty and provides for the central counterparty's right to conclude, without an application, a repo agreement with trading participants who filed respective applications, if other trading participants filed applications for the placement of money (conclusion of bank deposit agreements with the central counterparty).

To improve the appeal of individual investment accounts as a long-term investment instrument for households, Federal Law No. 123-FZ, dated 18 June 2017, 'On Amending Articles 10.2-1 and 20 of the Federal Law 'On the Securities Market' provides for increasing the total amount of money which may be transferred by a customer to a professional securities market participant over a calendar year under an individual investment account maintenance agreement from ₴400,000 to ₴1,000,000.

In 2017, two federal laws dedicated to improving the functioning of the national payment system were also adopted in the context of global political tensions and enhanced sanctions pressure on Russia.

For the purpose of creating the national payment card system and developing and promoting the national payment instruments in foreign markets, Federal Law No. 88-FZ, dated 1 May 2017, 'On Amending Article 16.1 of the Russian Federation Law 'On Consumers' Rights Protection' and the Federal Law 'On the National Payment System' was adopted. It included foreign banks, foreign central (national) banks and international financial institutions in the list of national payment card system participants, thereby enabling the expansion of the POS network accepting Mir cards and their issuance abroad.

Federal Law No. 59-FZ, dated 3 April 2017, 'On Amending the Federal Law 'On the National Payment System', specifies that if a foreign state introduces bans in respect of payment systems whose operators are registered by the Bank of Russia, a cross-border money remittance without opening a bank account may be made from the Russian Federation to such foreign state only if the payment system operator and payment infrastructure operators are directly or indirectly controlled by Russian legal entities.

Special attention shall be given to the laws needed for the improvement of the Bank of Russia's activities.

For example, for the most effective and prompt placement and circulation of Bank of Russia bonds, Federal Law No. 128-FZ, dated 30 June 2017, 'On Amending Articles 14 and 17<sup>2</sup> of the Federal Law 'On the Securities Market' and Article 5 of the Federal Law 'On Amending

the Federal Law 'On Compulsory Third Party Liability Insurance of Vehicle Owners' and Certain Laws of the Russian Federation', sets forth the specifics of the listing of Bank of Russia bonds and the non-application of individual rules of the Federal Law 'On the Securities Market' in the event of a buyback by the Bank of Russia of its outstanding bonds under repo agreements.

Federal Law No. 38-FZ, dated 28 March 2017, 'On Amending Articles 4 and 57 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and Article 8 of the Federal Law 'On Official Statistical Recording and the System of Public Statistics in the Russian Federation' is aimed at expanding the scope of statistical materials created by the Bank of Russia, inter alia, broken down by region. Furthermore, the said law vested the Bank of Russia with the power to independently develop a methodology for the contents of a federal statistical survey form relating to the external sector, to determine the pool of respondents and the procedure for drawing up and submitting federal statistical survey forms.

Alongside the efforts associated with preparing and reviewing the aforementioned federal laws and other draft federal laws, over the period from 1 January to 31 December 2017, the Bank of Russia issued 209 Bank of Russia regulations and had them registered with the Russian Ministry of Justice and also had registered with the Ministry of Justice 29 Bank of Russia regulations which had been issued in 2016.

The Bank of Russia prepared and sent out 66 Bank of Russia information letters and 34 methodological recommendations to its regional branches for explanatory and methodological purposes.

## II.6.9. Addressing administrative, legal and judicial issues

In 2017, Bank of Russia officials initiated 18,975 administrative offence cases and considered 13,512 administrative offence cases (including cases left unsettled from previous periods)<sup>1</sup>. 972 decisions made by Bank of Russia officials in the course of administrative proceedings were appealed in court; and 288 decisions were annulled or amended (including cases left unsettled from previous periods).

In 2017, the Bank of Russia imposed administrative fines totalling ₺1,471,341 thousand; and entities subject to administrative responsibility paid administrative fines (administrative fines were collected from them) totalling ₺395,692 thousand<sup>2</sup>.

In pursuance of its functions related to the control and supervision of credit institutions and nonbank financial institutions, the Bank of Russia filed 931 suits in the courts, including:

- 64 suits for the recognition of credit institutions as insolvent (bankrupt) and for their forced winding up;
- 830 suits for the recognition of nonbank financial institutions as insolvent (bankrupt) and for their forced winding up;

- 37 suits on disputes related to the application of supervisory measures to nonbank financial institutions.

In 2017, 1,208 suits of the Bank of Russia were satisfied (including unsettled suits of previous periods), of which 70 were against credit institutions and 1,138 were against nonbank financial institutions.

In 2017, credit institutions filed 67 appeals against the Bank of Russia's actions and decisions; seven appeals were satisfied (including cases left unsettled from previous periods). During the same period, nonbank financial institutions filed 120 appeals against the Bank of Russia's actions and decisions; 25 appeals were satisfied (including cases left unsettled from previous periods).

In 2017, 145 suits arising out of business and other activity were brought against the Bank of Russia, including property-related suits totalling ₺111.4 billion. 28 suits were settled in court (including suits left unsettled from previous periods), including property-related suits totalling ₺4.01 million.

In 2017, 110 labour relation suits were initiated against the Bank of Russia, of which 68 were satisfied (including cases left unsettled from previous periods).

<sup>1</sup> The difference between the number of cases initiated and considered within the mentioned period is conditioned, among other things, on the jurisdiction of administrative offence cases.

<sup>2</sup> The difference in the amounts of administrative fines imposed and paid within the said period occurred mainly due to the breach of the deadline for payment of administrative fines by the persons fined. This forms grounds for the Bank of Russia to send respective documents to the Federal Bailiff Service of the Russian Federation for the enforcement of rulings ordering administrative sanctions. The mentioned difference also stems from the bankruptcy and/or forced winding up of organisations supervised by the Bank of Russia on which administrative sanctions were imposed.

### **III. ORGANISATIONAL DEVELOPMENT OF THE BANK OF RUSSIA**

*Seeking to deliver efficiently on its goals, the Bank of Russia introduces modern resource management methods. Improvement and revision of management practices in the Bank of Russia are carried out with respect to personnel, organisational and information resources.*

*In terms of personnel management, the Bank of Russia concentrated on improving the professional, corporate and managerial competences of its employees. Personnel training and development included traditional in-class training and new formats, for example, knowledge management systems, remote training and assessment of competences.*

*Process and project management was instrumental for optimising organisational resources. Within the framework of process management, there was created a target regional model of the Bank of Russia for 2017–2020. In project management, the Bank of Russia sought to consistently improve and update instruments and methods on the basis of flexible approaches, which ultimately made it possible to increase the speed and quality of project implementation.*

*Information resources evolved predominantly along the lines of analytical technology, electronic interaction with financial market participants, other organisations and individuals, and the centralisation of IT management functions. In this sphere, the most important developments include the implementation of the function to use personal account technology, completion of the transition of financial market participants to a unified electronic format of reporting data (XBRL) and the automation of the processing of financial consumers' and investors' appeals.*

*As a result of the application of new approaches, the Bank of Russia's organisational structure underwent a transformation. Reorganisation of the head office and regional branches improved the Bank of Russia's performance and optimised its costs.*

*In 2017, the Bank of Russia continued its efforts aimed at developing the risk management system. A unified comprehensive methodology for operational risk management was developed and tested across individual business processes at the Bank of Russia. According to the pivotal goal of the methodology, Bank of Russia divisions are to employ unified approaches to operational risk management which would facilitate the elaboration of optimal managerial decisions for responding to risks and improving business processes.*

## III.1. PERSONNEL DEVELOPMENT

In 2017, the Bank of Russia Corporate University continued to implement personnel training and development programmes with a view to improve professional, corporate and managerial competences. Centralised personnel training was carried out according to specially developed programmes under fee-based educational and consulting service agreements with consulting companies, specialised training centres, educational institutions and foreign partners. The most competent practical specialists and leading teachers from educational institutions as well as Bank of Russia executives and specialists delivered the training.

To accomplish its strategic objectives, the Bank of Russia paid much attention to advanced training of personnel on the subjects of monetary policy, supervision of credit and nonbank financial institutions, countering the legalisation (laundering) of criminally obtained incomes and the financing of terrorism, the functioning of the national payment system, application of international financial reporting standards, organisation of cash circulation, development of modern information technology, and ensuring security and information protection. Within the framework of implementing a professional re-training project (programmes lasting more than 250 academic hours), training of supervisory unit specialists under the programme 'Supervisor of a commercial bank – bank manager' was completed, and training began (to be finished in 2018) under the programmes 'Inspector – head of a credit institution audit' and 'Inspector – audit coordinator'. Professional knowledge and skills were reinforced through the practical training of executives and specialists of Bank of Russia regional branches in other regional branches and in the structural business units of the Bank of Russia head office, during which over 700 people were trained.

Due to the ongoing re-engineering of business processes in the Bank of Russia's system and the optimisation of its structure, demand increased for the advanced professional training of executives and specialists of structural subdivisions within the Bank of Russia head office, which accounted for 45% of all persons trained under the professional programmes in 2017. Given the new challenges faced by the personnel management divisions, the Bank of Russia organised personnel man-

agement and anti-corruption training on a large scale (about 1,500 persons were trained).

Ensuring the development of managerial and leadership competences corresponding to the best global standards is one of the priority tasks for the development of Bank of Russia employees. For this purpose, in 2017, as part of the internal corporate full-time training, the Bank of Russia held 302 training events, trained 4,400 people from among executives of different levels and prepared 12 new managerial training programs.

In 2017, the format of international cooperation was changed significantly: the Bank of Russia started to invite specialists from partner countries (Norway, Italy, England, Hungary and India) more actively to share experience in the field of applying best practices in macroeconomic forecasting, banking supervision, credit cooperation and insurance. For the purpose of sharing experience, the Bank of Russia organised visits to the Bank of Finland and training sessions, seminars and consultations for the representatives of the People's Bank of China, the Pridnestrovian Republican Bank and the Bank of Finland. The Bank of Russia continued to provide educational support to the national banks of the Republic of South Ossetia and the Republic of Abkhazia.

Within the framework of the Agreement on Cooperation in Personnel Training for the Central (National) Banks signed in Minsk on 12 March 2004, 30 international workshops were held in line with the programme for 2017, of which 13 workshops and 16 traineeships for the representatives of central banks and a video conference were conducted at the Bank of Russia. In total, the Bank of Russia organised 212 training events for sharing experience with foreign partners, in which 659 Bank of Russia specialists took part.

To help personnel acquire foreign experience more effectively, the Bank of Russia held training to improve the level of knowledge of foreign languages. In 2017, short-term full-time specialised courses, training and consultations, as well as online training events were provided to 349 employees of structural divisions of the head office. Executives and specialists were able to develop their practical English language skills by participating in the discussion sessions of the English Club created in the Bank of Russia and by reading

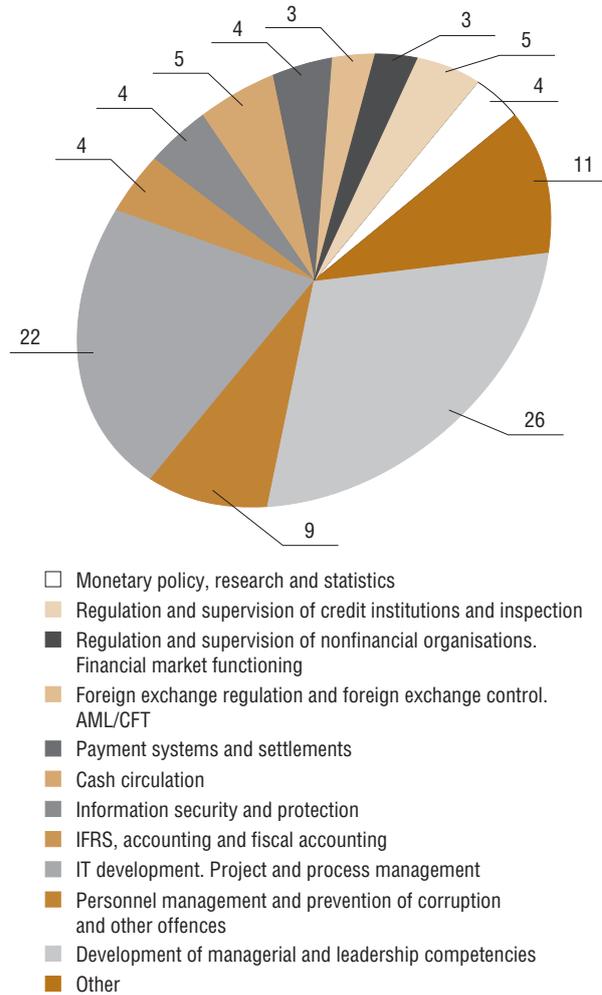
a weekly linguistic digest with 772 subscribers. The English Club Community was set up on the Bank of Russia corporate portal; 140 Bank of Russia employees participate in it.

As part of the centralised full-time training, roughly 1,300 training events took place and 17,500 executives and specialists were trained; 74% of these employees were trained under professional programmes. In total, 2,700 training events were held, and about 25,000 persons were trained under the professional education programmes, given that centralised training was supplemented with regional training activities and contracts concluded by regional branches on their own.

In 2017, the Bank of Russia paid considerable attention to creating and implementing modern formats of personnel training and development and the corresponding technologies, such as knowledge management systems, online training, assessment of competences and others. Online training preceded full-time training or was used as an independent format, including the webinar format. The introduction of WebTutor, a new software product, in 2017, enabled the Bank of Russia to train 47,700 persons and conduct over 70,000 tests using online educational technologies for the development of professional and leadership competences.

In 2017, the Bank of Russia conducted a study of the engagement of Bank of Russia personnel; over 41,000 employees (or 78% of the actual staff size) took part. The general involvement index of Bank of Russia employees stood at 63%, with the average reading of the index being at 68% at financial and credit institutions. Bank of Russia employees showed high indica-

**Centralised Bank of Russia personnel training in 2017  
(as a percentage of total number of trainees)**



tors characterising loyalty to the organisation and enthusiasm for work, which were comparable to the average indicators in the financial market.

## III.2. PROCESS MANAGEMENT DEVELOPMENT

In 2017, within the framework of the business process re-engineering programme, the Bank of Russia implemented 44 projects aimed at optimising key business processes in the Bank of Russia's structural units. Measures are being taken to introduce the elaborated target business processes. The objectives of those measures are the following:

- to improve external interaction;
- to transition to electronic interaction with financial market participants;
- to unify supervisory procedures used in various segments of the financial market;
- to strengthen the functions of financial market development and enhance financial literacy;
- to raise the efficiency of internal activity;
- to unify business processes and eliminate duplication of functions;
- to improve management flexibility by implementing the matrix model;
- to automate business processes in accordance with the re-engineering deliverables and approved IT strategy;
- to implement the system of an ongoing improvement of business processes.

Based on the results of business process re-engineering, the Bank of Russia developed the target regional model of the Bank of Russia for 2017–2020. Within the framework thereof, in 2017, the Bank of Russia introduced unified standards of staff size, unified functional distribution and unified staff lists in its main branches and divisions.

According to the target regional model, the following hubs were created in the Bank of Russia's structure in 2017:

- financial market participant admission centres – Saint Petersburg, Yekaterinburg;
- the competence centre for countering illegal activity – Krasnodar;
- issue registration hubs – Orel, Simferopol;
- the unified testing and quality control centre – Saint Petersburg;
- innovation laboratories – Novosibirsk, Kazan;
- regional centres for the development of IT solutions – Yekaterinburg, Saint Petersburg, Moscow, Kazan, Tomsk, Ryazan;
- united operating hubs – Nizhny Novgorod, Krasnoyarsk, Voronezh, Saint Petersburg;
- reporting processing hub – Tver;
- hubs for the supervision of collective investment entities – Saint Petersburg, Novosibirsk, Moscow;
- hubs for the supervision of professional securities market participants – Nizhny Novgorod, Yekaterinburg, Moscow;
- hubs for the supervision of insurance agents – Moscow;
- analytical centre for microfinance organisations – Samara;
- analytical centre for pawn shops – Kazan.

The Bank of Russia is implementing its regional model in accordance with the approved road map of the target regional model implementation.

## III.3. PROJECT MANAGEMENT DEVELOPMENT

In 2017, active development of project management in the Bank of Russia continued. As of December 2017, the Bank of Russia's project portfolio comprised 165 projects both related to IT and aimed at optimising the Bank of Russia's business processes.

The development of project management in the Bank of Russia made it possible to increase the speed and quality of project implementation. In 2017, over 50 projects were implemented, and the process of exchanging electronic documents containing data on assets between credit institutions and the Bank of Russia using personal account technology was introduced.

The project Complaints Are Welcome Here involved developing and implementing the Bank of Russia Appeals Processing system and the launch of two hubs for processing appeals, which produced the following effect:

- tripled productivity of employees handling standard appeals;
- online generation of reports on complaints;
- increased level of claimant satisfaction;
- implementation of technological and operational capability for the replication of hubs in response to a considerable increase in the number of appeals;
- roughly 37% of appeals channeled for processing to hubs are executed within one to two days without involving highly qualified specialists.

Furthermore, the process of administering income to the budget system of the Russian Federation was automated, which made it possible to reduce the labour input for the process.

'Novosti', a reliable, comprehensive and high-quality (from the point of view of available information) CFS<sup>1</sup> system with an interface that enables convenient view-

ing and searching of documents in the system was implemented and is in active use.

A new corporate portal was launched in the Bank of Russia head office: a personal work assistant for each employee and a convenient tool for internal corporate interaction. The portal is the single point of access to numerous internal resources and incorporates many useful and convenient services, for example, 'Internal news', 'Application for leave', 'Quick search for contacts' and others.

A crowdsourcing platform for collecting and processing initiatives of Bank of Russia employees appeared. Since the launch of the crowdsourcing platform:

- over 260 initiative proposals have been received;
- 55 crowdsourcing projects have been implemented;
- over 7,000 employees have taken part in collecting and evaluating proposals.

Project management tools and methodology are being developed and updated on an ongoing basis. In the second half of 2017, the specifics of applying agile approaches were taken into account. During 2017, agile approaches were piloted in a number of projects and individual tasks; these included creating and training seven teams using Scrum techniques and three teams using Kanban techniques. An agile community has been created and is actively developing (workshops, master classes and business games are held). Regulatory framework is being elaborated in what relates to financial planning and procurement activities in order to reflect the specifics of applying agile approaches.

As part of creating a project management knowledge database, the Bank of Russia is accumulating best practices and sharing its experience in project management implementation and development with federal government bodies.

<sup>1</sup>Complex of functional subsystems.

## III.4. INFORMATION TECHNOLOGY DEVELOPMENT IN THE BANK OF RUSSIA

In 2017, work continued on IT development in the course of implementing the Bank of Russia IT Strategy for 2016–2020 approved by the Bank of Russia Board of Directors, the road map of the Bank of Russia IT Strategy and road maps of the projects for the implementation of target IT platforms. During that period, the Bank of Russia was actively developing technology for analytics and electronic interaction with financial market participants, other organisations and individuals and was conducting the centralisation of IT management functions.

The capability to use personal accounts was activated for 6,800 financial market participants, of which 568 were credit institutions (including institutions liquidated in 2017) and 296 were insurance companies and brokers. Information exchange in electronic form allows financial market participants and the Bank of Russia to speed up and simplify the delivery of documents and eliminate problems associated with their remote location.

For the purpose of sustainable and focused interaction between the Bank of Russia and financial market participants, the latter completed transition to the unified electronic format of reporting data, i.e. XBRL. The professional community was supplied with the taxonomy, means of data conversion and a training module.

To increase the availability of financial products and services to citizens and businesses, the Bank of Russia launched Financial Culture portal, which collects accurate and up-to-date information on all issues pertaining to the financial sphere. By providing information on financial markets, institutes and instruments in comprehensible form, it helps people to better understand the world of financial instruments and improve financial planning skills and knowledge of finance.

Within the framework of Complaints Are Welcome Here project, which proceeded with the implementation of measures designed to improve the handling of financial consumers' and investors' appeals, the classification of questions and generation of replies to standard questions were automated, which significantly improved the Bank of Russia's performance in the field of consumer protection.

The exchange of electronic documents (without original documents in hard copy) signed with the enhanced encrypted and certified digital signature by authorised

Bank of Russia officials with federal executive bodies was implemented via the system of interdepartmental electronic workflow management.

In 2017, the Bank of Russia initiated the process and launched the provision of services in electronic form using the unified portal of public and municipal services (functions).

To make information support for the processes of state registration of nonbank financial institutions and licensing their activity more efficient, the Bank of Russia implemented the Registers of Financial Market Participants system, which automates and centralises the processes of collecting, controlling and storing the registration data of nonbank financial institutions.

For the transition to the efficient and centralised supervision of financial market participants, the Bank of Russia implemented the Unified File of a Supervised Organisation system, which automates the business processes of supervisory activity.

Technologies for analysing risks and dependences based on Big Data analysis are being actively developed; such technologies would make it possible to evaluate the quality of household loan portfolios, monitor the absence of manipulation with reporting information, control loan portfolio quality over time, identify bad household loans and find end-to-end chains of cash flows between various credit institutions.

To improve the internal corporate culture and the quality of communication of internal corporate information to all Bank of Russia employees, as well as to introduce uniform tools for collaborative work, collective interaction and internal services, the Bank of Russia has implemented a new corporate Intranet portal, which is already actively used by the employees of the Bank of Russia head office. In 2018, there are plans to connect all employees of the Bank of Russia regional branches to the Intranet portal.

The implementation of the Bank of Russia's new operating IT model continues. The model is meant to centralise IT management functions and develop internal competences to further increase the quality and speed, and also reduce the cost of IT solutions and raise the quality of IT services. A process for managing the level of IT services has been implemented, thereby ensur-

ing control over, and mitigating, the operational risks of Bank of Russia processes. Regional development centres have been set up in Moscow, Saint Petersburg, Kazan, Yekaterinburg, Tomsk and Ryazan, teams are being formed, and key competences are being consolidated in accordance with their specialisation. Regional centres are responsible for the development, testing and documentation of applied platforms; for the con-

formity of created IT solutions to functional requirements. These centres form a third line of support for operating systems. Innovation laboratories were set up in Novosibirsk and Kazan to enable research on new process solutions and the piloting of new IT solutions. At the moment, roughly 500 Bank of Russia employees work at the regional development centres and innovation laboratories.

## III.5. CHANGES IN THE ORGANISATIONAL STRUCTURE

In 2017, the Bank of Russia continued working actively to improve its organisational structure and to optimise staff numbers.

As part of implemented measures, the mechanism of creating Bank of Russia divisions performing standard similar functions was revised. For example, to align quality, standardise processes, exclude duplicate functions and optimise costs, the Bank of Russia set up divisions implementing business processes based on an interregional principle which were located in regional branches (hubs).

Reorganisation of the head office continued. The Service for Ongoing Banking Supervision<sup>1</sup> was set up on the basis of divisions of the regional branches to increase supervision effectiveness. The structure of the Risk Analysis Service was modified because of the centralisation of risk assessment and management in the activities of credit institutions. To implement the mechanism stipulated by federal laws for the financial resolution of credit institutions using the money of the Fund of Banking Sector Consolidation, the Financial Resolution Department was created. The Financial Technology Department was set up to develop and implement new digital technology and help digitalise the financial market. As part of further process management improvement, the Project and Processes Department was set up. Organisational changes and transformations took place virtually in all divisions of the head office.

In 2017, activities started in previous years also continued.

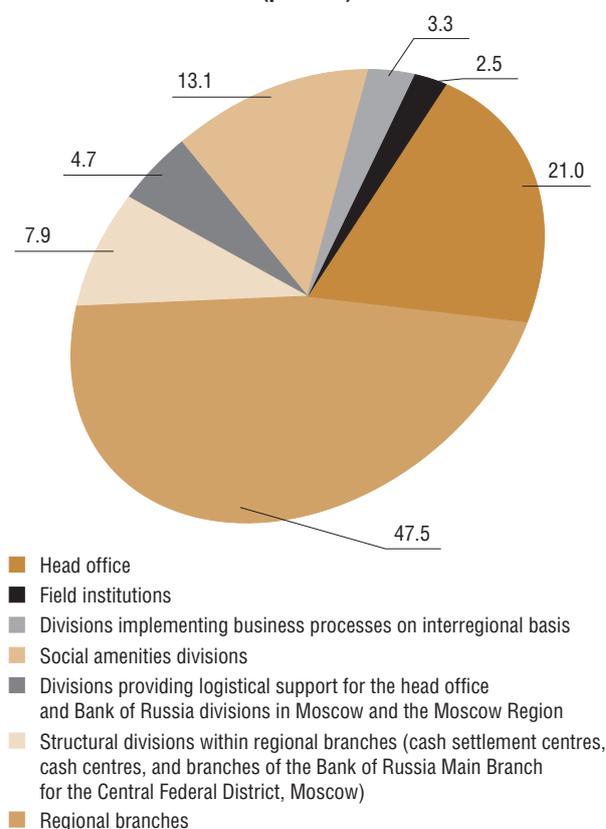
In accordance with the programme for optimising the payment processing network of regional branches, in 2017, the Bank of Russia closed 46 cash settlement centres and completed the next stage of staff optimisation in the social amenities divisions.

As of 1 January 2018, the Bank of Russia's structure consisted of 406 divisions, including: the head office; seven main branches, which comprise 74 divisions (divisions – national banks), one interregional depository,

109 cash settlement centres and two divisions of the Bank of Russia Main Branch for the Central Federal District; 22 divisions implementing business processes based on the interregional principle (hubs); 91 field institutions; the representative office of the Bank of Russia in the People's Republic of China; and other ancillary divisions.

In the course of measures taken to optimise structure and staff size, the staff numbers of the Bank of Russia in 2017 increased by 900 persons, or by 2%, and reached 55,600 persons. In the first half of 2018, considering the decisions made in 2017, the staff numbers are to decrease by 3,200 persons or by 5.7%.

**Number of Bank of Russia personnel by structural division as of 1 January 2018 (percent)**



<sup>1</sup> See Subsection II.2.4.1 'Credit institutions, banking groups, and bank holding companies'.

## III.6. DEVELOPMENT OF THE BANK OF RUSSIA'S PROCUREMENT SYSTEM

In 2017, the Bank of Russia's procurement system continued to undergo large-scale modifications as set forth by the Bank of Russia's Procurement Activity Development Strategy until 2020. A transition was made to the centralised system of procurement management and organisation. To eliminate the conflict of interest, the functions of customers and buyers were separated, a uniform functional vertical of procurement divisions was created, and the functions of organising and performing procurement activities in Bank of Russia divisions were placed under its control.

Procurement activities were conducted in accordance with the Annual Procurement Plan published on the Bank of Russia website. In 2017, 4,217 procedures were held to choose a supplier (contractor) with a total starting (maximum) contract price of ₹42.5 billion.

To increase the transparency of the procurement process, primarily open bidding methods were used to choose suppliers (contractors), and their share in terms of value increased by 18% against 2016. In 2017, 2,849 procedures (or 67.5% of their total number) with a starting (maximum) contract price of ₹27.2 billion (64%) were held through open bidding. 77% of open bidding procedures were held in electronic form. Information on Bank of Russia procurements was published in the Bank of Russia's Single Information System for Procurement (SISP) and, in case of open bidding, on the electronic trading platform Sberbank-AST.

The cost effect of competitive procurement procedures in 2017 amounted to ₹2.01 billion, with an average decrease of 6.2% against the starting (maximum) contract price. An expert review of the procurement documents aimed at optimising technical solutions and ensuring the accuracy of price indices helped to cut the starting (maximum) contract price by ₹795 million.

To build an end-to-end process for procurement activity, an electronic register of contracts in the SISP was introduced to ensure data integrity and data storage in the unified information environment.

A system of key performance indicators was developed and prepared for implementation to improve the coordination and control of the activity of procurement divisions and mitigate potential risks.

In 2017, work on developing the regulatory framework in the field of Bank of Russia procurements continued. Methodological recommendations for the formation of category-based strategies were developed, and a methodological framework was built to implement a category-based approach towards procurement system management. Development of category-based strategies for procurements in the field of IT with the biggest optimisation potential was started.

In the beginning of 2018, a new regulation on procurements of the Bank of Russia came into force. It was aimed at increasing the flexibility of decision-making and implementing modern tools for holding competitive procurement procedures.

## III.7. INTERNAL AUDITING

In 2017, implementation of the Bank of Russia's Internal Audit Development Concept for 2016–2020<sup>1</sup> continued for the purpose of increasing efficiency and achieving internal audit development priorities by implementing remote audit and pre-project audit of the Bank of Russia's strategic projects, shifting the focus of priorities from the audit of divisions to the audit of business processes in the Bank of Russia using the risk-based approach, and developing the Bank of Russia's risk management system.

In the reporting period, internal audit was focused on evaluating the efficiency of the most significant business processes, as well as functional and structural transformations in the Bank of Russia. During internal audit procedures, the results of re-engineering of the Bank of Russia's business processes, including the transformation of the regional model of the Bank of Russia, were taken into account; special attention was given to improving the quality of corporate governance and risk management, and to identifying ineffective processes and systemic problems.

In 2017, the Bank of Russia Chief Auditor Service (hereinafter, the Service) carried out 91 internal audits, including 72 audit inspections, five analytical measures, 11 monitoring measures and three project audits.

The audited subjects comprised divisions in the Bank of Russia's head office, Bank of Russia regional branches, including their structural divisions, the Bank of Russia Interregional Data Processing Centre, the Bank of Russia Interregional Security Centre and Bank of Russia field institutions.

Considering the trends existing in the financial markets, the Service carried out daily monitoring of the management of Bank of Russia assets in foreign currency and precious metals as well as evaluation of measures taken by Bank of Russia functional divisions in response to risks arising in the course of operations.

During the audit of monetary policy implementation by the Bank of Russia, the Service analysed the business processes of repo transactions conducted with resident banks in the domestic market.

In the light of large-scale changes in the organisation and implementation of supervision of credit institu-

tions, the Service, as part of analytical activities aimed at investigating the causes of bankruptcy of individual credit institutions, carried out detailed analysis of supervisory measures and prepared recommendations for improving laws and Bank of Russia regulations, business processes, and risk management and internal control procedures.

With regard to Bank of Russia efforts aimed at the rehabilitation of the financial sector, the Service audited the organisation of the work of provisional administrations assigned to manage credit institutions and to control receivers' activity. As part of the implementation of a new financial rehabilitation mechanism for credit institutions by way of their recapitalisation, the Service monitored the activities of provisional administrations in managing credit institutions Bank Otkritie FC PJSC and B&N BANK PJSC and prepared proposals for improving the work of provisional administrations for the management of these credit institutions.

In the course of auditing the organisation and performance of supervision of nonbank financial institutions' activity, the Service focused on evaluating the impact of qualitative transformations taking place in Bank of Russia divisions as a result of the re-engineering of Bank of Russia business processes and on the performance of functions vested with the Bank of Russia in the field of monitoring and supervising NFIs.

When auditing the organisation of cash circulation, the Service paid special attention to the development of an innovative environment for processing and storing cash funds, creation of an optimal model for the transportation and storage of valuables, business process efficiency, and transition to the partially decentralised model of cash turnover management during cash storage and processing.

The key issues of the auditing of the Bank of Russia payment system were assurance of the smooth functioning and efficiency of the payment system, which were examined with due regard to the established requirements, benchmarks and potential risks.

In the context of creating a unified systemic approach to IT development, as defined in the Bank of Russia IT Strategy for 2016–2020, and guided by the

<sup>1</sup> Approved by the Bank of Russia Board of Directors (minutes of meeting No. 13, dated 13 May 2016).

need to ensure the sustainable development and operation of the Bank of Russia, and also to support modified business processes, the auditing of the digitizing of Bank of Russia activities evaluated the extent of uninterruptedness of services, promptness of responses to abnormal situations and incidents, and the performance of obligations by contracting organisations. Besides, implementation of the said Bank of Russia IT Strategy was monitored during the auditing.

Given the re-engineering of its business processes, the Bank of Russia was engaged in an ongoing monitoring of the construction and commissioning of large Bank of Russia facilities, and the auditing of cross-functional financial planning business process in the Bank of Russia. Execution of the decisions of the Bank of Russia's Cost Optimisation Commission<sup>1</sup> was analysed, including the analysis of the efforts by Bank of Russia divisions when fulfilling the objectives of improving business process efficiency and optimising the use of resources. In the situation of improving the personnel policy of the Bank of Russia, the organisation of personnel management work was audited.

During the auditing of internal security and protection of Bank of Russia facilities, the Service paid serious attention to evaluating the implementation of measures under the Mid-term Plan for Improving the System for Antiterrorist Protection and Enhancing the Stability of the Operation of Bank of Russia Facilities for 2015–2017.

The auditing of information security was aimed at compliance with Bank of Russia requirements for the

creation, implementation, and operation of the elements of the Bank of Russia information and telecommunication system used in payment technologies and systems processing restricted information and personal data.

From 2017, the Service has been engaged in the internal financial auditing of the Bank of Russia's performance of the administration of the receipt of certain types of income by the budget system of the Russian Federation for the purpose of evaluating the reliability of internal financial control and verifying the reliability of budgetary reporting.

The internal audit findings generally confirm the audited entities' performance of their functions and their compliance with the requirements of Russian laws, Bank of Russia regulations and other acts, and that the internal control and risk management system correspond to the nature of the operations performed.

The internal auditing findings were communicated to the Bank of Russia's management and the National Financial Board, appropriate management decisions were made, and their execution was duly monitored.

In the reporting period, the Bank of Russia maintained interaction with the Accounts Chamber of the Russian Federation in the course of controlling and expert analytical measures, as well as with the auditor of the Bank of Russia's annual financial statements. The Bank of Russia continued to monitor the interaction of its divisions with the government authorities in countering legal offences in the economic sphere.

<sup>1</sup> Created by the decision of the Bank of Russia Board of Directors (minutes of meeting No. 15, dated 30 April 2015).

**IV. BANK OF RUSSIA  
ANNUAL FINANCIAL STATEMENTS  
AND AUDITORS' REPORTS**

## INTRODUCTION

The Annual Financial Statements include information on banking operations and other transactions conducted by the Bank of Russia to fulfil its duties set out in Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)', (as amended) (hereinafter, the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)').

The Annual Financial Statements for 2017 presented below (hereinafter, the financial statements) are comprised of:

- Annual Balance Sheet;
- Statement of Financial Performance;
- Statement of Profit and its Allocation;
- Statement of Bank of Russia Reserves and Funds;
- Statement of Bank of Russia Management of Securities and Stakeholdings in Organisations Constituting Bank of Russia Property;
- Statement of Volume of Bank of Russia Securities Trading on Organised Trading Venues;
- Statement of Bank of Russia Personnel Costs;
- Statement of Capital Investment Budget Performance.

The principal objectives of the Bank of Russia are:

- to protect the ruble and ensure its stability;
- to upgrade and strengthen the Russian banking system;
- to ensure the stability and development of the national payment system;
- to develop the Russian financial market;
- to ensure the stability of the Russian financial market.

# ANNUAL BALANCE SHEET AS OF 31 DECEMBER 2017

(millions of rubles)

	Note	2017	2016
<b>ASSETS</b>			
1. Precious metals	4	4,505,183	3,747,462
2. Funds placed with nonresidents and foreign securities	5	18,878,512	18,005,132
3. Loans and deposits	6	3,517,842	4,175,075
4. Securities, of which:	7	886,080	528,853
4.1. Federal government debt obligations		218,883	311,787
4.2. Credit institutions' shares acquired as part of bankruptcy prevention measures		456,200	0
5. Claims on the IMF	8	1,491,825	1,504,140
6. Other assets, of which:	9	1,535,664	1,013,444
6.1. Fixed assets		80,069	77,543
6.2. Profit tax advance payments		151	150
<b>Total assets</b>		<b>30,815,106</b>	<b>28,974,106</b>
<b>LIABILITIES</b>			
1. Cash in circulation	10	9,539,356	8,790,093
2. Funds in accounts with the Bank of Russia, of which:	11	11,003,154	9,985,488
2.1. Federal government funds		4,565,692	4,662,005
2.2. Funds of resident credit institutions		4,812,384	3,093,328
3. Float	12	705	2,771
4. Securities issued	13	356,777	0
5. Obligations to the IMF	14	1,407,818	1,392,851
6. Other liabilities	15	120,808	111,393
7. Capital, of which:	16	8,386,488	8,647,765
7.1. Authorised capital		3,000	3,000
7.2. Reserves and funds		8,818,796	8,644,765
7.3. Reporting year losses		(435,308)	0
8. Reporting year profit		0	43,745
<b>Total liabilities</b>		<b>30,815,106</b>	<b>28,974,106</b>

Governor of the Bank of Russia

Bank of Russia Chief Accountant



E.S. Nabiullina

A.V. Kruzhalov

27 April 2018

## STATEMENT OF FINANCIAL PERFORMANCE

(millions of rubles)

	Note	2017	2016
<b>INCOME</b>			
Interest income	17	282,082	355,044
Income from securities trading	18	17,195	39,758
Income from stakeholdings in credit institutions and other organisations,	19	70,866	24,272
including income from stakeholdings in Sberbank		67,761	22,248
Other income	20	20,866	11,118
<b>Total income</b>		<b>391,009</b>	<b>430,192</b>
<b>EXPENSES</b>			
Interest expenses	21	136,063	106,068
Expenses on securities trading	22	52,517	33,704
Cash turnover management expenses	23	9,746	9,750
Net expenses on the creation of provisions	24	385,619	29,649
Other operating expenses	25	63,659	95,775
Bank of Russia personnel costs	26	110,952	111,501
<b>Total expenses</b>		<b>758,556</b>	<b>386,447</b>
<b>Financial result before transferring income from stakeholdings in Sberbank at end-2016</b>		<b>(367,547)</b>	<b>43,745</b>
Income received from stakeholdings in Sberbank at end-2016 and transferred to the federal budget in line with Part 7 of Article 2 of Federal Law No. 415-FZ, dated 19 December 2016		(67,761)	0
<b>(Reporting year loss) / reporting year profit</b>		<b>(435,308)</b>	<b>43,745</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 asset value upon revaluation	Loss for the year	Total capital	Profit for the year
<b>Balance as of 31 December 2014, after tax 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>0</b>	<b>9,072,435</b>	<b>0</b>
Profit for 2015	0	0	0	0	0	0	0	0	0	112,575
Transferred to funds in 2015	0	0	1	462,078	2,953,341	31,201	0	0	3,446,621	0
Paid from funds in 2015	0	0	(204)	0	0	(15,105)	0	0	(15,309)	0
<b>Balance as of 31 December 2015, before tax and allocation of profit for 2015</b>	<b>3,000</b>	<b>318,840</b>	<b>2,925</b>	<b>2,415,131</b>	<b>9,707,057</b>	<b>48,828</b>	<b>7,966</b>	<b>0</b>	<b>12,503,747</b>	<b>112,575</b>
Taxes and duties paid from Bank of Russia profit for 2015	0	0	0	0	0	0	0	0	0	(195)
Transferred to the federal budget	0	0	0	0	0	0	0	0	0	(101,142)
Allocation of profit for 2015 retained by the Bank of Russia	0	10,788	450	0	0	0	0	0	11,238	(11,238)
<b>Balance as of 31 December 2015, after tax and allocation of profit for 2015 in 2016</b>	<b>3,000</b>	<b>329,628</b>	<b>3,375</b>	<b>2,415,131</b>	<b>9,707,057</b>	<b>48,828</b>	<b>7,966</b>	<b>0</b>	<b>12,514,985</b>	<b>0</b>
Profit for 2016	0	0	0	0	0	0	0	0	0	43,745
Transferred to funds in 2016	0	0	0	0	0	18,558	0	0	18,558	0
Paid from funds in 2016	0	0	(225)	(420,647)	(3,446,902)	(18,004)	0	0	(3,885,778)	0
<b>Balance as of 31 December 2016, before tax and allocation of profit for 2016</b>	<b>3,000</b>	<b>329,628</b>	<b>3,150</b>	<b>1,994,484</b>	<b>6,260,155</b>	<b>49,382</b>	<b>7,966</b>	<b>0</b>	<b>8,647,765</b>	<b>43,745</b>
Taxes and duties paid from Bank of Russia profit for 2016	0	0	0	0	0	0	0	0	0	(153)
Transferred to the federal budget	0	0	0	0	0	0	0	0	0	(39,233)
Allocation of profit for 2016 retained by the Bank of Russia	0	4,185	174	0	0	0	0	0	4,359	(4,359)

	Authorised capital	Reserves	Social fund	Accrued revaluation of precious metals	Accrued foreign currency exchange rate differences	Positive revaluation of securities available for sale	Growth in asset value upon revaluation	Loss for the year	Total capital	Profit for the year
<b>Balance as of 31 December 2016, after tax and allocation of profit for 2016 in 2017</b>	<b>3,000</b>	<b>333,813</b>	<b>3,324</b>	<b>1,994,484</b>	<b>6,260,155</b>	<b>49,382</b>	<b>7,966</b>	<b>0</b>	<b>8,652,124</b>	<b>0</b>
Loss for 2017	0	0	0	0	0	0	0	(435,308)	(435,308)	0
Transferred to funds in 2017	0	0	0	271,286	0	1,795	0	0	273,081	0
Paid from funds in 2017	0	0	(315)	0	(71,659)	(31,435)	0	0	(103,409)	0
<b>Balance as of 31 December 2017, before tax for 2017</b>	<b>3,000</b>	<b>333,813</b>	<b>3,009</b>	<b>2,265,770</b>	<b>6,188,496</b>	<b>19,742</b>	<b>7,966</b>	<b>(435,308)</b>	<b>8,386,488</b>	<b>0</b>
Taxes and duties, including those paid in advance in 2017	0	0	0	0	0	0	0	(151)	(151)	0
<b>Balance as of 31 December 2017, after tax for 2017</b>	<b>3,000</b>	<b>333,813</b>	<b>3,009</b>	<b>2,265,770</b>	<b>6,188,496</b>	<b>19,742</b>	<b>7,966</b>	<b>(435,459)</b>	<b>8,386,337</b>	<b>0</b>

The information on funds and the allocation of Bank of Russia profit is disclosed in the Statement of Profit and its Allocation and Statement of Bank of Russia Reserves and Funds.

# NOTES TO ANNUAL FINANCIAL STATEMENTS FOR 2017

## 1. Accounting and financial reporting, accounting policy principles

The Bank of Russia's accounting and financial reporting practices are carried out in accordance with the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', Federal Law No. 402-FZ, dated 6 December 2011, 'On Accounting', Bank of Russia Regulation No. 567-P, dated 19 December 2016, 'On the Chart of Accounts for Accounting Purposes at the Central Bank of the Russian Federation (the Bank of Russia) and the Procedure for Using it', Bank of Russia Regulation No. 522-P, dated 21 December 2015, 'Bank of Russia Accounting Policy for Accounting Purposes' (hereinafter, the accounting policy), and other Bank of Russia regulatory documents issued in pursuance of the said federal laws.

Assets (claims) and liabilities are recorded at their initial value at the moment of their acquisition or occurrence. The initial value does not change until their retirement, sale, or redemption, unless otherwise provided for by the Russian legislation, the accounting policy, and/or Bank of Russia regulations or other by-laws.

The specifics of any subsequent appraisal (revaluation) of the value of assets (claims) and liabilities are described in Note 2.

These financial statements have been compiled on the basis of the annual balance-sheet data provided by the Bank of Russia, its regional branches and other divisions incorporated in the Bank of Russia as a legal entity.

These financial statements have been compiled exclusive of the financial statements of credit institutions and other organisations within and outside of Russia in which the Bank of Russia holds a stake and/or whose activities it controls, as well as of legal entities established by the Bank of Russia. Under Russian law, the Bank of Russia is not required to compile consolidated financial statements that include the financial statements of credit institutions and other organisations in which it holds a stake and/or whose activities it controls, as well as of legal entities established by the Bank of Russia.

These financial statements have been compiled in the currency of the Russian Federation, the Russian ruble (hereinafter, rubles), or in millions of rubles.

The financial statements cover a period from 1 January through 31 December 2017 inclusive.

Bracketed figures in tables are negative values.

For the purposes of these financial statements, Bank of Russia operations with credit institutions and the Bank for Development and Foreign Economic Affairs (Vnesheconombank), state corporation, are jointly referred to as operations with resident banks.

Resident banks with government stakeholdings in their authorised capitals from 50% to 100% are categorised as resident banks with the direct stakeholdings of the Russian Federation represented by the Russian Ministry of Finance or the Federal Agency for State Property Management, constituent territories of the Russian Federation represented by their ministries and agencies, the Bank of Russia, the state corporation Deposit Insurance Agency and Vnesheconombank (Notes 6, 11).

## 2. Accounting items and methods of their appraisal

### (a) Precious metals

Assets (claims) and liabilities denominated in precious metals, including precious metals in commemorative and investment coins and placed on metals accounts (custody accounts and unallocated metals accounts) of the Bank of Russia opened with nonresident and resident banks, and precious metals in deposit accounts are entered in the books at the value of the precious metals according to the book prices for refined precious metals (hereinafter,

the book price) as of the date of an operation (transaction) with precious metals (the date of the assignment of title (date of delivery of precious metals) and shall be revalued according to changes in book prices. The Bank of Russia calculates book prices on the basis of the current fixed prices of precious metals on the London Metal Exchange.

Assets (claims) and liabilities denominated in precious metals are reflected in the books as of the end of the reporting year at their fair value adjusted for the closing balance of precious metals. The fair value of precious metals as of the end of the reporting year is the last price for the precious metals as fixed in the London metals spot market in the reporting year and recalculated based on the official US dollar / ruble exchange rate effective as of the reporting date.

The excess of positive unrealised differences, which arise from the revaluation of precious metal balances due to the change in the book prices of precious metals, as well as from adjustment at fair value, over negative unrealised differences is recorded in the balance sheet account *Accrued revaluation of precious metals* as part of capital and is not included in the statement of financial performance.

If the negative unrealised difference exceeds the positive unrealised exchange difference in the results of the year's activities, the excess is compensated for from previously accrued unrealised differences recorded to the balance sheet account *Accrued revaluation of precious metals* as part of capital, in accordance with a decision by the Bank of Russia Board of Directors. If there are no funds in the balance sheet account *Accrued revaluation of precious metals* or if the funds are insufficient, the negative unrealised difference is entirely (or in the amount that exceeds the credit balance in the aforementioned balance sheet account) attributed to Bank of Russia operating expenses for the corresponding reporting year in accordance with a decision by the Bank of Russia Board of Directors.

The realised differences (income or expenditure) that arise when trade operations with precious metals are conducted at a price different from the book price of such precious metals are calculated individually for each operation. The realised difference is the difference between the actual value of a transaction and the value based on the book price of the corresponding precious metal.

The realised differences in operations with precious metals are calculated as of the transfer date of the title to the precious metal to which the transaction relates. Net positive realised differences are recorded in financial statements as other income, while net negative realised differences are recorded as other operating expenses.

The value of any precious metals in coins used to conclude a purchase and sale transaction and their nominal value on the date when the specification is prepared are entered to the balance sheet account for the retirement (sale) of assets. No further revaluation of the indicated precious metals is performed.

Bank of Russia claims and liabilities with respect to the delivery of precious metals in forward transactions under signed contracts are recorded to off-balance sheet accounts from the transaction date to the settlement date, and revalued as the book prices of the precious metals change.

The value of precious metals used to recalculate assets (claims) and liabilities in precious metals as of the reporting date was as follows: ₹2,400.9700 per gram of gold (2016: ₹2,260.4300 per gram of gold); ₹31.2300 per gram of silver (2016: ₹31.6700 per gram of silver); ₹1,716.7000 per gram of platinum (2016: ₹1,768.8000 per gram of platinum); ₹1,955.5900 per gram of palladium (2016: ₹1,318.3100 per gram of palladium).

#### **(b) Foreign currency assets and liabilities**

Foreign currency assets (claims) and liabilities are entered in the books as of the date of the operation or transaction in foreign currency (on the first date of settlements, as set forth by the transaction terms) at the official rate of exchange of the foreign currency against the ruble set by the Bank of Russia as of that date (hereinafter, the official exchange rate). The procedure for setting official exchange rates is established by Bank of Russia regulations and other acts.

Foreign currency assets (claims) and liabilities are revalued according to changes in the official exchange rate.

The excess of the positive unrealised exchange rate differences that arise in the course of revaluing the balances in balance sheet accounts, where funds in foreign currency are reflected, over the negative unrealised exchange rate differences due to changes in the official exchange rates, is recorded to the balance sheet account *Accrued foreign currency exchange rate differences* as part of capital and is not included in the statement of financial performance.

If the negative unrealised exchange rate differences exceed positive unrealised exchange rate differences accrued over the year, the excess is offset by previously accrued unrealised exchange rate differences recorded to the balance sheet account *Accrued foreign currency exchange rate differences* as part of capital in accordance with a decision by the Bank of Russia Board of Directors. If there are no funds in the balance sheet account *Accrued foreign currency exchange rate differences*, or if the funds are insufficient, the negative unrealised exchange rate differences are posted entirely (or in the amount that exceeds the credit balance of the above balance sheet account) to Bank of Russia other operating expenses for the corresponding reporting year in accordance with a decision by the Bank of Russia Board of Directors.

Realised exchange rate differences that arise in foreign exchange transactions conducted at rates that differ from official exchange rates are calculated individually for each transaction and are posted to Bank of Russia income or expenses as of the transaction date. The total excess of positive realised exchange rate differences from foreign exchange operations over negative realised exchange rate differences is recorded as part of other income, whereas the total excess of negative realised exchange rate differences from foreign exchange operations over the positive realised exchange rate differences is recorded as part of other operating expenses.

The amounts of advances and down payments received and paid under business transactions with nonresident entities (for goods supplied, work performed and services provided) and the amounts of down payment under Bank of Russia operations related to its stakeholdings in companies are not subject to revaluation.

Bank of Russia claims and obligations under foreign currency purchase and sale forward contracts are posted to off-balance sheet accounts from the transaction date to the settlement date and are revalued at the official exchange rates.

The official exchange rates used to recalculate assets (claims) and liabilities in foreign currency as of the reporting date were as follows: ₴57.6002 to the US dollar (2016: ₴60.6569 to the US dollar); ₴68.8668 to the euro (2016: ₴63.8111 to the euro); ₴77.6739 to the pound sterling (2016: ₴74.5595 to the pound sterling); ₴45.9258 to the Canadian dollar (2016: ₴44.9710 to the Canadian dollar); ₴51.1479 to 100 Japanese yen (2016: ₴51.8324 to 100 Japanese yen); ₴81.8326 to the SDR (special drawing right) (2016: ₴81.2857 to the SDR); ₴44.9570 to the Australian dollar (2016: ₴43.8064 to the Australian dollar); and ₴88.4497 to 10 Chinese renminbi (2016: ₴87.2824 to 10 Chinese renminbi).

### (c) Securities

Investments in securities other than promissory notes are categorised as follows, depending on the purpose of the purchase:

- *Appraised at fair value through profit or loss*. These include securities purchased for short-term sale (up to one year) whose fair value can be determined reliably;
- *Held to maturity*. These include securities that the Bank of Russia intends to hold to maturity, regardless of the period between the purchase date and the maturity date;
- *Available for sale*. These include securities that are not categorised as *Appraised at fair value through profit or loss* or *Held to maturity* when purchased.

The securities are accounted for at their initial value, which includes the purchase price (purchase value) or, when the securities are purchased on terms other than market terms, the fair value as of the purchase date, and, for securities *Available for sale* or *Held to maturity*, material additional expenses (costs) directly associated with their purchase. Expenses exceeding 5.0% of the transaction value are recognised as material.

When debt obligations are purchased on terms other than market terms, the difference between the purchase price (purchase value) and the fair value is posted to the accounts for income on or expenses from securities trading.

Securities are entered in the accounts in the currency in which they are issued.

The price of securities purchased in a currency other than that in which they were issued is determined at the official exchange rate as of the purchase date, or at a cross rate calculated using official exchange rates.

The balance-sheet value of securities after their initial recognition is altered by the amount of interest income (interest expenses) accrued, amounts of partial redemption of the nominal value of securities and coupon payment, and, for the securities *Appraised at the fair value through profit or loss* and *Available for sale*, with due regard to their revaluation at the fair value.

The amount of discount and interest (coupon) income less the premium amount is recognised as part of interest income. A discount on the security means a positive difference between the nominal value (current face value) of the security and its initial value less interest (coupon) income included in the purchase price.

The amount of premium in excess of the interest (coupon) income is recognised as interest expense. A premium on the security means a negative difference between the nominal value (current face value) of the security and its initial value less interest (coupon) income included in the purchase price.

Interest income and expenses are accrued on a uniform basis from the purchase date of securities and during their remaining circulation period, unless otherwise specified in Bank of Russia regulations or other acts.

Interest income on securities where there is no uncertainty as to the receipt of the said income, as well as interest expenses on securities are recognised as income or expenses, respectively, on the last working day of the month in which the securities are retired (sold) or redeemed, and when interest (coupon) income is paid by the issuer. Interest income on securities where the receipt of the income is recognised to be uncertain is recorded to separate off-balance sheet accounts for unearned interest income and is recognised as income when the funds are actually received.

Securities categorised as *Available for sale* whose fair value can be determined reliably are appraised (revalued) at their fair value.

Market prices posted by trading organisers from the latest organised trades are used to evaluate the fair value of securities traded in a foreign financial market in organised (stock exchange) trading and securities eligible for circulation in organised trading in the domestic financial market (excluding Russian Federation Eurobonds). The latest quotations (prices) posted by the financial news and data service Bloomberg are used to evaluate securities traded in non-organised (over-the-counter) trading of a foreign financial market, securities traded in the domestic financial market which are not eligible for circulation in organised trading in the domestic financial market, and Russian Federation Eurobonds. Assessment models based on market data are used to evaluate the fair value of securities that do not have representative quotations (prices).

The securities revaluation amount is the difference between the fair price of securities of a corresponding issue (issuer) and their balance sheet price, net of the revaluation reflected in the corresponding balance sheet accounts.

The revaluation of securities categorised as securities *Available for sale* is posted during the year to the balance sheet accounts *Revaluation of securities available for sale – positive differences* and *Revaluation of securities available for sale – negative differences*.

At year-end, the excess of the positive revaluation over the negative revaluation of securities categorised as *Available for sale* of the corresponding issue (issuer) is written off to the account for income from securities transactions within the limits of the negative revaluation of the corresponding issue (issuer), recorded to the account showing expenses from securities transactions in previous years; in the absence of a negative revaluation of the corresponding issue (issuer), posted to expenses in previous years, or in the amount of its excess, it is recorded to the account *Positive revaluation of securities available for sale* as part of capital. With respect to securities categorised as *Available for sale* that are acquired in the reporting year, the positive revaluation of such securities of the corresponding issue (issuer) is recorded to the balance sheet account *Positive revaluation of securities available for sale* as part of capital.

At year-end, the excess of the negative revaluation over the positive revaluation of securities categorised as *Available for sale* of the corresponding issue (issuer) is written off against the positive revaluation accounted for as capital within the limits of the previously accrued positive revaluations of this issue (issuer). In the absence (or shortage) of previously accrued positive revaluations of this issue (issuer) accounted for as capital, it is recorded to the account showing expenses on securities transactions. With respect to securities categorised as *Available for sale* and acquired in the reporting year, the sum of the negative revaluation of such securities of the corresponding issue (issuer) is written off to the account showing expenses on securities transactions.

Securities categorised as *Held to maturity* are reflected in the financial statements at their balance sheet value net of depreciation provisions.

Upon the retirement (sale) of securities, the securities purchased first are written off from the Bank of Russia's balance sheet first.

The financial result of the retirement (sale) or redemption of securities is calculated as the difference between the balance sheet price of the security as of the retirement date, inclusive of accrued interest income (for securities in the category *Appraised at fair value through profit or loss*, net of revaluation amounts), and the contractual redemption price or retirement (sale) price and is recorded to the income or expenditure on securities operations in the statement of financial performance. For securities in the category *Available for sale*, alongside showing the retirement (sale) or redemption of securities, the total amount of accumulated revaluation of the retired securities is transferred to the accounts for income on or expenses from securities transactions.

Securities received by the Bank of Russia in reverse transactions (including securities in repo transactions with nonresident banks) continue to be recognised in the same category of securities, in which they were recognised before the transaction, in separate balance sheet accounts. Funds raised in repo transactions with resident or nonresident banks are accounted for in Bank of Russia balance sheet accounts for funds raised.

Securities received by the Bank of Russia in reverse transactions (including securities in repo transactions with resident or nonresident banks) are recorded to off-balance sheet accounts and revalued at the fair price on the last working day of the month. Funds raised in repo transactions with resident or nonresident banks are recorded to Bank of Russia balance sheet accounts for funds placed.

Income received or expenses incurred by the Bank of Russia in reverse transactions are recorded as part of interest income or interest expenses respectively.

Promissory notes issued by credit institutions are accounted for at their purchase price net of depreciation provisions.

#### **(d) Bank of Russia bonds**

Bank of Russia coupon bonds (coupon OBRs) are accounted for at the nominal value reduced or increased by the discount or premium (the difference between the nominal value and the placement or selling price) inclusive of accrued interest.

The amount of discount and coupon income due under the coupon OBRs less the premium amount is recognised as interest expenses. Interest expenses accrue starting from the date of coupon OBRs placement (sale) throughout the time to their maturity on a uniform basis. Interest expenses are recorded to expense accounts on the last working day of the month when the coupon OBRs are bought back or redeemed, and coupon income is paid. When coupon OBRs are bought back by the Bank of Russia, securities that were placed first chronologically are written off the Bank of Russia's balance sheet, while the difference between the balance sheet price of the securities (inclusive of accrued interest expenses) and the amount paid is recorded to the statement of financial performance as part of expenses (income) relating to securities trading.

Coupon OBRs received by the Bank of Russia in repos with resident banks are recorded to off-balance sheet accounts as securities received in repos.

#### **(e) Investments**

Bank of Russia investments in the authorised capital of credit institutions and other organisations inside and outside Russia are accounted for at their initial price as of the date of transfer of title to shares (stakes), as specified in the documents confirming the transfer of title to the shares (stakes).

The initial value of shares (stakes) entered in the books includes the purchase price (purchase value) and additional costs directly associated with their purchase.

Foreign currency investments in the shares (stakes) of legal entities, which are denominated in foreign currency, are accounted for in rubles at the official exchange rate as of the date on which the title to the shares (stakes) is transferred or at the official exchange rate as of the date on which they are paid up with a prepayment.

The value of shares (stakes) denominated in a foreign currency is not subject to further revaluation following a change in the official exchange rate.

#### **(f) Loans and deposits**

Loans and deposits provided to credit institutions, state corporations and other legal entities, and deposits placed, inter alia, in accordance with federal laws and decisions by the Bank of Russia Board of Directors are rec-

ognised as part of the principal, including accrued interest whose receipt is regarded as certain, net of depreciation provisions.

The Bank of Russia issues loans against the pledge (blocking) of securities, pledge of receivables on loan agreements and/or guarantees.

Securities received as loan collateral are appraised at their market value as of the transfer date of the indicated securities as collateral on a Bank of Russia loan, using the adjustment ratios established by the Bank of Russia, and are not subject to further revaluation.

Receivables on loan agreements received as collateral on loans provided are accounted for in the amount of the accepted collateral using the adjustment ratios established by the Bank of Russia.

The value of collateral under Bank of Russia loans provided against guarantees is calculated as the amount of loan debt plus the interest to be paid for the anticipated period of use of the loan, calculated based on the conditions of the loan agreement signed with the Bank of Russia.

The Bank of Russia places deposits and provides loans and subordinated loans in accordance with certain federal laws and decisions by the Bank of Russia Board of Directors.

Within the framework of implementing measures aimed at stabilising the banking system of the Russian Federation, the Bank of Russia employs bankruptcy prevention measures at credit institutions using the money of the Fund of Banking Sector Consolidation.

Foreign currency-denominated deposits placed with nonresident banks are recognised as part of the principal, including accrued interest.

#### **(g) Loss provisions for Bank of Russia operations**

To cover possible financial losses if risks materialise under Bank of Russia claims and liabilities (including contingent ones) in the currency of the Russian Federation and in a foreign currency, which incur in the course of the Bank of Russia's performing its functions in accordance with Russian laws, the Bank of Russia makes the following provisions: on credit and other similar exposure; securities held to maturity; claims on interest income under loans and other similar claims; funds placed on deposit by the Bank of Russia with a credit institution to compensate for the part of losses (expenses) incurred by the credit institution under transactions with other credit institutions whose banking licence has been revoked; Bank of Russia compensation payments for household deposits at bankrupt banks not covered by the Russian Federation's compulsory household deposit insurance system; performance of obligations to participants in the Bank of Russia's Pension Plan; debt incurred by foreign counterparties and issuers; liabilities of credit institutions whose participation in the international payment system has been suspended; amounts paid by the Bank of Russia to the Pension Fund of the Russian Federation in accordance with Russian laws to compensate for the shortage of pension savings; amounts transferred by the Bank of Russia to the Pension Fund of the Russian Federation in the event of the forced winding up of a non-governmental pension fund; and accounts receivable under the business activity of the Bank of Russia.

Provisions for credit and other similar exposures of the Bank of Russia in rubles and foreign currency are made on an individual basis or for a portfolio of homogeneous credit claims (on a portfolio basis).

Provisions for credit claims attributed to a homogeneous credit portfolio are made for the portfolio as a whole and reflect the amount of probable losses that may result from the overall impairment of homogeneous credit claims pooled (grouped) in the portfolio. When determining criteria for attributing credit claims to the portfolio of homogeneous credit claims, the Bank of Russia may take into account the following properties of credit claims: types of credit claims; claims emerging as a result of transactions under a single agreement; placement of funds under similar conditions; placement of funds in compliance with certain federal laws; the net settlement of debt obligations under several transactions; and other properties of transactions.

Provisions are made in the currency of the Russian Federation. Bank of Russia provisions are made on the basis of decisions by the Bank of Russia Board of Directors and are recognised as Bank of Russia expenses.

Given a decrease in the amount of claims and liabilities in the event of their full or partial repayment, mitigation of the risk of possible financial losses thereunder, or decrease in the official exchange rate of foreign currencies against the ruble, the corresponding part of the provisions made for the claims and liabilities should be reduced and recovered to Bank of Russia income.

Provisions are used to cover financial losses under liabilities in the event that risks thereunder materialise and to write off claims the Bank of Russia cannot recover after it has undertaken all and any necessary and sufficient legal and actual measures to recover them and to exercise the rights arising from the availability of collateral for the claims, including when an entry on the debtor's registration in connection with its liquidation is made in the Unified State Register of Legal Entities.

Provisions for credit and similar exposure as well as exposures to credit interest income and other similar exposure are made by the Bank of Russia when the risk of probable financial loss (credit risk) arises as a result of a borrower's default on or improper fulfillment (if there is a threat of such default or improper fulfillment) of obligations in accordance with the terms and conditions of agreements or other documents confirming the provision and placement of funds by the Bank of Russia or as a result of the revocation of the borrower's banking licence.

The Bank of Russia determines the level of credit risk and makes provisions in the amount corresponding to the identified credit risk level for the following credit and other similar exposure: loans issued by the Bank of Russia (inter alia, under opened credit lines); deposits placed by the Bank of Russia; funds placed by the Bank of Russia under repo operations; and securities held to maturity. When assessing credit risk, the Bank of Russia evaluates the financial standing of a borrower and the quality of its debt servicing. The amount of provisions is determined taking into account the cost (value) of collateral provided under concluded agreements calculated using adjustment ratios (discounts).

Loss provisions for the funds deposited by the Bank of Russia with a credit institution to compensate, pursuant to federal laws, for the portion of losses (expenses) sustained by the credit institution in transactions with other credit institutions whose banking licences have been revoked (hereinafter, the compensation deposit) are made when the credit institution writes off the compensation deposit in whole or in part.

Provisions for Bank of Russia compensation payments for household deposits in bankrupt banks which are not participants of the compulsory household deposit insurance system (hereinafter, Bank of Russia compensation payments) are made in the amount of funds that the Bank of Russia actually transferred to the agent bank to effect Bank of Russia compensation payments, and also in the amount of debt the bankrupt bank owes to the Bank of Russia under obligations that arose following the Bank of Russia's transfer of funds to the bankrupt bank's depositors.

Provisions to guarantee Bank of Russia obligations to participants in its Pension Plan are made to ensure the fulfilment of supplementary pension obligations to Bank of Russia employees in accordance with the terms and conditions of the Pension Plan. The amount of provisions to be made is determined by the excess of the forecast value of pension obligations over the forecast balance of the Bank of Russia pension fund as of the end of the year following the reporting year.

Provisions for the debt of foreign counterparties and issuers may be made for the following kinds of Bank of Russia claims: claims arising as a result of Bank of Russia operations and transactions as provided for by the IMF Articles of Agreement and contracts with the IMF; claims to foreign counterparties (except for business operations); claims to foreign issuers under securities not redeemed in due time or categorised by the Bank of Russia as securities held to maturity; and claims arising in the course of foreign companies fulfilling their obligations to the Bank of Russia as provided for by suretyship agreements concluded by the Bank of Russia and the said companies to ensure intraday settlements across Russian payment systems.

Provisions for credit institutions' obligations, for the fulfilment of which in full an international payment system does not bear subsidiary liability to the Bank of Russia and/or when such institutions' participation in the international payment system has been suspended, are formed in the amount of the claim to compensation consisting of the amount of the credit institution's obligation to the Bank of Russia for whose complete fulfilment the international payment system does not bear subsidiary liability to the Bank of Russia, and/or when the institution's participation in the international payment system has been suspended, which occurred because of the insufficiency of funds in its correspondent account to fulfil the collection order for the amount of the debit net position and a fine for the unfulfilled obligations.

Provisions for the amount of compensation paid by the Bank of Russia to the Pension Fund of the Russian Federation for the shortage of pension savings shall be made in the amount of the money actually transferred by the Bank of Russia to the Pension Fund of the Russian Federation. Provisions are formed when, in accordance with Russian laws, the Bank of Russia, as a result of compensating for the shortage of pension savings, acquired claims

which, in the event of the bankruptcy of a non-governmental pension fund, that does not participate in the system, or in the event of its forced wind up, shall be satisfied using the own capital (assets securing statutory activity, if the non-governmental pension fund is a non-profit organisation) of such non-governmental pension fund.

Provisions for the amounts of funds transferred by the Bank of Russia to the Pension Fund of the Russian Federation if an arbitration court issues a ruling, upon the Bank of Russia's application, on the forced wind up of a non-governmental pension fund which has not been registered in the system guaranteeing the rights of insured persons because of the cancellation of its licence are made in the amount of funds actually transferred by the Bank of Russia to the Pension Fund of the Russian Federation.

Provisions to cover possible financial losses under receivables from economic activity determined in the values established by the Bank of Russia's regulation governing the procedure for Bank of Russia to write off assets, receivables and other expenditures are formed for receivables recognised in the books in the balance sheet accounts for settlements with employees with regard to imprest amounts (in respect of the amounts of shortages); settlements with suppliers, contractors, and buyers; settlements with nonresidents under business transactions; or settlements with other debtors which bear the risk of possible financial loss due to default on (improper performance of) obligations by the Bank of Russia's debtor under the contract for the supply of goods, performance of works, or provision of services.

Bank of Russia assets, for which provisions are made, are accounted for in the financial statements net of the amount of provisions made.

#### (h) Fixed assets

Bank of Russia fixed assets are defined as assets which possess physical form and a service life exceeding 12 months and a value in excess of the limit set by the Bank of Russia for the recognition of property as fixed assets which are used as tools for the provision of services or management of a Bank of Russia division, as well as in the cases stipulated in public health, technical and maintenance, and other special technical standards and requirements. Since 1 January 2016, the limit of the property value required for such property to be entered into the books as fixed assets has been set by the Bank of Russia at over ₹100,000 per accounting unit put into operation from 1 January 2016. Objects entered into the books as fixed assets before 1 January 2016 are accounted for as part of fixed assets.

Fixed assets are recognised in the financial statements at their residual value, i.e. at the purchase price including revaluation less accrued depreciation.

Bank of Russia fixed assets have been revalued in accordance with Russian Federation Government resolutions. The latest revaluation was made as of 1 January 1997.

Depreciation allowances are made each month, on the first day of the month following the month a fixed asset is put into operation, at the rate of one-twelfth of the annual sum, and are continued throughout its entire service life (except in cases when the asset is in the process of reconstruction or modernisation for more than 12 months or has been closed down for more than three months by a decision by the Bank of Russia). They are discontinued from the first day of the month following the month during which the cost of the asset has been fully repaid, or it has been written off the books.

The maximum amount of accrued depreciation equals the balance sheet value of the fixed asset, which means the initial or current (replacement) value of the asset (including revaluation).

Fixed assets acquired and put into operation prior to 1 January 2002 are depreciated at the official rates of depreciation set by USSR Council of Ministers Resolution No. 1072, dated 22 October 1990, 'On Standard Rates of Depreciation Allowances for the Complete Replacement of Fixed Assets of the National Economy of the USSR':

	%	
	2017	2016
Buildings and other facilities	1–7	1–7
Equipment (including computers, furniture, vehicles, etc.)	1–7	1–7

Fixed assets put into operation from 1 January 2002 are depreciated according to the classifier of depreciated fixed assets of the Bank of Russia issued pursuant to Russian Federation Government Resolution No. 1, dated 1 January 2002, 'On the Classification of Fixed Assets Included in Depreciation Groups' (as amended by Russian Federation Government Resolutions No. 415, dated 9 July 2003; No. 476, dated 8 August 2003; No. 697, dated 18 November 2006; No. 676, dated 12 September 2008; No. 165, dated 24 February 2009; No. 1011, dated 10 December 2010; No. 674, dated 6 July 2015; and No. 640, dated 7 July 2016):

	%	
	2017	2016
Buildings and other facilities	1–46	1–55
Equipment (including computers, furniture, vehicles, etc.)	2–75	2–80

The maximum annual depreciation rate decreased as a result of 100% depreciation accrual for fixed assets for which the highest depreciation rates applied in the previous reporting period.

Expenses for the repair and maintenance of fixed assets are recorded to the financial statement as other operating expenses.

Profit and losses following the retirement of fixed assets are calculated as the difference between their balance sheet value (including accrued depreciation and retirement cost) and are recorded to the statement of financial performance as other income or other operating expenses.

#### (i) Intangible assets

Intangible assets are identifiable objects whose initial value may be accurately determined. These do not have a physical form and are meant for long-term use (i.e., for a service life of over 12 months). They are not intended for sale within 12 months and are capable of bringing further economic advantages, which advantages the Bank of Russia is entitled to get, unlike other entities enjoying only limited access to such economic advantages.

Intangible assets are accounted for in the financial statements at their residual value, i.e. at the purchase price net of accrued depreciation.

A change in the value of an intangible asset is allowed in the event of its revaluation at the current market value. Intangible assets are revalued by recalculating their residual value. The balance sheet value of an intangible asset after revaluation and the amount of accrued depreciation are determined using a recalculation ratio defined as the quotient of the current market value of the tangible asset divided by its residual value. Intangible assets have not been revalued before.

Depreciation allowances are made each month, starting the first day of the month following the month intangible assets are put into operation, at the rate of one-twelfth of the annual sum, and are continued throughout their entire service life. They are discontinued from the first day of the month following the month during which the cost of the asset was completely repaid or written off the books.

The maximum amount of accrued depreciation equals the balance sheet value of intangible assets.

The following rates of depreciation are applied to intangible assets put into operation on or after 1 January 2002:

	%	
	2017	2016
Intangible assets	7–75	7–33

The maximum annual depreciation rate increased following the modernisation process.

The Bank of Russia establishes the service life of its intangible assets in accordance with its Ordinance No. 2581-U, dated 22 February 2011, 'On the Service Life of Software Products and/or Databases Used by the Bank of Russia, and on the Procedure for Recording the Acquisition of Software Licences to Bank of Russia Expenses'.

Profit and loss following the retirement of intangible assets are calculated as the difference between their balance sheet value (including accrued depreciation) and retirement value, and are recorded to the statement of financial performance as other income or other operating expenses.

**(j) Cash in circulation**

The Bank of Russia is the sole issuer of cash and the organiser of cash circulation. Banknotes and coins put into circulation are shown in the financial statements at their nominal value, exclusive of ruble cash at Bank of Russia tills, Bank of Russia ATMs and cash in transit.

**(k) Funds in accounts with the Bank of Russia**

Funds in accounts with the Bank of Russia are comprised of federal government funds, resident banks' correspondent accounts, required reserves of credit institutions deposited with the Bank of Russia, credit institutions' and other organisations' deposits taken by the Bank of Russia, regional and local government budget funds and government extra-budgetary funds, as well as funds raised from nonresident banks in repos executed in the external market. Funds in accounts with the Bank of Russia are reflected in the financial statements at their nominal value, inclusive of interest accrued.

**(l) Float**

As of the reporting date, float includes the balances resulting from the completion of settlement operations related to money transfers within the Bank of Russia payment system.

Float is reflected in the financial statements at its nominal value.

**(m) Capital**

The Bank of Russia's capital consists of:

- authorised capital. Under Article 10 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia has authorised capital in the amount of ₴3 billion;
- various reserves and funds created to enable the Bank of Russia to perform the functions assigned to it by the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'. Information about the sources and use of Bank of Russia reserves and funds is contained in the Statement of Bank of Russia Reserves and Funds, which is part of these financial statements;
- loss sustained as of end of the reporting year (Note 2(o)).

**(n) Recognition of Bank of Russia income and expenses**

Income and expenses are formed as a result of conducting transactions in rubles, in foreign currency and in precious metals and are recorded on an accrual basis, that is, they are posted as soon as they occur, rather than after the funds (or their equivalents) have been actually received or paid.

Records across accounts for income and expenses are maintained in rubles only.

Income and expenses are recorded in the period to which they relate.

Income and expenses earned (incurred) in foreign currency are converted into rubles at the official exchange rate as of the date of their recognition in the books. Income and expenses earned (incurred) in precious metals are recalculated into rubles at the book prices in effect as of the date of their recognition in the books.

Expenses on the replenishment of supplementary pension funds for Bank of Russia employees are recorded to the statement of financial performance, after they have been incurred, based on the actuarial assessment of pension obligations of the Bank of Russia.

Income in the form of dividends due for the Bank of Russia's stakeholdings in the authorised capitals of legal entities in foreign currency and in the currency of the Russian Federation is recorded in the books based on information on the decision to pay dividends made by the legal entity's authorised body.

Income (expenses) received (incurred) and accrued in previous reporting periods is (are) recorded to the items of the statement of financial performance for the reporting period with corresponding economic content.

The receipt of interest income from all credit and other similar claims with regard to borrowers for which claims are assigned to substandard loan groups according to the provisioning procedure, or with regard to operations that are pooled in a homogeneous loan portfolio, is recognised for the purpose of reflection in the book accounts as uncertain from the date of assignment. Interest income from such credit and similar claims, as well as from securities the receipt of which is recognised as uncertain, shall be recorded after they have been actually received.

**(o) Financial performance**

Result of financial performance: profit or loss is calculated as the difference between total income from banking operations and transactions stipulated by Article 46 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and income from stakeholdings in 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 loss is accounted for as part of the capital (Note 2(m)).

**(p) Taxation of the Bank of Russia**

The Bank of Russia pays taxes and duties in compliance with the Tax Code of the Russian Federation. It has drawn up and approved its accounting policy for the purposes of taxation, which sets out the applicable tax accounting principles and methods, alongside the rules on and procedure for creating a tax base for the calculation of taxes and duties to be paid by the Bank of Russia.

**(q) Transfer of profit to the federal budget**

Pursuant to Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', once the Annual Financial Statements have been approved by the Board of Directors, the Bank of Russia transfers 75% of the actual annual profit retained after the payment of taxes and duties under the Tax Code of the Russian Federation to the federal budget.

According to Article 1 of Federal Law No. 334-FZ, dated 28 November 2015, 'On the Specifics for Transferring the Profit for 2015 and for 2016 Received by the Central Bank of the Russian Federation in 2016 and in 2017', after the Bank of Russia Board of Directors approves the Annual Financial Statements of the Bank of Russia for 2015 and 2016, the Central Bank of the Russian Federation shall transfer to the federal budget 90% of the actual annual profit received in 2015 and 2016, respectively, and retained after the payment of taxes and duties under the Tax Code of the Russian Federation.

In accordance with Federal Law No. 415-FZ, dated 19 December 2016, 'On the Federal Budget for 2017 and the Plan Period of 2018 and 2019', the Bank of Russia shall transfer by 1 August 2017 the income received in 2017 for 2016 from its stakeholdings in Sberbank to the federal budget. The part of the profit the Bank of Russia receives for 2017 which is to be transferred to the federal budget shall be reduced by the said amount.

If a loss forms as of year-end, the income the Bank of Russia earns from its stakeholdings in Sberbank and transfers to the budget shall be included in the loss of the reporting year.

**(r) Claims on the IMF and obligations to the IMF**

Pursuant to the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia serves as a depository for IMF funds in the currency of the Russian Federation and performs operations and transactions stipulated by the IMF's Articles of Agreement and contracts with the IMF.

The Bank of Russia keeps records of the Russian Federation's claims on the IMF (including the Russian Federation's quota in the Fund) and its obligations to the IMF.

Claims on the IMF include the Russian Federation's quota in the Fund; funds in the Russian Federation's account with the IMF's Special Drawing Rights Department (SDR Department); and loans provided by the Bank of Russia to the IMF under the New Arrangements to Borrow (NAB), inclusive of interest accrued.

IMF quotas are subscriptions of all member states, which are paid in national and foreign currencies. The portion of the quota paid in a foreign currency constitutes a position on the reserve tranche. Quotas are denominated in Special Drawing Rights (SDRs).

SDRs are reserve assets created by the IMF. The SDR value is posted daily based on a basket of currencies, consisting of the US dollar, euro, Chinese renminbi, Japanese yen and pound sterling.

The New Arrangements to Borrow are a lending facility to provide funds to the IMF by a group of member countries with a sustainable balance of payments and sufficient international reserves. 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 lending terms and conditions remained unchanged. The Bank of Russia can recall its committed funds at any time, if necessary.

Obligations to the IMF are represented by the ruble balances in the IMF's Number 1 and 2 Accounts with the Bank of Russia and by the obligations on SDRs received by the Russian Federation during previous issues of SDRs by the IMF, inclusive of accrued interest.

The IMF's Number 1 Account is used for financial operations and trades. The IMF's Number 2 Account is used to pay for the administrative expenses of the IMF representative office in the Russian Federation and is replenished by withdrawing funds from the IMF's Number 1 Account.

Claims on the IMF and obligations to the IMF, as well as interest accrual, are accounted for in line with IMF recommendations. In order to maintain the total of Bank of Russia ruble-denominated obligations to the IMF in SDR terms at the ruble exchange rate set by the IMF, the balances in the IMF's Number 1 and 2 Accounts are revalued on a monthly basis on the first working day of the month following the reporting month. The total exchange rate differences accrued on the IMF's Number 1 Account are recognised in correspondence with the account for recording the part of the quota paid in rubles. The total exchange rate differences accrued to the IMF's Number 2 Account are recorded to the Bank of Russia's income or expenses. At the end of the IMF's fiscal year (30 April) and by the decision of the IMF or at the request of the Bank of Russia, the amount of the accrued exchange rate differences from the revaluation of the IMF's Number 1 Account is recorded to the increase (decrease) in the balance of the IMF's Number 1 Account; and the revaluation of the IMF's Number 2 Account is recorded to the increase (decrease) in this account's balance.

SDR-denominated claims on the IMF and obligations to the IMF are revalued at the official rate of exchange of the SDR to the ruble set by the Bank of Russia.

**(s) Reporting of operations under the Chinese renminbi (RMB) / Russian ruble FX Swap Agreement between the People's Bank of China and the Bank of Russia and operations to provide RMB received under the Agreement to Russian credit institutions through swaps**

The RMB/RUB bilateral FX Swap Agreement between the People's Bank of China and the Bank of Russia (hereinafter, the National Currency Swap Agreement) was concluded<sup>1</sup> to develop bilateral economic relations by funding trade and direct investment. Under this Agreement, the parties can provide their own national currency or obtain the national currency of the other party through swaps within certain maximum limits. The Bank of Russia provides RMB to Russian credit institutions through swaps under agreements between the Bank of Russia and Russian credit institutions.

The current maximum amount in rubles (Chinese renminbi) that may be supplied (received) by the Bank of Russia through swaps under the National Currency Swap Agreement is recorded to off-balance sheet accounts under the item *Unused limits to provide (receive) funds in the form of overdrafts and 'against the debt limit' loans*. The total of the maximum amount in rubles (renminbi) posted to the account is decreased by the amounts of swaps between the Bank of Russia and the People's Bank of China and is recovered after the deals are completed.

The current amount of rubles (renminbi) that may be provided (received) by the Bank of Russia through swaps between the Bank of Russia and the People's Bank of China in the event that the People's Bank of China (Bank of Russia) requests funds through a swap is recorded to off-balance sheet accounts under the item *Unused limits to provide (receive) funds in the form of overdrafts and 'against the debt limit' loans*. The respective amount of renminbi (rubles) is posted to the off-balance sheet accounts for the bank guarantees and sureties received (issued) during the effective period of a swap. The total of the current amount in rubles (renminbi) posted to the account under the item *Unused limits to provide (receive) funds in the form of overdrafts and 'against the debt limit' loans* is decreased when the Bank of Russia provides rubles to the People's Bank of China (when the Bank of Russia receives renminbi from the People's Bank of China) by the amount of funds provided (received) and is recovered upon their repayment.

The rubles supplied by the Bank of Russia to the People's Bank of China (renminbi received by the Bank of Russia from the People's Bank of China) under the swaps are recorded to the account for other placed (received) funds.

Claims and liabilities under swaps concluded with Russian credit institutions are accounted for according to the procedure established for forward transactions in foreign currency.

<sup>1</sup> Due to the expiry of the Agreement concluded in 2014, in 2017, the Bank of Russia and the People's Bank of China concluded a new National Currency Swap Agreement.

### 3. Impact of economic conditions on Bank of Russia financial statements

The Bank of Russia's annual balance sheet and financial performance in 2017 were shaped by internal and external economic conditions, and by current measures and decisions associated with the execution of various legislative functions of the Bank of Russia.

2017 saw the recovery of economic activity, as well as the recovery of positive dynamics of individual economic development indicators. According to Rosstat estimates, Russia's gross domestic product grew by 1.5% in 2017 after a 0.2% drop in 2016. Industrial production picked up by 1.0% in 2017, after a 1.3% growth in 2016<sup>2</sup>.

In 2017, due to the growth of nominal GDP by 6.8% and expenditures on final consumption by 6.1% in nominal terms, the amount of cash in circulation increased by 8.5% to ₹9,539,356 million as of 31 December 2017 (after rising by 3.1% over the previous year). Furthermore, the share of cash in circulation in the annual balance sheet structure of the Bank of Russia grew by 0.7 pp to 31.0% in 2017.

In 2017, inflation fell from 5.4% to 2.5% year-on-year. Taking into account the assessment of the trade-off between inflation risks and economic growth outlook, the Bank of Russia consistently reduced the key rate six times, in March, April, June, September, October and December, by a total of 2.25 pp, from 10.0% to 7.75% p.a.

2017 saw a strengthening of the ruble exchange rate against most other currencies conditioned on the growth of global prices for oil and other Russian export commodities, as well as the persistence of a positive difference between the interest rates in Russia and other countries. At the same time, appreciation of the ruble was kept in check by various factors: ongoing external sanctions against Russia, easing of the Bank of Russia's monetary policy, tightening of the US Fed's monetary policy, and the Russian Ministry of Finance's purchases of foreign currency in the amount of additional oil and gas revenue to replenish sovereign funds. The US dollar / ruble exchange rate dropped by 5.0% over 2017 to ₹57.6002 for 1 US dollar, while the euro/ruble exchange rate grew by 7.9% to ₹68.8668 for 1 euro.

In 2017, international reserves in dollar terms increased considerably by \$55,001 million to \$432,742 million due to various factors. In February–December 2017, the Bank of Russia purchased foreign currency in the domestic market at the instruction of the Russian Ministry of Finance to replenish the National Wealth Fund, increasing the amount of its international reserves by \$14,266 million. Additionally, commercial banks continued to reduce their outstanding amounts to the Bank of Russia on foreign currency loans issued on a reverse basis. In these conditions, the balance of funds under the item *Funds placed with nonresidents and foreign securities* grew by 4.9% to ₹18,878,512 million. Furthermore, the increase in international reserves was supported by the Bank of Russia's purchase of 220 tons of monetary gold and by the growth of its price in the global commodity markets. Against this backdrop, the balance of funds under the item *Precious metals* increased by 20.2% to ₹4,505,183 million.

With the Reserve Fund being spent to finance the federal budget deficit and the National Wealth Fund being used to cover the deficit of the Pension Fund of the Russian Federation and also owing to the negative exchange rate revaluation of the funds in the National Wealth Fund, the balance of federal government funds held in accounts with the Bank of Russia shrank by ₹96,313 million to ₹4,565,692 million in 2017. The share of the *Federal government funds in accounts with the Bank of Russia* item in the annual balance sheet liabilities fell from 16.1% to 14.8%.

Due to a transition to the structural liquidity surplus in the banking sector, 2017 saw the contraction of credit institutions' demand for Bank of Russia refinancing and of the amounts outstanding on those operations. In 2017, the balance in the *Loans and deposits* item fell by 15.7% to ₹3,517,842 million, and its share in annual balance sheet assets decreased from 14.4% to 11.4%.

Driven by growth in the structural liquidity surplus over the year, the balance of credit institutions' funds kept in accounts with the Bank of Russia grew by ₹1,719,056 million to ₹4,812,384 million, and their share in the annual balance sheet structure grew by 4.9 pp to 15.6%. The balance of credit institutions' funds kept in accounts with the Bank of Russia increased mostly owing to funds in their deposit accounts as a result of the Bank of Russia's auction-based liquidity-absorbing operations conducted for the management of short-term money market rates.

<sup>2</sup> Not adjusted by calendar factor.

To absorb a portion of excess liquidity, the Bank of Russia also issued bonds starting August 2017, as a result of which the balance of funds in the *Securities issued* item grew from zero to ₹356,777 million.

To partially absorb liquidity inflow, the Bank of Russia also sold federal government bonds (OFZs) from its own portfolio in the secondary market in January–September 2017. Additionally, in August 2017, the Russian Ministry of Finance and the Bank of Russia exchanged federal government bonds. Set against that, the *Russian federal government debt obligations* item decreased by ₹92,904 million to ₹218,883 million.

Amid dropping Bank of Russia interest rates, its interest income decreased significantly as compared to the previous year, while interest expenses on liquidity-absorbing operations rallied, given the structural liquidity surplus. In connection with measures implemented by the Bank of Russia to enhance the financial stability of credit institutions and change in the structure of the Bank of Russia's assets, expenses on making the respective provisions increased. The said factors coupled by the transfer in 2017 of income for 2016 from the Bank of Russia's stakeholdings in Sberbank to the federal budget in accordance with federal law were main factors that shaped the negative financial result of the Bank of Russia's performance (after the positive financial performance in 2016).

## 4. Precious metals

(millions of rubles)

	2017	2016
Precious metals in physical form	4,494,384	3,734,727
Precious metals in coins and commemorative medals	10,799	12,735
<b>Total</b>	<b>4,505,183</b>	<b>3,747,462</b>

The change in the *Precious metals in physical form* item was mainly due to the purchase of gold through purchase and sale transactions with Russian credit institutions under master agreements and the change in the fair value of precious metals as of the end of the reporting year.

The decrease in the *Precious metals in coins and commemorative medals* item was due to the sale of coins made of precious metals in the domestic and foreign financial markets and the change in the fair value of precious metals as of the end of the reporting year.

## 5. Funds placed with nonresidents and foreign securities

(millions of rubles)

	2017	2016
<b>Funds placed with nonresidents and foreign securities in foreign currency, of which:</b>	<b>18,869,953</b>	<b>17,996,556</b>
– foreign securities	15,585,204	14,878,224
– balances in correspondent accounts and deposits placed with nonresident banks	3,156,637	3,046,489
– other funds placed with nonresidents	128,112	71,843
<b>Funds placed with nonresidents in rubles</b>	<b>8,559</b>	<b>8,576</b>
<b>Total</b>	<b>18,878,512</b>	<b>18,005,132</b>

### Funds placed with nonresidents and foreign securities in foreign currency

#### Foreign securities

Foreign securities in foreign currency are classified as *Securities available for sale* and mostly comprise US treasuries, the government bonds and bills of France, the United Kingdom, Germany, China and Canada, non-government bonds guaranteed by the governments of foreign states, and debt obligations issued by supranational financial institutions.

As of 31 December 2017, foreign securities in foreign currency had maturities ranging from 2018 to 2028 and were either coupon-free or had coupon income rates between 0% and 9.125% p.a.

As of 31 December 2016, foreign securities in foreign currency had maturities ranging from 2017 to 2025 and were either coupon-free or had coupon income rates between 0% and 9.125% p.a.

As of 31 December 2017, the fair value of foreign securities in foreign currency in the Bank of Russia's portfolio totalled ₹15,585,204 million (2016: ₹14,878,224 million) (Statement of Bank of Russia Management of Securities and Stakeholdings in Organisations Constituting Bank of Russia Property).

The fair value of foreign securities in foreign currency was measured using their latest purchase quotes (prices), as shown in the Bloomberg information and analytical system, or for coupon-free commercial securities without representative quotes (prices), using the model to assess future cash flows discounted by government security yield rates with respective maturities and denominations adjusted for the credit risk premium (spread).

As of 31 December 2017, the fair value of foreign securities in foreign currency appraised using the quotes (prices) shown in the Bloomberg information and analytical system totalled ₹13,434,265 million (2016: ₹12,838,339 million).

As of 31 December 2017, the fair value of foreign securities in foreign currency appraised using the model of future cash flow assessment totalled ₹2,150,939 million (2016: ₹2,039,885 million).

The change in the balance of this item was mostly due to growth in the official exchange rates of the foreign currencies in which the securities were denominated against the ruble and increase in Bank of Russia investments in foreign securities.

This item also includes foreign securities transferred by the Bank of Russia in repo transactions, with a total fair value of ₹321,663 million (2016: ₹226,127 million) (Note 11), those transferred as additional collateral (margin) in repos, with a total fair value of ₹239 million (2016: ₹155 million), and those transferred as a loan, with a total fair value of ₹290,048 million (2016: ₹267,745 million).

Furthermore, the item includes securities with a total fair value of ₹12,639 million transferred in repos with the second leg maturing on the last business day of the reporting period, and with final settlements made on the first business days of the next reporting period (hereinafter, repos with unfinished settlements).

#### Balances in correspondent accounts and deposits placed with nonresident banks

The item *Balances on correspondent accounts and deposits placed with nonresident banks* includes deposits with nonresident banks and funds in correspondent accounts with nonresident banks, plus interest accrued.

Among other things, balances in correspondent accounts include funds in Bank of Russia accounts held with the national banks of Eurasian Economic Union member states.

In accordance with the Eurasian Economic Union Treaty, dated 29 May 2014, the central (national) banks of one party are to sell US dollars to the central (national) banks of the other party for a sum in the national currency equal to the amount of distributed customs duties in the national currency in favour of the other party. Settlements between the parties are made by offsetting a sum equal to the difference between the parties' mutual obligations in US dollars.

According to the bilateral agreements signed by the Bank of Russia with the Central Bank of the Republic of Armenia, the National Bank of the Republic of Belarus, the National Bank of the Republic of Kazakhstan and the National Bank of the Kyrgyz Republic, the Bank of Russia opened correspondent accounts in the mentioned banks in the national currencies of the member states of the Eurasian Economic Union.

As of 31 December 2017, money in correspondent accounts held with the said banks totalled ₺349 million (2016: ₺296 million).

#### **Other funds placed with nonresidents**

The item *Other funds placed with nonresidents* shows funds placed with nonresident banks in transactions for the purchase of foreign securities with an obligation to resell (reverse repo), plus interest accrued on these transactions. The said funds include, inter alia, money placed in the amount of ₺76,383 million (2016: ₺71,858 million) received in transactions to sell securities with an obligation to repurchase (repo transactions) concluded with the same counterparty (Note 11).

Securities received by the Bank of Russia in reverse repos with nonresidents are recorded to off-balance sheet accounts at the fair value and total ₺129,815 million (2016: ₺71,946 million) (Note 27). Of these, securities received in reverse repos executed to place funds received in repos have a fair value of ₺76,978 million (2016: ₺71,946 million) (Notes 11 and 27).

The increase in the item *Other funds placed with nonresidents* is due to the growth of the total amount of funds provided by the Bank of Russia in repos as of year-end.

#### **Funds placed with nonresidents in rubles**

The item *Funds placed with nonresidents in rubles* reflects Bank of Russia ruble-denominated claims on the People's Bank of China under the bilateral National Currency Swap Agreement, including accrued interest.

## 6. Loans and deposits

(millions of rubles)

	2017	2016
Loans and deposits with resident banks,	2,421,399	1,847,252
of which:		
– issued and placed under certain federal laws	503,829	503,889
– issued using the money of the Fund of Banking Sector Consolidation	1,000,468	0
Other funds placed with resident banks (in repo transactions)	3,569	1,281,570
Other,	2,062,125	1,628,978
of which:		
– issued and placed under certain federal laws	2,052,739	1,619,054
Provisions	(969,251)	(582,725)
<b>Total</b>	<b>3,517,842</b>	<b>4,175,075</b>

The item *Loans and deposits with resident banks* mostly reflects ruble-denominated debt under Bank of Russia loans secured by receivables under loan agreements or guarantees or by pledge of securities (mortgage deeds), and deposits placed by the Bank of Russia in the course of implementing bankruptcy prevention measures using money of the Fund of Banking Sector Consolidation (hereinafter, the FBSC).

The item *Loans and deposits with resident banks, of which: issued and placed under certain federal laws* reflects the amount outstanding on subordinated loans provided to Sberbank in 2008 and 2014 as part of statutory measures implemented by the Russian Federation to support its financial system.

Outstanding amounts on loans and deposits with resident banks with a 50.0% to 100.0% government stake in their authorised capital amount to ₹1,685,621 million (2016: ₹1,710,207 million).

The increase in the item *Loans and deposits with resident banks* is mostly associated with Bank of Russia operations conducted in the course of implementing bankruptcy prevention measures at credit institutions.

The item *Other funds placed with resident banks (in repo transactions)* reflects funds placed by the Bank of Russia with resident banks in repos amounting to ₹3,569 million (2016: ₹1,281,570 million), including interest accrued on these transactions in the amount of ₹1 million (2016: ₹402 million). As of 31 December 2016, the said item reflected foreign-currency funds placed with resident banks in repo transactions amounting to ₹688,959 million. As of 31 December 2017, there are zero outstanding amounts on these transactions.

As of 31 December 2016, the amount of other funds placed in repo transactions with resident banks with a 50.0% to 100.0% government stake in their authorised capital amounted to ₹443,036 million. As of 31 December 2017, there are zero outstanding amounts on transactions with these banks.

Reduction in this item is caused by the reduction of the total value of refinancing operations in connection with the structural liquidity surplus.

Securities acquired by the Bank of Russia in repos with resident banks are recorded to off-balance sheet accounts at the fair value and amount to ₹3,744 million (2016: ₹1,439,783 million) (Note 27).

The item *Other* mainly reflects outstanding amounts on Bank of Russia loans provided to the state corporation Deposit Insurance Agency (hereinafter, the DIA) to implement bankruptcy prevention measures at banks (in accordance with Article 189<sup>56</sup> of Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)'), ensure the financial sustainability of the deposit insurance system, and fund the payment of indemnities on deposits (to replenish the compulsory deposit insurance fund) (in accordance with Federal Law No. 177-FZ, dated 23 December 2003, 'On the Insurance of Household Deposits with Russian Banks') in the amount of ₹2,050,519 million (2016: ₹1,616,834 million), a compensation deposit of ₹2,220 million (2016: ₹2,220 million) placed by the Bank of Russia with a credit institution in compliance with Federal Law No. 173-FZ, dated 13 October 2008, 'On Additional Measures to Support the Financial System of the Russian Federation', in order to partially compensate for this credit institution's losses (expenses) that had been caused by the default of a borrower whose banking licence had been revoked, and a subordinated loan to the Interstate Bank amounting to ₹2,589 million (2016: ₹2,589 million).

Increase in the item *Other* was due to the increase in outstanding amounts on loans provided by the Bank of Russia to the DIA.

The value of collateral received under loans issued and deposits placed by the Bank of Russia with resident banks, including guarantees, amounts to ₹748,089 million (2016: ₹1,074,946 million).

The available collateral accepted by the Bank of Russia made it possible to bring down the value of provisions made for credit claims on resident banks under repos by ₹413 million (2016: ₹278,847 million).

Provisions totalling ₹969,251 million were made for loans issued, deposits and other funds placed (2016: ₹582,725 million), of which:

- provisions for outstanding amounts on secured ruble-denominated loans issued by the Bank of Russia to resident banks and placed deposits totalling ₹554,337 million (2016: ₹241,243 million);
- provisions for outstanding amounts on funds provided by the Bank of Russia to finance bankruptcy prevention measures at banks, ensure the financial sustainability of the deposit insurance system, and fund the payment of indemnities on deposits (to replenish the compulsory deposit insurance fund) totalling ₹410,104 million (2016: ₹323,367 million);
- provisions for outstanding amounts on other loans and deposits totalling ₹4,809 million (2016: ₹4,809 million);
- provisions for outstanding amounts on other funds placed with resident banks (in repo transactions) totalling ₹1 million (2016: ₹13,306 million).

## 7. Securities

	<i>(millions of rubles)</i>	
	<b>2017</b>	<b>2016</b>
<b>Debt obligations Available for sale, of which:</b>		
Russian federal government debt obligations, of which:	218,883	311,787
– federal government bonds (OFZs)	0	59,804
– Russian government external foreign currency-denominated loan bonds (Russian Eurobonds)	218,883	251,983
Other Russian issuers' debt obligations	0	6,075
<b>Subtotal</b>	<b>218,883</b>	<b>317,862</b>
<b>Debt obligations Held to maturity, of which:</b>		
Other Russian issuers' debt obligations	212,636	212,636
Provisions	(106,318)	(106,318)
<b>Subtotal</b>	<b>106,318</b>	<b>106,318</b>
Credit institutions' shares acquired for the participation in bankruptcy prevention measures	456,200	0
Shares issued by credit institutions and other organisations (Bank of Russia stakeholdings)	104,661	104,661
Credit institutions' promissory notes acquired by the Bank of Russia	23	23
Provisions	(5)	(11)
<b>Total</b>	<b>886,080</b>	<b>528,853</b>

### **Debt obligations Available for sale**

#### **Federal government bonds (OFZs)**

As of 31 December 2016, the Bank of Russia's portfolio included OFZs received from the Ministry of Finance of Russia as a result of the restructuring of government securities in 2004–2005 or purchased in the securities market in 2007–2009 and those that remained the property of the Bank of Russia as a result of the settlement of obligations on repo transactions which had been defaulted by credit institutions or the termination of obligations on repo transactions pursuant to clearing rules following the revocation of the banking licence of a credit institution<sup>3</sup>.

As of 31 December 2016, the OFZ bonds in the Bank of Russia's portfolio had maturity dates from 2017 to 2036, with coupon income of 0% to 11.90% p.a. Zero-coupon-income bonds were set to mature in 2019 and accounted for 6.00% in terms of nominal value or 6.00% at fair value of the total OFZ portfolio.

As of 31 December 2016, the total fair value of OFZs was ₺59,804 million.

In 2017, the Bank of Russia's portfolio included OFZs that remained the property of the Bank of Russia as a result of the settlement of obligations on repo transactions which had been defaulted and those received by the Bank of Russia during the exchange of OFZ issues belonging to the Bank of Russia for more liquid issues with the Russian Ministry of Finance. The said exchange was carried out subject to equal fair values for both the transferred and received OFZs.

During 2017, the Bank of Russia sold OFZs as part of its efforts to implement monetary policy. As of the end of the reporting period, all OFZs belonging to the Bank of Russia had been sold.

#### **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.

<sup>3</sup> Termination of obligations in accordance with Article 4.1 of Federal Law No. 127-FZ, dated 26 October 2002.

As of 31 December 2017, Russian Eurobonds were set to mature from 2018 to 2028, with coupon income of 11% to 12.75% p.a.

As of 31 December 2016, Russian Eurobonds were set to mature from 2017 to 2030, with coupon income of 3.25% to 12.75% p.a.

As of 31 December 2017, the fair value of Russian Eurobonds is ₹218,883 million (2016: ₹251,983 million).

In 2017, the Bank of Russia's portfolio included Russian Eurobonds that remained the property of the Bank of Russia as a result of the settlement of obligations on repo transactions which had been defaulted by Russian credit institutions.

The decrease in this item is mostly associated with the sale of Russian Eurobonds by the Bank of Russia and with the decline of the US dollar / ruble exchange rate.

The fair value of Russian Eurobonds was determined using their latest purchase quotes (prices) provided in the Bloomberg information system.

#### **Other Russian issuers' debt obligations**

In 2017, debt obligations of other Russian issuers included corporate bonds of Russian issuers and bonds of constituent territories of the Russian Federation which were admitted to organised trading. The said bonds were included in the Bank of Russia's portfolio as a result of the settlement in 2016 and 2017 of obligations on repo transactions which had been defaulted by credit institutions.

As of 31 December 2016, other Russian issuers' bonds were set to mature from 2019 to 2025 and had a coupon income of 8.50% to 15.75% p.a.

As of 31 December 2016, the fair value of other Russian issuers' bonds was ₹6,075 million.

The change in this item is due to the sale of other Russian issuers' bonds that remained the property of the Bank of Russia.

#### **Debt obligations Held to maturity**

##### **Other Russian issuers' debt obligations**

Other issuers debt obligations held to maturity consist of Bank for Development and Foreign Economic Affairs (Vnesheconombank) bonds acquired by the Bank of Russia in 2014 to provide funding to Vnesheconombank in connection with Vnesheconombank's early fulfilment of its obligations to return deposits placed by the Bank of Russia with Vnesheconombank in 2008–2009 following the decisions of the Bank of Russia Board of Directors.

These bonds mature in 2021 and have a coupon income of 2% p.a.

Provisions in the amount of ₹106,318 million (2016: ₹106,318 million) were created for the acquisition of Vnesheconombank bonds.

#### **Credit institutions' shares acquired for the participation in bankruptcy prevention measures and shares issued by credit institutions and other organisations (Bank of Russia stakeholdings)**

The structure of Bank of Russia investments in credit institutions' shares acquired for the participation in bankruptcy prevention measures and shares issued by credit institutions and other organisations is shown in the Statement of Bank of Russia Management of Securities and Stakeholdings in Organisations Constituting Bank of Russia Property.

##### **Credit institutions' promissory notes acquired by the Bank of Russia**

Promissory notes issued by credit institutions are accounted for at their purchase price.

This item includes the outstanding amount on a promissory note acquired by the Bank of Russia in 2001 under the terms and conditions of an Amicable Agreement.

The item *Provisions* shows provisions made for the promissory note issued by a credit institution in the amount of ₹5 million (2016: ₹11 million).

## 8. Claims on the IMF

(millions of rubles)

	2017	2016
The Russian Federation's quota with the IMF, of which:	1,055,943	1,048,886
– quota with the IMF paid in rubles	943,124	931,648
– IMF reserve tranche position	115,093	120,175
– revaluation of the Russian Federation's quota with the IMF paid in rubles, negative differences	(2,274)	(2,937)
Funds in the Russian Federation's account with the IMF SDR Department	395,512	392,162
Loans to the IMF issued by the Bank of Russia according to the New Arrangements to Borrow	40,251	63,057
Fee for the reserve tranche position	119	35
<b>Total</b>	<b>1,491,825</b>	<b>1,504,140</b>

The quota of the Russian Federation in the IMF in SDR terms (SDR12,903.7 million or 2.71% of all IMF quotas) did not change in 2017 (the ruble equivalent of the quota increased owing to the growth of the official exchange rate of the SDR against the ruble).

Increase in the portion of the quota paid in rubles and decrease in the reserve tranche were due to the repayment by borrower states of IMF loans extended earlier using quota resources of the fund within the framework of the Financial Transactions Plan. When repaying part of the said funds, IMF borrower states transferred US dollars to the Bank of Russia, which led to a change in the structure of the Russian quota, namely, a reduction in the reserve tranche equivalent to the amount of funds received and an increase in the quota paid in rubles.

Increase in the item *Funds in the Russian Federation's account with the IMF SDR Department* is chiefly associated with the growth of the official exchange rate of the SDR against the ruble.

Due to the Russian Federation's participation in the IMF credit facility under the New Arrangements to Borrow, in 2017, the Bank of Russia received from the IMF SDR284.2 million in repayment of outstanding amounts (2016: SDR74.4 million). In 2016 and 2017, the Bank of Russia did not provide any loans to the IMF under the said Arrangements.

As of 31 December 2017, claims on the IMF under the NAB totalled SDR491.2 million or ₴40,198 million (2016: SDR775.5 million or ₴63,034 million); the interest accrued on issued loans amounted to ₴53 million (2016: ₴23 million).

## 9. Other assets

(millions of rubles)

	2017	2016
<b>Fixed assets (at residual value)</b>		
Buildings and other facilities	53,881	51,212
Equipment (including computers, IT and data processing systems, furniture, transport vehicles and other)	26,188	26,331
<b>Subtotal fixed assets</b>	<b>80,069</b>	<b>77,543</b>
Till cash	1,424,805	915,431
Compensation from the Bank of Russia to the Pension Fund of the Russian Federation for shortfall in pension savings	47,020	60,094
Bank of Russia claims on credit institutions with revoked banking licences	42,841	33,553
Construction projects in progress	15,283	8,791
Settlements with suppliers, contractors and buyers	2,508	1,557
Intangible assets (at residual value)	1,648	1,470
Bank of Russia correspondent accounts	1,585	2,072
Bank of Russia funds contributed to the authorised capitals of organisations	1,510	10
Profit tax advance payments	151	150
Other	9,268	7,257
Provisions	(91,024)	(94,484)
<b>Subtotal other assets</b>	<b>1,455,595</b>	<b>935,901</b>
<b>Total</b>	<b>1,535,664</b>	<b>1,013,444</b>

The table below shows the movement of fixed assets:

(millions of rubles)

	2017	2016
<b>Fixed asset value net of accrued depreciation</b>		
Balance as of 1 January	181,838	173,098
Receipt	14,294	13,483
Retirement	(11,651)	(4,743)
<b>Balance as of 31 December</b>	<b>184,481</b>	<b>181,838</b>
<b>Accrued depreciation</b>		
Balance as of 1 January	104,295	97,906
Depreciation allowances due to expenses	10,279	10,929
Depreciation allowances due to other sources	298	16
Accrued depreciation of retired fixed assets	(10,460)	(4,556)
<b>Balance as of 31 December</b>	<b>104,412</b>	<b>104,295</b>
<b>Fixed asset residual value as of 31 December</b>	<b>80,069</b>	<b>77,543</b>

Fixed asset structure and value net of accrued depreciation:

(millions of rubles)

	2017	2016
Buildings and other facilities	69,071	65,290
Equipment	55,472	54,385
Computers, office equipment and furniture	30,975	33,120
IT and data processing systems	25,122	25,025
Transport vehicles	2,821	2,975
Other	1,020	1,043
<b>Total</b>	<b>184,481</b>	<b>181,838</b>

The increase in the item 'Fixed assets' was largely due to the category *Buildings and other facilities* in connection with the commissioning of newly constructed (reconstructed) buildings and other facilities of the Bank of Russia.

The item *Compensation from the Bank of Russia to the Pension Fund of the Russian Federation for shortfall in pension savings* reflects claims acquired by the Bank of Russia as a result of the transfer of funds determined in accordance with Parts 1 and 2 of Article 6 of Federal Law No. 422-FZ, dated 28 December 2013, to the Pension Fund of the Russian Federation, as well as the indemnity reserve funds and pension savings funds of insured persons who are entitled to receive a fixed-term pension payment, formed as of the cancellation date of the licences of the non-governmental pension funds, in fulfilment by the Pension Fund of the Russian Federation of its obligations under compulsory pension insurance agreements.

The decrease in that item was due to the receipt of funds for the satisfaction of claims acquired by the Bank of Russia as a result of funds transfer to the Pension Fund of the Russian Federation.

The item *Bank of Russia claims on credit institutions with revoked banking licences* includes the following monetary claims of the Bank of Russia on credit institutions with revoked banking licences, listed in the register of creditors' claims and subject to settlement using the credit institution's property that constitutes bankruptcy assets, totalling ₴42,841 million (2016: ₴33,553 million):

- claims arising under restructured loans initially provided as unsecured loans, totalling ₴30,384 million (2016: ₴30,384 million);
- claims on credit institutions that were the issuers of debt instruments acquired by the Bank of Russia, totalling ₴6,780 million (2016: ₴71 million);
- claims arising under secured loans, totalling ₴4,938 million (2016: ₴0 million);
- claims arising under reinstated debt owed to the Bank of Russia on unsecured loans pursuant to the ruling of the Arbitration Court of Moscow, totalling ₴530 million (2016: ₴530 million);
- claims resulting from the termination of obligations under repo transactions pursuant to clearing rules or from the settlement of outstanding obligations under repo transactions, totalling ₴209 million (2016: ₴9 million).

Due to the liquidation of a credit institution which received an unsecured loan in 2008, the claim under that debt in the amount of ₴2,559 was written off in 2017 using Bank of Russia provisions made earlier.

The item *Construction in progress* increased mainly due to the construction and reconstruction of the Bank of Russia's administrative buildings.

The item *Bank of Russia correspondent accounts* reflects the balances in foreign currencies in Bank of Russia correspondent accounts at resident banks.

The item *Bank of Russia funds contributed to the authorised capitals of organisations* reflects the funds contributed by the Bank of Russia to the authorised capital of Limited Liability Company Fund of Banking Sector Consolidation Asset Management Company (hereinafter, FBSC AMC Ltd.) in the amount of ₴1,500 million (2016: ₴0 million) and to the authorised capital of the Interstate Bank in the amount of ₴10 million (2016: ₴10 million) (Statement of Bank of Russia Management of Securities and Stakeholdings in Organisations Constituting Bank of Russia Property).

The item *Profit tax advance payments* reflects profit tax advance payments made in 2017.

The item *Other* mostly reflects expenses related to the purchase and acquisition of software products, licences and certificates, totalling ₹6,928 million (2016: ₹4,547 million), inventories totalling ₹1,029 million (2016: ₹1,094 million) and shares of a closed unit investment fund which the Bank of Russia retained pursuant to the out-of-court agreement to recover collateral in partial repayment of debt on a loan restructured in 2010 in the amount of ₹837 million (2016: ₹837 million).

The item *Provisions* reflects provisions totalling ₹91,024 million (2016: ₹94,484 million), which have mostly been created for:

- claims acquired by the Bank of Russia as a result of the transfer of funds in an amount determined in accordance with Parts 1 and 2 of Article 6 of Federal Law No. 422-FZ, dated 28 December 2013, to the Pension Fund of the Russian Federation, as well as the indemnity reserve funds and pension savings funds of insured persons which are entitled to receive a fixed-term pension payment, formed as of the cancellation date of a licence, in fulfilment by the Pension Fund of the Russian Federation of obligations under compulsory pension insurance agreements, totalling ₹47,020 million (2016: ₹60,094 million);
- Bank of Russia claims on credit institutions whose banking licences have been revoked, totalling ₹42,841 million (2016: ₹33,553 million);
- other assets, totalling ₹1,163 million (2016: ₹837 million).

## 10. Cash in circulation

The increase in the item *Cash in circulation* was due to the growing demand for cash funds among households and businesses.

## 11. Funds in accounts with the Bank of Russia

(millions of rubles)

	2017	2016
Federal government funds, of which:	4,565,692	4,662,005
– Reserve Fund	0	973,285
– National Wealth Fund	2,204,449	2,797,267
Deposits taken by the Bank of Russia from resident banks	2,373,221	785,635
Credit institutions' funds in correspondent accounts	1,932,968	1,822,914
Required reserves deposited with the Bank of Russia	506,152	484,702
Funds of federal or public organisations	504,227	1,080,342
Regional and local budget funds	442,574	401,740
Other funds taken from nonresidents	334,718	226,279
Government and other extra-budgetary funds	244,230	358,735
Other	99,372	163,136
<b>Total</b>	<b>11,003,154</b>	<b>9,985,488</b>

The Bank of Russia opened foreign currency accounts to record Reserve Fund and National Wealth Fund assets based on bank account agreements with the Federal Treasury in accordance with the Budget Code and federal government resolutions.

In December 2017, in accordance with Federal Law No. 415-FZ, dated 19 December 2016, 'On the Federal Budget for 2017 and the Plan Period of 2018 and 2019' and Ministry of Finance of the Russian Federation Order No. 1109, dated 7 December 2017, the foreign currency balance of the Reserve Fund in accounts with the Bank

of Russia was used in full to cover the federal budget deficit; therefore, there was no Reserve Fund balance as of 31 December 2017.

According to Federal Law No. 262-FZ, dated 29 July 2017, 'On Amending the Budget Code of the Russian Federation with Regard to the Use of Oil and Gas Revenues of the Federal Budget', the Reserve Fund was liquidated on 1 February 2018.

The item *Deposits taken by the Bank of Russia from resident banks* is comprised of funds raised from resident banks in Russian rubles, including deposits of banks in whose authorised capital the government holds stakes from 50% to 100%, inclusive, totalling ₹989,459 million (2016: ₹198,090 million).

The change in the item *Deposits taken by the Bank of Russia from resident banks* was caused by an increase in the volume of the said operations due to the structural liquidity surplus.

Increase in the item *Required reserves deposited with the Bank of Russia* is associated with the decisions made by the Bank of Russia in late 2016 to update the scope of reservable liabilities of credit institutions and to establish required reserve ratios for their long-term liabilities. These decisions came into force in the beginning of 2017.

The item *Funds of federal or public organisations* includes the balances of the accounts of federal or public organisations.

Decrease in this item is mainly down to reduced balances in the accounts of federal or public financial institutions.

The item *Other funds taken from nonresidents* is comprised of funds raised from nonresident banks in transactions to sell foreign securities with an obligation to repurchase (repo transactions) amounting to ₹332,082 million (2016: ₹226,279 million), including accrued interest under these transactions, as well as funds to be returned to the counterparty under repo transactions with outstanding settlements totalling ₹12,636 million (2016: ₹0 million) (Note 5).

The Bank of Russia concludes repos to bridge cash gaps and to raise funds under repo transactions and simultaneously place the corresponding amount of money at a higher rate on a deposit account, a nostro account with a correspondent bank, or under a reverse repo transaction, including one concluded with the same counterparty (securities lending collateralised by other securities).

Securities lending takes the form of repos and reverse repos that are simultaneously concluded with counterparty for the same amount and for the same tenor. In a repo transaction, the counterparty receives securities it is interested in; in a reverse repo transaction, the Bank of Russia places funds obtained in a repo transaction at a higher interest rate and receives other securities as collateral. The amount of funds raised in repos opened by the end of the year and placed in reverse repos, concluded with one and the same counterparty, totals ₹76,383 million (2016: ₹71,858 million). Foreign securities provided in these transactions have a total fair value of ₹76,199 million (2016: ₹71,821 million) (Note 5). Foreign securities received in these transaction as collateral have a total fair value of ₹76,978 million (2016: ₹71,946 million) (Note 27).

Foreign securities provided in repos with a total fair value of ₹321,663 million (2016: ₹226,127 million), as well as foreign securities to be returned under repos with outstanding settlements with a total fair value of ₹12,639 million, are accounted for as foreign securities in the item *Foreign securities* (Note 5).

Increase in the balance of the item *Other funds taken from nonresidents* is mainly down to increase in the volume of funds raised by the Bank of Russia in transactions to sell securities with an obligation to repurchase at the end of the year.

The item *Other* includes deposit taken from the DIA, balances in the accounts of non-governmental organisations and other clients of the Bank of Russia, and funds in the correspondent accounts of the Central Bank of the Republic of Armenia, the National Bank of the Kyrgyz Republic, the National Bank of the Republic of Belarus and the National Bank of Kazakhstan, which were opened with the Bank of Russia within the framework of the Eurasian Economic Union, totalling ₹563 million (2016: ₹445 million).

## 12. Float

The reduction in the balance of this item results from the decline in funds transfer operations made in the Bank of Russia payment system in the last days of 2017.

## 13. Securities issued

(millions of rubles)

	2017	2016
Bank of Russia coupon bonds	356,777	0
<b>Total</b>	<b>356,777</b>	<b>0</b>

In 2017, the Bank of Russia started placement of coupon OBRs to reduce the structural liquidity surplus in the banking sector. Coupon OBRs are issued for three months and have a floating coupon rate tied to the Bank of Russia key rate. Coupon OBRs were placed at a price not lower than the nominal value of bonds.

The item *Bank of Russia coupon bonds* shows the value of coupon OBRs placed as of 31 December 2017, including interest expenses accrued.

## 14. Liabilities to the IMF

(millions of rubles)

	2017	2016
Balances in IMF Number 1 and 2 Accounts with the Bank of Russia	943,125	931,650
Liabilities on the funds provided to the Russian Federation as a result of the SDR allocation by the IMF	464,693	461,201
<b>Total</b>	<b>1,407,818</b>	<b>1,392,851</b>

Change in the item *Balances of IMF Number 1 and 2 Accounts with the Bank of Russia* was mostly caused by the increase in the balance of the IMF Number 1 Account due to revaluation brought about by growth in the IMF's SDR to ruble exchange rate and by repayments by borrower states of IMF loans granted earlier using quota resources of the Fund as part of the Financial Transactions Plan. When repaying part of the said funds, IMF borrower states transferred US dollars to the Bank of Russia, which led to a change in the structure of the Russian Federation's quota, namely, a reduction in the reserve tranche position equivalent to the amount of funds received and an increase in the quota paid in rubles. The increase of the part of quota paid in rubles leads to a proportional increase in the balance of IMF Number 1 Account.

The obligations on the funds provided to the Russian Federation under an SDR allocation at the IMF did not change in 2017 in SDR terms, totalling SDR5,671.8 million or P464,138 million (2016: SDR5,671.8 million or P461,036 million), net of accrued interest. Increase in the ruble equivalent of the obligation resulted from the growth of the official exchange rate of the SDR against the ruble.

## 15. Other liabilities

	(millions of rubles)	
	2017	2016
Assets of the Bank of Russia pension fund	108,218	89,827
Other	1,089	805
Provisions	11,501	20,761
<b>Total</b>	<b>120,808</b>	<b>111,393</b>

Pursuant to the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia Board of Directors sets up a supplementary pension fund for its employees. The fund is created without forming a separate legal entity and is financed by the Bank of Russia. This takes into account the fact that Bank of Russia employees are not covered by the guarantees to which civil servants of the Russian Federation are entitled. The Bank of Russia is implementing the Pension Plan with defined payments that are open-ended (lifetime) in nature. The eligibility criteria for receiving a supplementary pension are determined by Bank of Russia regulations.

Obligations under the Bank of Russia pension fund and the fund's adequacy are subject to an annual actuarial assessment carried out by a responsible actuary. Based on the results of the actuarial assessment of the Bank of Russia's pension obligations in 2018 and in furtherance of the decisions made by the Bank of Russia Board of Directors, the Bank of Russia added ₹9,260 million to the pension fund using provisions created earlier to secure obligations to the participants in the Bank of Russia Pension Plan and ₹12,040 million using the Bank of Russia's expenses (Note 25).

The item *Other* mostly reflects the amounts of accrued taxes and duties payable to the budget and extra-budgetary funds; accrued liabilities of the Bank of Russia under economic agreements; and funds seized by pretrial inquiry and investigation authorities.

The *Provisions* item shows the following:

- provisions for the Bank of Russia's potential losses with regard to pension savings funds to be transferred by the Bank of Russia to the Pension Fund of the Russian Federation totalling ₹11,501 million (2016: ₹11,501 million) (Note 2(g));
- provisions to meet obligations to the participants in the Bank of Russia's Pension Plan totalling ₹0 million (2016: ₹9,260 million) based on the indicative assessment of pension obligations (Notes 2(g) and 24).

## 16. Capital

Due to the formation of a ₹435,308 million loss as of the end of the reporting period, no allocations were made to the Bank of Russia Reserve Fund or to the Bank of Russia Social Fund (Capital, funds, and profit allocation and the Statement of Bank of Russia Reserves and Funds).

The loss occurred as a result of:

- decrease in interest income and increase in interest expenses on loans and deposits in the domestic market (Notes 17 and 21);
- the transfer in 2017 of the Bank of Russia's income from stakeholdings in Sberbank for 2016 (Statement of Financial Performance) to the federal budget in accordance with Federal Law No. 415-FZ, dated 19 December 2016, 'On the Federal Budget for 2017 and the Plan Period of 2018 and 2019';
- increase in net expenses on provisioning (Note 24);
- increase in expenses on the negative revaluation of securities available for sale (Note 22);
- decrease in income from operations with foreign securities (Note 18).

## 17. Interest income

(millions of rubles)

	2017	2016
Interest income from securities	135,781	110,819
Interest income from ruble loans, deposits and other placements, of which:	98,599	190,785
– issued and placed under certain federal laws	32,500	32,500
Interest income from foreign currency loans, deposits and other placements	30,380	40,792
Interest income from Bank of Russia claims on the IMF	2,866	510
Other, of which:	14,456	12,138
– issued and placed under certain federal laws	11,928	10,789
<b>Total</b>	<b>282,082</b>	<b>355,044</b>

The item *Interest income from securities* consists of ₱112,681 million in interest income from foreign issuers' debt obligations (2016: ₱77,170 million) and of ₱23,100 million in interest income from Russian issuers' debt obligations (2016: ₱33,649 million).

The item *Interest income from ruble loans, deposits and other placements* reflects interest income from Bank of Russia ruble-denominated loans issued against the pledge of receivables on loan agreements or guarantees, securities from the Lombard List, and mortgage certificates, interest income on funds provided to resident banks under repo transactions in rubles, interest income from other ruble funds provided to the People's Bank of China through swaps under the National Currency Swap Agreement, as well as interest income from deposits placed by the Bank of Russia with credit institutions as part of bankruptcy prevention measures at credit institutions using the money of the Fund of Banking Sector Consolidation.

The item *Interest income from ruble loans, deposits, and other placements, of which: issued and placed under certain federal laws* reflects interest income from subordinated loans provided to Sberbank (Note 6).

The item *Interest income from foreign currency loans, deposits and other placements* reflects interest from Bank of Russia placements with nonresident banks, including interest from funds provided in repo transactions with foreign securities, from deposits which were placed with nonresident banks in foreign currency, as well as interest income from funds provided to resident banks through foreign currency repos.

The item *Interest income from Bank of Russia claims on the IMF* reflects interest on the funds in the Russian Federation's account with the SDR Department, on loans issued under the New Arrangements to Borrow and the amounts of remuneration on the reserve tranche position.

The item *Other* mostly includes interest income from loans extended to the DIA totalling ₱11,928 million (2016: ₱10,789 million), as well as from securities lending to nonresident banks on a reverse basis and interest income received on accounts opened with nonresident banks.

## 18. Income from securities trading

	(millions of rubles)	
	2017	2016
Income from operations with Russian debt obligations	10,905	4,178
Income from operations with foreign securities	6,290	17,653
Net income from the retirement (sale) of foreign securities available for sale	0	12,085
Net income from the retirement (sale) of Russian issuers' securities available for sale	0	5,841
Other	0	1
<b>Total</b>	<b>17,195</b>	<b>39,758</b>

The item *Income from operations with Russian debt obligations* mostly reflects income from positive revaluation, at fair value, of Russian debt obligations, which was used to offset the negative revaluation, at fair value, of corresponding issues, posted to expenses in previous years, including expenses attributable to OFZ issues transferred by the Bank of Russia to the Russian Ministry of Finance in 2017 as part of an exchange operation, totalling ₪4,256 million.

The item *Income from operations with foreign securities* includes income from the positive revaluation of foreign securities at fair value, which was used to offset negative revaluation of the respective issues posted to expenses in previous years.

## 19. Income from stakeholdings in credit institutions and other organisations

	(millions of rubles)	
	2017	2016
Income from stakeholdings in Sberbank	67,761	22,248
Income from stakeholdings in subsidiary, affiliated and other organisations	3,026	1,962
Income from stakeholdings in nonresident banks (excluding subsidiary and affiliated banks)	79	62
<b>Total</b>	<b>70,866</b>	<b>24,272</b>

The item *Income from stakeholdings in subsidiary, affiliated and other organisations* reflects income from stakeholdings in PJSC Moscow Exchange MICEX-RTS and in JSC National Payment Card System.

The item *Income from stakeholdings in nonresident banks (excluding subsidiary and affiliated banks)* reflects income from the Bank of Russia's stakeholdings in the Bank for International Settlements (Basel).

## 20. Other income

(millions of rubles)

	2017	2016
Fees for Bank of Russia services provided to customers	8,032	8,039
Net positive realised foreign currency exchange rate differences	7,207	0
Income from the sale of coins made of precious metals	547	558
Income of previous years (net of interest income) identified in the reporting year	170	79
Fines and penalties received	102	119
Other	4,808	2,323
<b>Total</b>	<b>20,866</b>	<b>11,118</b>

The item *Fees for Bank of Russia services provided to customers* consists of ₴8,001 million received in fees for settlement services provided by the Bank of Russia (2016: ₴8,008 million) and other fees totalling ₴31 million (2016: ₴31 million).

The item *Net positive realised foreign exchange differences* reflects net realised foreign exchange 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.

The item *Other* mostly reflects income totalling ₴3,077 million created in connection with the downward adjustment of interest expenses accrued on the balance of the Reserve Fund and the National Wealth Fund accounts (Note 21).

## 21. Interest expenses

(millions of rubles)

	2017	2016
Interest expenses on deposits taken from resident banks in the domestic market	92,002	39,954
Interest expenses on acquired debt obligations (premium)	21,405	19,053
Interest expenses on issued Bank of Russia debt obligations	7,253	0
Interest expenses on other foreign currency funds taken from nonresidents	3,442	390
Interest expenses on deposits taken from the state corporation	2,613	3,144
Interest expenses on Bank of Russia obligations to the IMF	2,420	423
Interest expenses on federal budget balances, of which:	1,183	39,736
– Reserve Fund balances	0	19,885
– National Wealth Fund balances	0	19,851
Other	5,745	3,368
<b>Total</b>	<b>136,063</b>	<b>106,068</b>

The item *Interest expenses on deposits taken from resident banks in the domestic market* reflects interest expenses on funds deposited by credit institutions with the Bank of Russia.

The item *Interest expenses on acquired debt obligations (premium)* reflects the premium on foreign securities where the terms of their issue do not provide for the payment of interest (coupon) income and the excess of the premium over interest (coupon) income payable on securities (net of interest (coupon) income included in the purchase price).

The item *Interest expenses on issued Bank of Russia debt obligations* reflects accrued coupon income payable, less the amount of premium.

The item *Interest expenses on other foreign currency funds taken from nonresidents* includes interest expenses on other funds taken from nonresident banks (repo transactions).

The item *Interest expenses on deposits taken from the state corporation* includes interest expenses on deposits taken from the DIA.

The item *Interest expenses on Bank of Russia obligations to the IMF* includes the interest paid and accrued on the balance of the Russian Federation's obligations to the IMF with regard to the allocated SDRs.

In 2017, interest was accrued on the balance of the Reserve Fund and the National Wealth Fund accounts in foreign currency in the amount derived from the yield of indices of government securities generated in accordance with the conditions of bank account agreements.

As of 31 December 2016, the item *Interest expenses on federal budget balances* shows interest accrued in 2016 on the balances of Reserve Fund and National Wealth Fund foreign currency accounts in accordance with the bank account agreements, including interest totalling ₴4,375 million accrued for the period from 16 to 31 December 2016 and relating to the interest period of 15 December 2016 to 15 December 2017.

In 2017, the amount of interest expenses accrued for the said interest period decreased by ₴3,077 million due to negative yield on the indices of government securities for the period of 1 January to 15 December 2017. The amount of adjustment was accounted for as part of other income of the Bank of Russia (Note 20). The amount of interest payable to the federal budget for the interest period of 15 December 2016 to 15 December 2017 was ₴1,298 million.

Because of the negative yield of indices of government securities for the period of 15 to 31 December 2017, interest expenses were not accrued to the accounts of the National Wealth Fund.

Calculation of interest in foreign currencies was terminated in connection with the use of the Reserve Fund (Note 11).

The item *Other* mainly reflects interest expenses incurred when placing funds in correspondent accounts and in deposits with nonresident banks on conditions of a negative interest rate.

## 22. Expenses on securities trading

(millions of rubles)

	2017	2016
Expenses on operations with foreign securities	43,218	26,077
Net expenses from the retirement (sale) of foreign securities available for sale	7,104	0
Net expenses from the retirement (sale) of Russian securities available for sale	1,952	0
Expenses on operations with debt obligations of Russian issuers	0	6,950
Other	243	677
<b>Total</b>	<b>52,517</b>	<b>33,704</b>

The item *Expenses on operations with foreign securities* includes the amounts of negative unrealised revaluation as of the end of 2017 with respect to securities available for sale from individual issues of foreign debt obligations posted to Bank of Russia expenses.

The items *Net expenses from the retirement (sale) of foreign securities available for sale* and *Net expenses from the retirement (sale) of Russian securities available for sale* include net expenses on the sale and revaluation, at fair value, of retired (sold) foreign securities and Russian securities, respectively.

The item *Expenses on operations with debt obligations of Russian issuers* in 2016 includes the amounts of negative unrealised revaluation as of the end of 2016 with respect to the securities available for sale from individual issues of Russian debt obligations posted to Bank of Russia expenses.

The item *Other* mainly includes expenses on fee payments to organisations supporting securities trading in the domestic market.

## 23. Cash turnover management expenses

This balance sheet item includes expenses involved in the manufacture, destruction and anti-counterfeit protection of banknotes and coins, as well as the purchase and delivery of packaging materials and accessories necessary for the processing of cash.

## 24. Net expenses (income) on the formation (from the recovery) of provisions

(millions of rubles)

	2017	2016
Increase/(decrease) in provisions for loans to and deposits with resident banks	313,095	(48,732)
Increase in provisions for funds provided to the state corporation	86,737	98,789
Increase/(decrease) in provisions for other active operations	11,847	(977)
Increase in provisions for accounts receivable	326	0
Increase in provisions to secure obligations to participants in the Bank of Russia's Pension Plan	0	9,260
(Decrease) in provisions for securities acquired from resident banks	(6)	0
(Decrease) in provisions for the Bank of Russia's compliance with Federal Law No. 422-FZ, dated 28 December 2013	(13,074)	(38,158)
(Decrease)/increase in provisions for other funds placed with resident banks (in repos)	(13,306)	9,467
<b>Total</b>	<b>385,619</b>	<b>29,649</b>

The increase in provisions for loans to and deposits with resident banks is mainly associated with the increase in total amount of deposits placed by the Bank of Russia in the course of implementing bankruptcy prevention measures using the funds of the FBSC (Note 6).

The increase in provisions for funds provided to the DIA is linked to the increase in the amount of funds provided by the Bank of Russia to the DIA to implement bankruptcy prevention measures at banks, as well as to the issue of loans to ensure the financial sustainability of the deposit insurance system and to fund compensation payments on deposits (Note 6).

The increase in provisions for other active operations is mainly associated with the creation of provisions for the outstanding amounts of credit institutions with revoked banking licences (Note 9).

The decrease in provisions to secure the Bank of Russia's compliance with Federal Law No. 422-FZ, dated 28 December 2013, in connection with the Bank of Russia's receipt of cash funds from the DIA as a result of non-governmental pension funds' fulfilment of Bank of Russia claims in accordance with Part 6 of Article 23 of Federal Law No. 422-FZ, dated 28 December 2013 (Note 9).

The decrease in provisions for other funds placed with resident banks (in repos) resulted from the decline in total outstanding amounts (Note 6).

## 25. Other operating expenses

	<i>(millions of rubles)</i>	
	<b>2017</b>	<b>2016</b>
Expenses on the replenishment of the Bank of Russia pension fund	12,040	0
Expenses on IT maintenance and logistics	10,840	10,850
Depreciation allowances	10,771	11,443
Security expenses	4,522	4,512
Expenses on the maintenance of buildings	4,085	3,749
Net negative realised differences for precious metals	2,837	4,751
Repair expenses	2,512	2,474
Expenses on the delivery of bank documents and valuables	2,050	2,166
Taxes and duties paid	1,810	2,436
Expenses involved in the use of titles to intellectual property	1,754	2,308
Postage, telegraph and telephone expenses, and expenses on renting communication lines and channels	1,431	1,688
Expenses on foreign currency operations	360	9,031
Expenses on operations with precious metals	65	69
Net negative realised foreign currency exchange rate differences	0	32,168
Other	8,582	8,130
<b>Total</b>	<b>63,659</b>	<b>95,775</b>

The Bank of Russia pension fund was replenished by the decision of the Bank of Russia Board of Directors and on the basis of the Report on the Actuarial Assessment of Bank of Russia pension obligations as of 1 January 2018 and pension expenses for 2017 in the amount of ₱12,040 million on account of Bank of Russia expenses (Note 15).

The item *Net negative realised differences for precious metals* reflects net negative realised differences arising from the purchase (sale) of precious metals in the domestic and international financial markets.

The item *Other* mainly reflects business travel expenses, expenses related to the purchase of equipment and accessories put into operation/use, and expenses on the disposal (sale) and writing-off of Bank of Russia assets.

## 26. Personnel costs

For explanation, see the Statement of Bank of Russia Personnel Costs.

## 27. Off-balance sheet claims and obligations accounts

Claims and obligations on forward operations recorded to off-balance sheet accounts are as follows:

(millions of rubles)

	2017	2016
<b>Claims</b>		
Claims for the delivery of rubles in spot transactions	0	37,788
Claims for the delivery of foreign currency in spot transactions	258,665	60,657
Claims for the delivery of foreign currency from nonresidents in spot transactions	32,031	27,346
Claims for the delivery of foreign currency-denominated securities from nonresidents in spot transactions	3,059	54,116
Claims for the delivery of foreign currency from nonresidents in forward transactions	14,687	405,677
Unrealised (negative) exchange rate differences from the revaluation of foreign currency	258	0
<b>Total claims</b>	<b>308,700</b>	<b>585,584</b>
<b>Obligations</b>		
Obligations to deliver rubles in spot transactions	259,056	60,813
Obligations to deliver foreign currency in spot transactions	0	37,872
Obligations to deliver foreign currency to nonresidents in spot transactions	31,619	81,515
Obligations to deliver foreign currency-denominated securities to nonresidents in spot transactions	3,406	0
Obligations to deliver foreign currency to nonresidents in forward transactions	14,619	398,938
Obligations to deliver foreign currency-denominated securities to nonresidents in forward transactions	0	262
Unrealised (positive) exchange rate differences from the revaluation of foreign currency	0	6,184
<b>Total obligations</b>	<b>308,700</b>	<b>585,584</b>

Claims and obligations in spot transactions included in the items are claims and obligations on swaps executed in the domestic financial market, as well as claims and obligations on conversion transactions and securities purchase transactions executed in the international financial market.

Claims and obligations in forward transactions included in the items are claims and obligations on swaps and conversion transactions executed in the international financial market.

Other claims and obligations recorded to the off-balance sheet accounts include:

(millions of rubles)

	2017	2016
Unused limits for the provision of funds in the form of overdrafts and 'against the debt limit' loans	4,110,019	3,490,641
Unused limits to receive interbank funds in the form of overdrafts and 'against the debt limit' loans	2,353,431	2,393,178
Guarantees and sureties received	458,837	97,698
Securities accepted as collateral for funds placed	393,697	372,489
Assets accepted as collateral for funds placed, except for securities and precious metals	250,514	931,538
Unused lines of credit facilities	188,000	239,331
Securities received in reverse transactions	133,559	1,511,729
Guarantees and sureties issued	49,700	0
Settlements with the IMF related to servicing funds raised and placed	7,042	6,991
Arrears in interest payments on the principal not written off the balance sheet	3,691	2,247

#### **Unused limits for the provision of funds in the form of overdrafts and 'against the debt limit' loans**

Unused limits for the provision of funds in the form of overdrafts and 'against the debt limit' loans include:

- unused lines of Bank of Russia credit facilities to be provided under agreements to open irrevocable credit lines in the amount of ₴857,500 million (2016: ₴687,800 million);
- unused line of Bank of Russia credit facilities to be provided to the IMF under the New Arrangements to Borrow in the amount of SDR3,950 million or ₴323,213 million (2016: SDR3,665 million or ₴297,948 million)<sup>4</sup> (Note 8);
- unused line of Bank of Russia credit facilities to be provided under the bilateral credit agreement between the Bank of Russia and the IMF in the amount of \$10,000 million or ₴576,002 million (2016: \$10,000 million or ₴606,569 million);
- unused limit for the Bank of Russia to provide US dollars under the Treaty for the Establishment of a BRICS Foreign Currency Reserve Pool between the BRICS nations in the amount of \$18,000 million or ₴1,036,804 million (2016: \$18,000 million or ₴1,091,824 million);
- unused ruble limit for the execution of swaps between the Bank of Russia and the People's Bank of China under the bilateral National Currency Swap Agreement in the amount of ₴1,315,000 million (2016: ₴806,500 million) and unused limit to provide rubles under swaps that have already been concluded with the People's Bank of China in the amount of ₴1,500 million (2016: ₴0 million). These limits constitute the current maximum amount of rubles which the Bank of Russia may provide under the said Agreement. The change in the unused limit for executing swaps is caused by the increase in the maximum amount in rubles which may be provided by the Bank of Russia via swaps within the framework of the National Currency Swap Agreement<sup>5</sup> and by its use in connection with the conclusion of swaps in 2017 with the People's Bank of China and provision of rubles under the executed transactions. These funds are reflected in the item *Funds placed with nonresidents and foreign securities* (Note 5).

#### **Unused limits to receive interbank funds in the form of overdrafts and 'against the debt limit' loans**

Unused limits to receive interbank funds in the form of overdrafts and 'against the debt limit' loans include:

- unused limits for the Bank of Russia to receive US dollars under the Treaty for the Establishment of a BRICS Foreign Currency Reserve Pool between the BRICS nations, totalling \$18,000 million or ₴1,036,804 million (2016: \$18,000 million or ₴1,091,824 million);

<sup>4</sup> In 2016 and 2017, the maximum amount of obligations of the Russian Federation under the New Arrangements to Borrow did not change and totalled SDR4,440.9 million.

<sup>5</sup> In accordance with the bilateral National Currency Swap Agreement concluded in 2017, the maximum amount in rubles which the Bank of Russia may provide to the People's Bank of China under swaps is ₴1,325,000 million (as of 31 December 2016, this amount was ₴815,000 million under the National Currency Swap Agreement concluded in 2014).

- unused limit in Chinese renminbi to conclude swap transactions between the Bank of Russia and the People's Bank of China under the bilateral National Currency Swap Agreement totalling RMB148,856 million or ₱1,316,627 million (2016: RMB149,097 million or ₱1,301,354 million). This limit constitutes the current maximum amount of Chinese renminbi which the Bank of Russia may receive via swaps<sup>6</sup>. The decrease in the unused limit is caused by the increase in the amount of swaps concluded in 2017 with the People's Bank of China.

#### **Guarantees and sureties received**

Guarantees and sureties received by the Bank of Russia are predominantly sureties accepted as collateral for issued loans and deposits.

Additionally, this item includes RMB1,144 million or ₱10,118 million (2016: RMB903 million or ₱7,882 million) under the swap concluded with the People's Bank of China in the framework of the National Currency Swap Agreement.

#### **Securities accepted as collateral for funds placed**

Securities accepted as collateral for funds placed are securities accepted by the Bank of Russia from credit institutions as collateral for issued loans (Note 7) and securities accepted by the Bank of Russia as collateral in securities lending on a reverse basis in international markets.

#### **Assets accepted as collateral for funds placed, except for securities and precious metals**

Assets accepted as collateral for funds placed, except for securities and precious metals, constitute credit claims under loan agreements accepted by the Bank of Russia as collateral for loans granted to credit institutions (Note 6).

The decrease in the item is due to the drop in the volume of placed funds secured by credit claims under loan agreements.

#### **Unused lines of credit facilities**

Unused lines of credit facilities constitute Bank of Russia obligations under the lending agreement with the DIA to ensure the financial sustainability of the deposit insurance system and to fund the payment of indemnities on deposits in the amount of ₱188,000 million (2016: ₱51,000 million). As of 31 December 2016, the said item reflected Bank of Russia obligations under deposit transactions concluded in the external market which had not matured yet in the amount of ₱188,331 million. As of the end of the reporting period, there were no such transactions.

#### **Securities received in reverse transactions**

Securities included in the item *Securities received by the Bank of Russia in reverse transactions* are securities received from counterparties in repos with resident banks in the domestic market and with nonresidents in international markets.

Securities received by the Bank of Russia from counterparties in repos in the domestic market are accounted for at fair value, which, as of 31 December 2017, totals ₱3,744 million (2016: ₱1,439,783 million) (Note 6).

Securities received by the Bank of Russia from counterparties in repos in international markets are accounted for at fair value, which, as of 31 December 2017, totals ₱129,815 million (2016: ₱71,946 million); this includes the fair value of securities received in reverse repos that match repo transactions, totalling ₱76,978 million (2016: ₱71,946 million).

The decrease in this item results mainly from the drop in the volume of repos concluded in the domestic market.

#### **Guarantees and sureties issued**

Guarantees and sureties issued constitute the maximum amount of Bank of Russia contingent liabilities for paying up the authorised capital of Russian National Reinsurance Company in the amount of ₱49,700 million (2016: ₱0 million).

<sup>6</sup> In accordance with the bilateral National Currency Swap Agreement concluded in 2017, the maximum amount in Chinese renminbi which the Bank of Russia may receive from the People's Bank of China under swaps is RMB150,000 million (as of 31 December 2016, this amount was RMB150,000 million under the National Currency Swap Agreements concluded in 2014).

***Settlements with the IMF related to servicing funds raised and placed***

As an IMF member country, the Russian Federation participates in the burden-sharing mechanism for debt arrears. Under this mechanism, in order to compensate for third-party defaults on payments to the IMF, IMF borrower countries pay surcharges on the SDR interest rate, while a deduction on this rate is withheld from creditor countries. Settlements with the IMF related to servicing borrowed and placed funds represent amounts of the Russian Federation's claims on the IMF for paid interest rate surcharges and withheld interest rate deductions under the burden-sharing mechanism and total SDR86.1 million or ₹7,042 million, as of 31 December 2017 (2016: SDR85.9 million or ₹6,991 million).

***Arrears in interest payments on the principal not written off the balance sheet***

Arrears in interest payments on the principal not written off the balance sheet consist mainly of accrued interest on loans and other funds placed, provided by the Bank of Russia to credit institutions, the receipt of which is uncertain. Furthermore, the said item includes claims on credit institutions whose banking licence has been revoked as regards the accrued interest income due to the Bank of Russia, which is posted to off-balance sheet accounts.

## 28. Post-accounting date events

According to the decision of the Bank of Russia Board of Directors, in March 2018, the Bank of Russia purchased shares of B&N BANK PJSC as part of measures stipulated by the plan of the Bank of Russia's participation in the implementation of bankruptcy prevention measures and measures for the recapitalisation of the credit institution in the amount of ₹56,900 million.

In March 2018, the Bank of Russia Board of Directors made a decision to issue coupon OBRs in the amount of ₹1,200 billion at face value (Notes 2(d) and 13).

In January 2018, the Bank of Russia, as the sole founder, made a contribution to the assets of Standalone Non-profit Organisation Centre for Implementation and Development of XBRL Format in the amount of ₹7 million.

In March 2018, in pursuance of the decision of the Board of Directors, the Bank of Russia made an asset contribution to the DIA's assets in the form of monetary funds in the amount of ₹113,393 million.

In January–March 2018, the Bank of Russia received back deposits placed using the funds of the FBSC in the amount of ₹663,000 million (Note 6).

In March 2018, the Bank of Russia Board of Directors decided to create provisions in the amount of ₹11,392 million to secure obligations to participants in the Bank of Russia Pension Plan backed by the forecast pension obligations as of 1 January 2019.

## STATEMENT OF PROFIT AND ITS ALLOCATION

(millions of rubles)

	2017	2016
1 (Actual loss) / actual profit for the year, total:	(435,308)	43,745
2 of which:		
– transferred to the federal budget in accordance with Part 7 of Article 2 of Federal Law No. 415-FZ, dated 19 December 2016, 'On the Federal Budget for 2017 and the Plan Period of 2018 and 2019'	(67,761)	–
3 Taxes and duties paid from the Bank of Russia's profit under the Tax Code of the Russian Federation <sup>7</sup>	(151)	(153)
4 (Loss)/profit after the payment of taxes and duties under the Tax Code of the Russian Federation	(435,459)	43,592
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)'	–	39,233
6 Profit remaining at the disposal of the Bank of Russia, total	–	4,359
of which, allocated to:		
– Reserve Fund	–	4,185
– Social Fund	–	174

In accordance with Article 11 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia's profit is calculated at the end of the year as a difference between total income from banking operations and transactions stipulated by Article 46 of the aforementioned Federal Law, income from the stakeholdings in 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.

According to Part 7 of Article 2 of Federal Law No. 415-FZ, dated 19 December 2016, 'On the Federal Budget for 2017 and the Plan Period of 2018 and 2019', income received by the Central Bank of the Russian Federation in 2017 from stakeholdings in Sberbank for 2016 is to be transferred by the Central Bank of the Russian Federation to the federal budget by 1 August 2017. The part of the income received by the Central Bank of the Russian Federation as of 2017 year-end which is to be transferred to the federal budget shall be reduced by the amount transferred to the federal budget.

In 2017, the Bank of Russia's income and expenses were shaped amid the structural liquidity surplus of the banking sector. Taking into account the decline in the Bank of Russia's interest rates, its interest income contracted markedly compared to the previous year, whereas its interest expenses on liquidity-absorbing operations increased. In connection with measures aimed to increase the financial sustainability at credit institutions and change in the structure of Bank of Russia assets, expenses on the formation of corresponding provisions increased. The said factors, along with the transfer of income earned by the Bank of Russia from the stakeholdings in Sberbank for 2016 to the federal budget as per Federal Law No. 415-FZ, dated 19 December 2016, determined the formation of the negative financial result of the Bank of Russia's performance.

Due to a loss posted at the end of the reporting year, no allocations were made either to the Bank of Russia Social Fund or to its Reserve Fund.

<sup>7</sup> Net of the amount of overpaid advance payments totalling ₱1 million calculated after the final settlement for 2017.

# 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>333,813</b>	<b>3,324</b>	<b>1,994,484</b>	<b>49,382</b>	<b>6,260,155</b>	<b>7,966</b>	<b>8,649,124</b>
Transferred to funds from other sources	0	0	271,286	1,795	0	0	273,081
Funds used	0	(315)	0	(31,435)	(71,659)	0	(103,409)
<b>Opening balance of the year following the reporting year</b>	<b>333,813</b>	<b>3,009</b>	<b>2,265,770</b>	<b>19,742</b>	<b>6,188,496</b>	<b>7,966</b>	<b>8,818,796</b>
Transferred from reporting year profit	0	0	0	0	0	0	0
Total, inclusive of funds received as a result of reporting year profit allocation	333,813	3,009	2,265,770	19,742	6,188,496	7,966	8,818,796

Pursuant to Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', once the Annual Financial Statements have been approved by the Board of Directors, the Bank of Russia allocates to various reserves and funds its profit retained after the payment of taxes and duties under the Tax Code of the Russian Federation and after transferring a part of this profit to the federal budget. The procedure for the allocation of the profit retained by the Bank of Russia is established by the Bank of Russia Regulation 'On the Procedure for Allocating Profit Retained by the Bank of Russia'.

Pursuant to the Bank of Russia Regulation on the Bank of Russia Reserve Fund, the Bank of Russia created the Reserve Fund to ensure its stable activity for carrying out the functions assigned to it by law. The Bank of Russia Reserve Fund is formed from its profit. According to the decision by the Board of Directors, the Bank of Russia may also transfer money from other funds and reserves that are part of its capital to the Reserve Fund.

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. In 2017, the procedure for creating and using the Social Fund was governed by the Bank of Russia Regulation on the Social Fund of the Central Bank of the Russian Federation.

Due to a loss posted at the end of 2017, no allocations were made in 2018 either to the Bank of Russia Social Fund or to its Reserve Fund.

Pursuant to the Bank of Russia Accounting Policy, assets (claims) and liabilities denominated in precious metals, including precious metals in commemorative and investment coins, are entered in the books at the value of precious metals at the book prices for refined precious metals, as established by the Bank of Russia as of the date of the operation (transaction), and are revalued as book prices are changed. In 2017, positive unrealised differences exceeded the negative ones by ₺271,286 million. This excess was recorded to the balance sheet account *Accrued precious metal revaluation* as part of the Bank of Russia capital (in 2016, the negative unrealised differences exceeded the positive ones by ₺420,647 million).

Accrued foreign currency exchange rate differences result from the revaluation of assets (claims) and liabilities denominated in foreign currency, caused by changes in the official exchange rate of foreign currencies against the ruble. In 2017, the negative unrealised differences exceeded the positive ones by ₺71,659 million. This excess was written off on account of the previously accrued revaluation recorded to the balance sheet account *Accrued foreign currency exchange rate differences* as part of the Bank of Russia capital (2016: ₺3,446,902 million).

Pursuant to the Bank of Russia Accounting Policy, debt obligations categorised as *Available for sale* are subject to revaluation at the fair value of the securities. In 2017, the accrued positive revaluation of debt obligations categorised as *Available for sale* totalling ₺1,795 million was posted to the balance sheet account *Positive revaluation of securities available for sale* as part of the Bank of Russia capital (2016: ₺18,558 million). The positive revaluation of securities accrued in previous years was written off to settle the negative unrealised revaluation of securities of corresponding issue (issuer) accrued in 2017 in the total amount of ₺31,435 million (2016: ₺18,004 million).

The increase in the value of property as a result of revaluation is the revaluation of fixed assets made in compliance with the Russian Government Resolutions in 1992, 1994, 1995, 1996 and 1998.

# STATEMENT OF BANK OF RUSSIA MANAGEMENT OF SECURITIES AND STAKEHOLDINGS IN ORGANISATIONS CONSTITUTING BANK OF RUSSIA PROPERTY

## Bank of Russia investments in debt obligations

(millions of rubles)

	2017	2016
<b>Foreign issuers' debt obligations, of which:</b>		
US and Canadian issuers' debt obligations	6,827,246	5,966,832
– denominated in US dollars	6,140,604	5,451,981
– denominated in euros	3,836	0
– denominated in Canadian dollars	681,515	506,774
– denominated in Australian dollars	1,291	8,077
EU issuers' debt obligations	7,424,836	8,109,870
– denominated in US dollars	1,774,032	1,144,544
– denominated in Canadian dollars	82,880	243,230
– denominated in euros	3,623,427	5,090,770
– denominated in pounds sterling	1,870,569	1,561,534
– denominated in Australian dollars	73,928	69,792
Australian issuers' debt obligations	152,922	132,532
– denominated in Australian dollars	152,922	132,532
Chinese issuers' debt obligations	650,250	14,570
– denominated in Chinese renminbi	650,250	14,570
Debt obligations of international organisations	529,950	654,420
– denominated in US dollars	103,862	60,378
– denominated in Canadian dollars	10,167	3,848
– denominated in euros	406,664	539,436
– denominated in pounds sterling	0	38,593
– denominated in Australian dollars	9,257	12,165
<b>Subtotal</b>	<b>15,585,204</b>	<b>14,878,224</b>
<b>Russian issuers' debt obligations, of which:</b>		
Russian federal government debt obligations	218,883	311,787
– denominated in rubles	0	59,804
– denominated in US dollars	218,883	251,983
Other Russian issuers' debt obligations (excluding promissory notes) <sup>8</sup>	212,636	218,711
– denominated in rubles	212,636	218,711
Promissory notes issued by credit institutions	23	23
<b>Subtotal</b>	<b>431,542</b>	<b>530,521</b>
<b>Total</b>	<b>16,016,746</b>	<b>15,408,745</b>

<sup>8</sup> The value of securities not accounted for at fair value is indicated net of provisions created (Note 7).

Note. The Bank of Russia's investments in debt obligations comprise securities owned by the Bank of Russia, excluding those acquired in reverse transactions (including repos) and securities transferred by the Bank of Russia in reverse transactions.

The Bank of Russia's investments in debt obligations are mostly categorised under securities available for sale (excluding investments in Vnesheconombank bonds, which are categorised under securities held to maturity) (Notes 5 and 7).

Foreign issuers' debt obligations mostly consist of US Treasuries, the government bonds and bills of France, the United Kingdom, Germany, China and Canada, non-government bonds guaranteed by the governments of foreign states, and debt obligations of supranational financial institutions.

As part of its operations to manage foreign-currency assets, the Bank of Russia purchased and sold debt obligations of foreign issuers, conducted repo transactions with the said securities and provided foreign issuers' securities on a reverse basis.

The change in the balance on this item was mostly caused by the growth of the official exchange rates of the foreign currencies in which those securities were denominated against the ruble and increased Bank of Russia investments in foreign securities.

In 2017, following the settlement of outstanding obligations of Russian credit institutions under repos with the Bank of Russia, the Bank of Russia retained securities of Russian and foreign issuers. Those securities were sold by the Bank of Russia during the reporting period.

In 2017, the Bank of Russia exchanged with the Russian Ministry of Finance issues of ruble-denominated federal government debt obligations (federal government bonds, OFZs) belonging to it for more liquid issues. During 2017, the Bank of Russia sold OFZs as part of its monetary policy implementation efforts. As of the end of the reporting period, all OFZs belonging to the Bank of Russia had been sold.

Russian federal government debt obligations denominated in US dollars are external foreign-currency bonds. The decrease in the balance of this item is associated with the sale of bonds and change in the US dollar / ruble exchange rate.

Other Russian issuers' debt obligations denominated in rubles as of the end of the reporting period are bonds of Vnesheconombank.

### The Bank of Russia's investments in the authorised capitals of credit institutions and other organisations

(millions of rubles)

	2017		2016	
	Investment amount	Share in authorised capital, %	Investment amount	Share in authorised capital, %
<b>Investments in resident shares, of which:</b>	<b>560,534</b>		<b>104,334</b>	
Public Joint-stock Company Bank Financial Corporation Otkritie, Bank FC Otkritie PJSC, Moscow	456,200	over 99.90	–	–
Sberbank of Russia, Sberbank, Moscow	72,938	50.00% + 1 voting share	72,938	50.00% + 1 voting share
Joint-stock Company Russian National Reinsurance Company, JSC RNRC, Moscow	21,300	100	21,300	100
Public Joint-stock Company Moscow Exchange MICEX-RTS, Moscow Exchange, Moscow	5,793	11.78	5,793	11.77
National Payment Card System Joint-stock Company, NPCS JSC, Moscow	4,300	100	4,300	100
Stock Company Saint Petersburg Currency Exchange, SPCEX SC, Saint Petersburg	3	8.90	3	8.90
<b>Investments in nonresident shares, of which:</b>	<b>327</b>		<b>327</b>	
Bank for International Settlements, Basel	326	0.57	326	0.57
Society for Worldwide Interbank Financial Telecommunications (SWIFT), Belgium	1	0.006	1	0.006

The Bank of Russia holds stakes in the capital of credit institutions and other organisations pursuant to Articles 8, 9, 75 and 76.10 of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)', Parts 1 and 2 of Article 30<sup>2</sup> of Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System', and Part 1 of Article 13<sup>1</sup> of Law of the Russian Federation No. 4015-1, dated 27 November 1992, 'On the Organisation of Insurance Business in the Russian Federation'.

The increase in the item *Investment in resident shares* was caused by the Bank of Russia's acquisition of the shares of Bank FC Otkritie PJSC as part of measures under the approved plan for the Bank of Russia's participation in the implementation of bankruptcy prevention measures in that institution. The initial value of the shares of Bank FC Otkritie PJSC was determined, inter alia, with due regard for the need to cover the negative difference between the value of Bank FC Otkritie PJSC's assets and liabilities and provide financial aid to PJSC Rosgosstrakh Insurance Company and non-governmental pension funds within the banking group. As of the end of the reporting period, the Bank of Russia placed the shares of Bank FC Otkritie PJSC in trust with FBSC AMC Ltd. The trustee may only sell the said securities with the Bank of Russia's consent. The Bank of Russia plans to sell those shares to a market investor following the implementation of bankruptcy prevention measures in this credit institution.

In 2017, the stakeholdings of the Bank of Russia in PJSC Moscow Exchange increased due to the decrease of its authorised capital following the redemption of shares repurchased by PJSC Moscow Exchange in accordance with the decision made by the annual General Meeting of Shareholders of PJSC Moscow Exchange, dated 27 April 2017.

Furthermore, in 2017, to implement measures for the financial rehabilitation of credit institutions in accordance with Article 76.10 of Federal Law No. 86-FZ, the Bank of Russia set up FBSC AMC Ltd. with a 100% stakeholding. The Bank of Russia reflects investments in the authorised capital of FBSC AMC Ltd. in its balance sheet in the amount of ₱1,500 million (Note 9).

The Bank of Russia also reflects in its balance sheet the Russian Federation's stakeholdings in international financial institutions: the quota of the Russian Federation in the International Monetary Fund (IMF) in the amount of SDR12,903.7 million, which is 2.71% of the total quotas (capital) of the IMF and 2.59% of the total votes of IMF member states, as well as investments of the Russian Federation in the authorised capital of the Interstate Bank in the amount of ₱10 million, which is 50% of its authorised capital and 50% of the total votes of Interstate Bank member states.

## STATEMENT OF THE VOLUME OF BANK OF RUSSIA SECURITIES TRADING ON ORGANISED TRADING VENUES

(millions of rubles)

Trade organiser	Volume of Bank of Russia own securities trading (including repos)		Volume of Bank of Russia securities trading on the instruction of its customers		Volume of Bank of Russia sales of collateral under Lombard loans and repos	
	2017	2016	2017	2016	2017	2016
Public Joint-Stock Company Moscow Exchange MICEX-RTS, PJSC Moscow Exchange, Moscow	36,997,962	55,192,633	1,704,914	1,146,383	0	0
Joint-Stock Company Saint Petersburg Currency Exchange, JSC SPCEX, Saint Petersburg	0	0	0	0	0	0
	<b>36,997,962</b>	<b>55,192,633</b>	<b>1,704,914</b>	<b>1,146,383</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 over the year in the foreign currency is given at the exchange rate as of 31 December 2017. These operations amounted to \$31,300 million in their respective settlement currency (2016: \$143,416 million);
- placement (sale) of securities issued by the Bank of Russia (Bank of Russia bonds);
- sale of federal government bonds from the Bank of Russia's portfolio;
- sale of securities retained by the Bank of Russia in 2016 and 2017 under repos concluded with Russian credit institutions under which obligations were terminated as a result of the settlement of the outstanding obligations of credit institutions under the second legs of repos.

The column *Volume of Bank of Russia securities trading on the instruction of its customers* shows summary data on the sale of Russian government securities by the Bank of Russia on the instructions of the Russian Ministry of Finance under an agency agreement.

## STATEMENT OF BANK OF RUSSIA PERSONNEL COSTS

(millions of rubles)

	2017	2016
Compensation	89,535	90,225
Other benefits to Bank of Russia personnel	1,403	1,321
Charges on compensation and other benefits	20,014	19,955
<b>Total Bank of Russia personnel costs</b>	<b>110,952</b>	<b>111,501</b>

The Bank of Russia's personnel costs reduced by ₹549 million or 0.5%, compared to 2016, with compensation-related expenses down by ₹690 million or 0.8%, and other benefits to Bank of Russia personnel up by ₹82 million or 6.2%. Charges on compensation and other benefits grew by ₹59 million or 0.3%.

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, monthly and year-end bonuses, regular paid leaves and study leaves, one-off allowances for annual paid leaves, payments of regional coefficients and interest allowances for those working in the Extreme North and similar regions in accordance with the legislation of the Russian Federation, and one-off allowances upon old age retirement.

Other benefits to Bank of Russia personnel under applicable legislation of the Russian Federation and Bank of Russia regulations include: financial support to offset spending on improving living conditions, emergency allowances, benefits for employees living (working) in regions affected by radiation following the Chernobyl nuclear power plant disaster, benefits for employees taking parental leave until their child reaches the age of three, allowances for temporary disability due to a disease or injury paid for the first three days of disability, compensation for holiday travel expenses for employees working in the Extreme North and similar regions and their non-working family members for the payment of their round-trip tickets, and for the expenses incurred in moving to a new place of residence in a different region upon the expiration of their employment agreement or due to retirement, compensation for the expenses of employees and their family members to move to work at another Bank of Russia establishment located in another region, and other benefits.

The average number of Bank of Russia employees fell by 2,507 persons in 2017 (4.7%) to 51,127. The decrease resulted from measures taken to streamline the Bank of Russia's structure.

The average monthly income per one employee was ₹148,222 in 2017 (2016: ₹142,239).

Insurance contributions constituted 21.8% of total compensation and other benefit-related expenses (2016: 21.6%). Charges to the Social Insurance Fund for compulsory social insurance against on-the-job accidents and occupational disease were made at the fixed rate of 0.2%.

Expenses for the compensation of key management personnel (members of the Bank of Russia Board of Directors, the Deputy Governors of the Bank of Russia and the Chief Auditor of the Bank of Russia – 19 persons) amounted to ₹451.9 million or 0.5% of the total Bank of Russia expenses on compensation and other personnel benefits, including ₹69.9 million in year-end bonuses for 2016 (2016: 19 persons, ₹405.3 million or 0.4%, including ₹93.8 million in year-end bonuses for 2015).

## STATEMENT OF CAPITAL INVESTMENT BUDGET PERFORMANCE

(millions of rubles)

Capital investment	Approved for 2017	Actual amount in 2017	Actual amount in 2016
<b>Capital investment</b>	<b>28,334</b>	<b>22,366</b>	<b>9,531</b>
Capital investment in fixed assets, of which:	26,067	20,830	8,698
– capital investment in information technology	15,566	11,091	5,532
– capital investment in construction (reconstruction) and logistics (except cash turnover management)	8,659	8,050	1,215
– capital investment relating to security and protection of Bank of Russia facilities	988	966	773
– capital investment relating to cash turnover management	854	723	1,178
Capital investment in intangible assets	2,267	1,536	833
Centralised capital investment reserve	–	–	–
Memo item:			
<b>Other capital expenses</b>	<b>3,810</b>	<b>2,711</b>	<b>1,809</b>
<b>Total capital expenses</b>	<b>32,144</b>	<b>25,077</b>	<b>11,340</b>

In 2017, the capital expenses of the Bank of Russia increased by ₱12,835 million.

Investment in information technology made up the largest part of capital investment (49.6%). The share of capital investment in construction (reconstruction) and logistics was 36.0%, capital investment in intangible assets was 6.9%, capital investment in the security and protection of Bank of Russia facilities was 4.3% and capital investment in cash turnover management was 3.2%.

Capital investment in information technology grew by ₱5,559 million. The growth of expenses results from the implementation of the Bank of Russia IT Strategy for 2016–2020, which envisaged the creation of the core infrastructure of the Bank of Russia Private Cloud, engineering support systems for data processing centres, and Unified Data Warehouse of the Unified Information System for supporting Bank of Russia activities. Funds were also allocated to set up the transport gateway of the centralised system for the exchange of payment and financial messages with Bank of Russia customers; to support and develop the existing information, computing and analytical systems of the Bank of Russia, and automated systems operating in the isolated Internet segment of the Bank of Russia; to upgrade the computing infrastructure of corporate and applied transport systems, and the unified banking telecommunication network; and to ensure information security and protection, including via the creation of an automated system for the Financial Sector Computer Emergency Response Team (FinCERT) of the Bank of Russia.

Capital investment in construction (reconstruction) and logistics (except cash turnover management) increased by ₱6,835 million. Growth in expenses is associated with entering in Bank of Russia books of a property complex in Moscow. Furthermore, the funds were used to build (reconstruct) office buildings and other facilities; to set up engineering and technical systems and installations for building operation and maintenance; to purchase replacement equipment, tools and furniture; and to purchase transport vehicles.

Capital investment relating to the security and protection of Bank of Russia facilities increased by ₱193 million. The funds were used to establish new and develop existing fire alarm systems, video security and surveillance systems, control and access systems, and to replace expired and obsolete facilities.

Capital investment in cash turnover management decreased by ₱455 million. The funds were used to install in Bank of Russia offices modular complexes based on high-performance banknote processing machines, to purchase cash-office hardware and technological equipment, and to create (upgrade) video systems for the surveillance and recording of operations with valuables.

In 2017, capital investment in intangible assets grew by ₺703 million. The expenses grew because of the acquisition and development of software products (constituting the intellectual property of the Bank of Russia) to support the functioning of applied platforms created as part of the implementation of the Bank of Russia IT Strategy for 2016–2020.

The item *Other capital expenses* includes expenses for the purchase of rights to use certain software products to create target IT infrastructure of the Bank of Russia, develop the system and technical infrastructure of the information and telecommunications system, and support the functioning of the existing automated systems and applied complexes, and also for the acquisition of licences, certificates and permits that are valid for more than one year. Compared to 2016, these expenses increased by ₺902 million.

## AUDITORS' REPORTS



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### Auditor's report of independent auditors

To the management of the Central Bank of the Russian Federation

#### **Opinion**

We have audited the Annual Financial Statements of the Central Bank of the Russian Federation (hereinafter, the Bank of Russia) for the period from 1 January to 31 December 2017 inclusive. Pursuant to Article 25 of Federal Law No. 86-FZ, dated 10 July 2002, *'On the Central Bank of the Russian Federation (Bank of Russia)'*, the Bank of Russia Annual Financial Statements consist of the annual balance sheet, the statement of financial performance (including the statement of profit and its allocation), the statement of Bank of Russia reserves and funds, the statement of Bank of Russia management of securities and stakeholdings in organisations constituting Bank of Russia property, the statement of Bank of Russia personnel costs, the statement of capital investment budget performance and the statement of the volume of Bank of Russia securities trading on organised trading venues (hereinafter all these statements are collectively referred to as the Annual Financial Statements).

In our opinion, the Annual Financial Statements attached hereto present, in all material aspects, a reliable picture of the Bank of Russia's financial standing as of 31 December 2017 and the results of its financial performance for 2017 in accordance with the requirements of Federal Law No. 86-FZ, dated 10 July 2002, *'On the Central Bank of the Russian Federation (Bank of Russia)'*, Federal Law No. 402-FZ, dated 6 December 2011, *'On Accounting'*, Bank of Russia Regulation No. 567-P, dated 19 December 2016, *'On the Chart of Accounts for Accounting Purposes at the Central Bank of the Russian Federation (Bank of Russia) and the Procedure for Using it'* and Bank of Russia Regulation No. 522-P, dated 21 December 2015, *'Bank of Russia Accounting Policy for Accounting Purposes'*.

#### **Basis for expressing an opinion**

We have conducted the audit in compliance with the International Standards on Auditing (ISA). Our duties under these standards are described in the section 'The auditor's responsibility for the audit of the Annual Financial Statements' of our report below. We are independent of the Bank of Russia in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (the IESBA Code of Ethics) and ethical requirements applicable to our audit of the annual financial statements in the Russian Federation, and we have discharged other ethical duties in accordance with these requirements and the IESBA Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to serve as the grounds for expressing our opinion.



### **Critical audit matters**

Critical audit matters are the issues which, according to our professional judgement, were the most significant for our audit of the Annual Financial Statements for the current period. These matters were considered in the context of our audit of the Annual Financial Statements as a whole and in the course of preparing our opinion on these statements, and we do not express a separate opinion on these matters. In respect of the matter mentioned below, our description of how it was reviewed in the course of our audit is given in this context.

We have performed the duties described in the section 'The auditor's responsibility for the audit of the Annual Financial Statements' hereof, inter alia, in respect of the said matter. Accordingly, our audit included the implementation of procedures developed in response to our assessment of the risks of material misstatement in the Annual Financial Statements. The results of our audit procedures, including procedures performed while examining the matter below, serve as basis for expressing our auditor's opinion on the Annual Financial Statements attached.

<b>Critical audit matter</b>	<b>How the following critical matter was examined in the course of our audit</b>
<p><b><i>Provisions for credit and other similar claims</i></b></p> <p>In performing its functions in accordance with the laws of the Russian Federation, the Bank of Russia incurs claims which bear the risk of possible financial losses. Such claims specifically include loans and deposits provided by the Bank of Russia, funds placed by the Bank of Russia in repo operations and investments in securities held to maturity.</p> <p>The Bank of Russia assesses the risk of possible financial losses on these claims and creates provisions to cover this risk on an individual or on a portfolio basis. For the purpose of assessing individual provisions, the Bank of Russia determines the quality category of each exposure based on the assessment of a borrower's financial standing and quality of its debt servicing.</p> <p>Due to the considerable amount of credit and other similar claims and the subjectivity of judgement used for assessing provisions, this was one of the critical audit matters.</p>	<p>Our audit procedures included analysis of the methods used by the Bank of Russia to assess borrowers' financial position, review of the judgement used by the Bank of Russia's management when assessing their financial position and determining the quality category and the amount of provisions, as well as the analysis of credit claims' conformity to the criteria for their attributing to homogeneous credit portfolios and verification of the calculation of provisions for such portfolios.</p> <p>We examined the information on provisions for credit and other similar claims disclosed in Notes 6 and 7 to the Bank of Russia's Annual Financial Statements.</p>



### **Other matters**

In accordance with Article 25 of Federal Law No. 86-FZ, dated 10 July 2002, '*On the Central Bank of the Russian Federation (Bank of Russia)*', the reliability of the Bank of Russia's accounts and operations to which access is limited pursuant to Russian Federation Law No. 5485-1, dated 21 July 1993, '*On State Secrecy*' (hereinafter, the Russian Federation Law '*On State Secrecy*'), which have been included in the items of the annual balance sheet and the statement of financial performance, has been confirmed by the Accounts Chamber of the Russian Federation in its Statement of 25 April 2018 as a result of the examination of the accounts and operations of the Central Bank of the Russian Federation (Bank of Russia) and also data covered by the Russian Federation Law '*On State Secrecy*' for the year 2017.

The audit of the Bank of Russia's Annual Financial Statements for the year 2016 was performed by other auditors who expressed an unqualified auditor opinion on these statements on 28 April 2017. The report of the other auditors contained the section '*Other information*', in which they reported that the Accounts Chamber of the Russian Federation had confirmed the reliability of data to which access was limited in pursuance of the Russian Federation Law '*On State Secrecy*'.

### **Other information included in the Bank of Russia's Annual Report for 2017**

Other information includes information contained in the Bank of Russia's Annual Report for the year 2017 but does not include the Annual Financial Statements and our auditor's report on them. Responsibility for other information shall be borne by the management.

Our opinion on the Annual Financial Statements does not cover other information, and we do not provide a conclusion expressing our confidence in any form in respect of such information.

In connection with our auditing of the Annual Financial Statements, our duty consists in acquainting ourselves with the other information and concurrently examining whether there are any material inconsistencies between the other information and the Annual Financial Statements or our knowledge received during the audit and whether the other information contains other material misstatements. If based on our work we arrive at the conclusion that such other information contains any material misstatements, we must report this fact. We have not discovered any facts which need to be reflected in our report.



### ***Responsibility of the management and persons in charge of corporate governance for the Annual Financial Statements***

The management of the Bank of Russia shall bear responsibility for the compilation and reliable presentation of the said Annual Financial Statements in accordance with the requirements of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)', Federal Law No. 402-FZ, dated 6 December 2011, 'On Accounting', Bank of Russia Regulation No. 567-P, dated 19 December 2016, 'On the Chart of Accounts for Accounting Purposes at the Central Bank of the Russian Federation (Bank of Russia) and the Procedure for Using it' and Bank of Russia Regulation No. 522-P, dated 21 December 2015, 'Bank of Russia Accounting Policy for Accounting Purposes', and also for the internal control system which the Bank of Russia's management considers necessary for the compilation of the Annual Financial Statements without any material misstatement as a result of malpractice or errors.

When preparing the Annual Financial Statements, the management shall be responsible for assessing the ability of the Bank of Russia to continue as a going concern, for disclosing information pertaining to going concern issues, when necessary, and for compiling the statements based on the going concern assumption.

Persons in charge of corporate governance shall be responsible for supervising the process of drawing up the Bank of Russia's Annual Financial Statements.

### ***The auditor's responsibility for the audit of the Annual Financial Statements***

Our goals consist in obtaining reasonable confidence that the Annual Financial Statements as a whole do not contain material misstatements due to malpractice or errors and in issuing the auditor's report with our opinion. Reasonable confidence constitutes a high level of certainty but does not guarantee that an audit performed in accordance with the International Standards on Auditing will always reveal material misstatements, if these exist. Misstatements may result from malpractice or errors and are considered material if it may be reasonably assumed that they could influence, individually or in aggregate, users' economic decisions made on the basis of these Annual Financial Statements.



In the course of an audit performed in accordance with the International Standards on Auditing we apply professional judgement and retain professional scepticism throughout the audit. Furthermore, we perform the following:

- we identify and assess the risks of material misstatement of the Annual Financial Statements as a result of malpractice or errors; develop and carry out audit procedures in response to these risks; and obtain audit evidence which is sufficient and adequate to serve as grounds for expressing our opinion. The risk of failure to discover material misstatement as a result of malpractice is higher than the risk of failure to discover material misstatement as a result of errors because malpractice may include conspiracy, falsification, deliberate omission, distorted presentation of information or circumvention of the internal control system;
- we obtain an understanding of the internal control system which is important for the audit in order to develop audit procedures corresponding to the circumstances, but not for the purpose of expressing our opinion on the effectiveness of the Bank of Russia's internal control system;
- we evaluate the appropriateness of applicable accounting policies and the soundness of accounting estimates made by the management and the disclosure of respective information;
- we arrive at a conclusion on the appropriateness of the going concern assumption made by the management and, based on the obtained audit evidence, a conclusion on whether there is material uncertainty in connection with events or conditions which could give rise to significant doubts as to the Bank of Russia's ability to continue as a going concern. If we arrive at a conclusion that there is material uncertainty, we must draw attention in our audit report to the respective disclosure of information in the Annual Financial Statements or, if such disclosure of information is improper, modify our opinion. Our findings are based on the audit evidence received before the date of our audit report;
- we evaluate the presentation of the Annual Financial Statements as a whole, their structure and contents, including information disclosure, and whether the Annual Financial Statements represent the underlying operations and events in such a way as to ensure their reliable presentation.

We maintain information exchange with the Bank of Russia's management and communicate to them, among other things, information on the scheduled scope and timing of the audit and on material comments based on the audit findings, inter alia, on considerable deficiencies in the internal control system, should we discover any in the course of the audit.

We also submit to the Bank of Russia's management a statement that we have complied with all relevant ethical requirements related to independence issues and informed them of all mutual relationships and other matters which could be reasonably considered as influencing the auditor's independence and, if necessary, of appropriate precautions.



Among the issues which we have brought to the attention of the Bank of Russia's management, we determine the issues which were the most significant for the audit of the Annual Financial Statements for the current period and which, therefore, are critical audit matters. We describe these issues in our audit report, except when public disclosure of information on these issues is prohibited by law or a specific regulation, or when, in exceedingly rare cases, we arrive at the conclusion that information on a certain issue should not be included in our report, as it may be reasonably assumed that the negative consequences of such disclosure would exceed its public benefit.

The executives charged with the conduct of audit as a result of which this auditor's report of independent auditors has been released are D.Ye. Vainstein and N.A. Kozlova.

D.Ye. Vainstein  
Partner  
Ernst & Young LLC

N.A. Kozlova  
General Director  
FinExpertiza LLC

27 April 2018

#### Information on the audited entity

Name: the Central Bank of the Russian Federation (Bank of Russia)

An entry was made in the Unified State Register of Legal Entities under No. 1037700013020 based on certificate series 77 No. 006996300, dated 10 January 2003.

Domicile: 12 Neglinnaya Street, Moscow 107016, Russia

The Bank of Russia performs its functions pursuant to the Constitution of the Russian Federation, Federal Law No. 86-FZ, dated 10 July 2002, '*On the Central Bank of the Russian Federation (Bank of Russia)*' and other federal laws.

#### Information on the auditors

Name: Ernst & Young LLC

An entry was made in the Unified State Register of Legal Entities on 5 December 2002 under the state registration number 1027739707203.

Domicile: Bldg.1, 77 Sadovnicheskaya Naberezhnaya, Moscow 115035, Russia

Ernst & Young LLC is a member of the self-regulatory organisation of auditors Russian Union of Auditors (Association) (SRO RUA). Ernst & Young LLC was included in the control copy of the register of auditors and auditing organisations under the main registration entry number 11603050648.

Name: FinExpertiza LLC

An entry was made in the Unified State Register of Legal Entities on 29 August 2002 under the state registration number 1027739127734.

Domicile: 14 Olimpiyskiy Prospekt, Moscow 129090, Russia

FinExpertiza LLC is a member of the self-regulatory organisation of auditors Russian Union of Auditors (Association) (SRO RUA). FinExpertiza LLC was included in the control copy of the register of auditors and auditing organisations under the main registration entry number 11603076287.



# THE AUDIT CHAMBER OF THE RUSSIAN FEDERATION

2 Zubovskaya St., Moscow 119991

Tel: 986-05-09, fax: 986-09-52

25 April 2018

No. 06-88/06-02

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 2017 Covered by the Federal Law 'On State Secrecy'  
(approved by the decision of the Collegium of the Accounts Chamber  
of the Russian Federation of 25 April 2018, protocol No. 19K (1240))**

The Accounts Chamber of the Russian Federation has examined the accounts and operations of the Central Bank of the Russian Federation (Bank of Russia) and the data for 2017 covered by the Russian Federation Law 'On State Secrecy' at the Bank of Russia's structural divisions and regional branches, pursuant to the provisions of Article 25 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and in accordance with the Work Plan of the Accounts Chamber of the Russian Federation for 2018.

The management of the Bank of Russia is responsible for assigning information to the category of data covered by the Russian Federation Law 'On State Secrecy', and for delineating the competence of the Accounts Chamber of the Russian Federation and the consortium of auditing organisations – Ernst & Young LLC and FinExpertiza LLC (the Auditor of the Bank of Russia Annual Financial Statements for the year 2017).

Under the applicable legislation, the Accounts Chamber's duty is to present to the Bank of Russia a statement on the results of the examination of the accounts and operations of the Central Bank of the Russian Federation (Bank of Russia) and data for 2017, covered by the Russian Federation Law 'On State Secrecy', and to express an opinion on the credibility in all material aspects of the Bank of Russia Annual Financial Statements for 2017, and on the compliance of the accounting procedure with Russian federal legislation and Bank of Russia regulations.

The Accounts Chamber of the Russian Federation has conducted an examination of Bank of Russia accounts and operations, and also data for 2017 covered by the Russian Federation Law 'On State Secrecy', in the structural divisions and regional branches of the Central Bank of the Russian Federation (Bank of Russia) in such a way as to become sufficiently convinced that the Bank of Russia's annual balance sheet (with respect to sub-accounts and off-balance sheet accounts) as of 31 December 2017 (as of 1 January 2018), and its statement of financial performance for the period from 1 January to 31 December 2017, falling within the scope of competence of the Accounts Chamber of the Russian Federation, do not contain any material errors and adequately recognise in all aspects the assets and liabilities of the Central Bank of the Russian Federation (Bank of Russia) as of 31 December 2017, and the income and expenses of the Central Bank of the Russian Federation (Bank of Russia) for the period from 1 January to 31 December 2017, in line with the Bank of Russia's accounting policy.

Having examined the Bank of Russia's accounts and operations and data for 2017, covered by the Russian Federation Law 'On State Secrecy', the Accounts Chamber of the Russian Federation confirms, within the scope of its competence, the following data:

the Bank of Russia annual balance sheet as of 31 December 2017 (balance sheet assets totalling ₹1,744,912 million and balance sheet liabilities totalling ₹0 million), the statement of financial performance for the period from 1 January to 31 December 2017 (income totalling ₹4,532 million and expenses totalling ₹9,993 million);

precious metals revaluation for the period from 1 January to 31 December 2017: positive unrealised differences from the revaluation of precious metals totalling ₹40,644.3 million;

foreign currency revaluation for the period from 1 January to 31 December 2017: negative unrealised exchange rate differences from the revaluation of foreign currency totalling ₹44,396.5 million;

annual balance sheet as of 31 December 2017 (as of 1 January 2018) (with respect to sub-accounts and off-balance sheet accounts) and the statement of financial performance for the period from 1 January to 31 December 2017 (for 2017);

data on the total number of Bank of Russia notes and coins (exclusive of coins containing precious metals), which should be in circulation as of 31 December 2017 (as of 1 January 2018).

According to the accounting data of the Central Bank of the Russian Federation relating to the accounts and operations covered by the Russian Federation Law 'On State Secrecy', a total of ₹8,801,998.7 million in Bank of Russia notes and coins should be in circulation as of 1 January 2017 (exclusive of coins containing precious metals).

Over the period from 1 January to 31 December 2017, the Bank of Russia put into circulation banknotes and coins (exclusive of coins containing precious metals) totalling ₹12,661,327.2 million, and withdrew from circulation Bank of Russia banknotes and coins (exclusive of coins containing precious metals) totalling ₹11,915,682.8 million.

Consequently, in the period under review, the amount of Bank of Russia notes and coins (exclusive of coins containing precious metals) in circulation increased by ₹745,644.4 million.

According to the accounting data of the Central Bank of the Russian Federation relating to the accounts and operations covered by the Russian Federation Law 'On State Secrecy', a total of ₪9,547,643.1 million in Bank of Russia notes and coins should be in circulation as of 31 December 2017 (as of 1 January 2018) (exclusive of coins containing precious metals).

Provisions for assets covered by the Russian Federation Law 'On State Secrecy' have been created in line with Bank of Russia regulations.

The Accounts Chamber of the Russian Federation confirms the credibility, in all material aspects, of the Bank of Russia Annual Financial Statements for 2017 and the compliance of the accounting procedure with the Russian federal legislation and Bank of Russia regulations.

Auditor

A.V. Perchyan

## **V. ADDENDA**

## V.1. MEASURES TO IMPLEMENT THE SINGLE STATE MONETARY POLICY

The Bank of Russia key rate and the system of interest rates on monetary policy instruments	
The Bank of Russia key rate was changed	At the start of 2017, the Bank of Russia key rate stood at 10.00% p.a. Over the course of 2017, the Bank of Russia Board of Directors decided to cut the key rate on six occasions: to 9.75% p.a. starting 27 March 2017, to 9.25% p.a. starting 2 May 2017, to 9.00% p.a. starting 19 June 2017, to 8.50% p.a. starting 18 September 2017, to 8.25% p.a. starting 30 October 2017 and to 7.75% p.a. starting 18 December 2017
The Bank of Russia changed interest rates on monetary policy instruments	Alongside changes to the key rate, interest rates on monetary policy instruments, the system of which was built as described below, were also reduced. The minimum interest rate on seven-day repo auctions and the maximum interest rate on seven-day deposit auctions were the same as the key rate. The minimum interest rate on fine-tuning repo auctions and fine-tuning FX swap auctions and the maximum interest rate on fine-tuning deposit auctions were also kept equal to the key rate. The minimum interest rates on occasional credit auctions were set at 0.25 pp above the key rate, while loans were provided at a floating rate. The interest rate on one-day liquidity-providing standing facilities (overnight loans and Lombard loans, loans secured by non-marketable assets, and also repos and FX swaps), which corresponded to the upper bound of the interest rate corridor, was set at 1 pp above the key rate. The interest rate on overnight standing deposit facilities, which corresponded to the lower bound of the interest rate corridor, was set at 1 pp below the key rate. Floating interest rates were used for standing facilities with terms of over one day. Interest rates on loans secured by non-marketable assets were set at 1.75 pp above the key rate. Interest rates on standing tom/next, spot/next and demand deposit facilities were set at 1 pp below the key rate
Bank of Russia bonds	
In 2017, the Bank of Russia held the first auction for placing its own coupon bonds (coupon OBRs)	On 15 August 2017, the Bank of Russia held the first auction for placing its own coupon bonds. The Bank of Russia offered credit institutions its coupon OBRs in the amount of ₹150 billion maturing on 15 November 2017. The coupon yield on bonds was accrued on the basis of the existing key rate for each day of the coupon period. This issue was, among other things, of a technical nature, i.e. it was aimed at letting credit institutions assess their readiness to work with these securities and update their internal procedures, if necessary. In future, the Bank of Russia will issue coupon OBRs to absorb a stable part of the emerging liquidity surplus
Required reserves	
The Bank of Russia updated the composition of credit institutions' reservable liabilities	Starting 1 January 2017, the Bank of Russia updated the composition of credit institutions' reservable liabilities which were to be included in the calculation of required reserves. This decision specifies that reservable liabilities should not include liabilities under subordinated instruments or issued bonds that mature in no less than three years and that do not imply early repayment. The updated composition of reservable liabilities eliminated the existing inefficient procedure which did not require making provisions for corporate deposits and for issued bonded loans which mature in no less than three years and which imply early repayment
The Bank of Russia set required reserve ratios for banks with a basic licence	In accordance with amendments to Russian laws providing for the possibility to establish differentiated mandatory reserve requirements for various types of credit institutions (banks with a universal licence, banks with a basic licence and non-bank credit institutions), the Bank of Russia decided to establish individual mandatory reserve requirements for banks with a basic licence starting 1 December 2017. In 2017, no changes were made to the required reserve ratios across all categories of liabilities and required reserve averaging ratios for banks with a universal licence and for non-bank credit institutions

<b>Refinancing and absorbing instruments</b>	
The procedure for holding Bank of Russia fixed-rate repos was changed	Starting 16 January 2017, the Bank of Russia held fixed-rate repos from 10:45 am to 6:00 pm Moscow time. The starting time of repo operations remained unchanged, while the end time for their execution was extended by 30 minutes
The Bank of Russia extended the time for accepting loan applications from credit institutions	Starting 10 May 2017, the hours during which the Bank of Russia accepted applications from credit institutions for loans secured by assets and provided within the framework of standard standing facilities was extended. Now, electronic applications may be sent until 7:00pm Moscow time. Paper-based applications may be sent to the Bank of Russia Market Services Department until 5:00pm, and in other cases, until 7:00pm local time
The Bank of Russia terminated the provision of loans secured by gold	16 July 2017 was the effective date of Bank of Russia Ordinance No. 4385-U, dated 24 May 2017, 'On Invalidating Certain Bank of Russia Regulations on the Procedure for the Bank of Russia to Provide Loans Secured by Gold'
The Bank of Russia expanded the possibility of using electronic document workflow when issuing secured loans	Starting 25 September 2017, the Bank of Russia allowed credit institutions with main accounts opened at its Main Branch for the Central Federal District (MB for the CFD) and divisions of the MB for the CFD to use electronic document workflow when receiving secured loans from the Bank of Russia. Previously, this option was only open to credit institutions with main accounts opened at the divisions of the MB for the CFD located in Moscow and the Moscow Region
The Bank of Russia started using direct exchange of electronic documents during deposit operations	Starting 13 November 2017, the Bank of Russia supplemented the existing means of document exchange with a direct electronic document exchange in deposit operations with credit institutions. This move was aimed at improving technological properties of Bank of Russia deposit operations and ensuring the convenience of this instrument for credit institutions
The Bank of Russia changed the timeframe for settlements on deposit and credit operations	Starting 4 December 2017, the Bank of Russia changed the timeframe when credit institutions shall repay Bank of Russia loans and the Bank of Russia shall return funds under deposit operations. The Bank of Russia shall make repayments under deposit operations from 10:30am till 11:30am local time, and shall forward collection orders for loan repayments from 4:00pm till 5:00pm local time. The timeframe for the repayment of overnight loans and loans secured by assets pledged under other loans remained unchanged
<b>Bank of Russia Lombard List</b>	
The Bank of Russia expanded its Lombard List	In 2017, in accordance with decisions of the Bank of Russia Board of Directors, 122 securities issues were added to the Lombard List
The Bank of Russia made a decision on the phased decrease in adjustment ratios / increase in discounts for low-credit-quality bonds bearing the signs of being in resolution	Starting 1 April 2017, if amendments were introduced to the terms of issue of securities included in the Lombard List and rated B-/B3 and B/B2 according to S&P Global Ratings or Fitch Ratings / Moody's Investors Service, including amendments associated with increasing the volume or prolonging the circulation of a bond, the adjustment ratio/discount shall be set at 0.4/60% on the fourth business day after the said information was disclosed, and in three months the adjustment ratio shall be set equal to zero, and repo operations with these securities shall be suspended
The Bank of Russia changed approaches to the application of credit ratings when forming the Lombard List	Starting 14 July 2017, to be included in the Lombard List, new issues of Russian bonds shall have credit rating no less than ruBBB assigned by the credit rating agency Expert RA JSC (only for bonds of credit institutions, constituent territories of the Russian Federation and municipalities) or no less than BBB(RU) assigned by the credit rating agency ACRA JSC. Additionally, starting 14 July 2017, the minimum credit rating of foreign bonds included in the Lombard List shall be set at BB-/Ba3 on the scale of the rating agencies S&P Global Ratings or Fitch Ratings / Moody's Investors Service. Furthermore, the Bank of Russia started to take into account the results of its own assessment of the credit quality of securities issues (issuers' solvency), terms of their placement and circulation, and other material circumstances

<p>The Bank of Russia raised requirements for collateral under its operations with bonds of financial institutions</p>	<p>Starting 1 October 2017, inclusion of new issues of the following securities in the Lombard List was suspended: bonds of credit institutions and insurance companies; bonds of Vnesheconombank; bonds of international financial institutions; debt securities issued by non-resident legal entities outside the Russian Federation whose beneficiaries or final borrowers are Russian credit institutions and insurance companies and Vnesheconombank. Starting 1 October 2017, the Bank of Russia started to gradually cut the adjustment ratios / raise the discounts on the securities of the said financial institutions included in the Lombard List. Starting 1 July 2018, repo operations and lending operations with these securities were suspended</p>
<p>The Bank of Russia adjusted the market value of bonds of individual issuers</p>	<p>Starting 1 October 2017, an adjustment ratio/discount was set at 0.4/60% for previously included bonds of the constituent territories of the Russian Federation and municipalities and bonds of Russian resident legal entities whose issues (issuers) as of 13 July 2017 did not have international ratings complying with the requirements for inclusion in the Lombard List effective as of that date, or refused credit ratings and did not receive any credit ratings of national rating agencies complying with the requirements for inclusion in the Lombard List by 30 September 2017. Starting 1 January 2018, repo operations and lending operations with these securities were suspended</p>
<p>The Bank of Russia raised requirements for the minimum rating level of Russian issuers</p>	<p>Starting 1 January 2018, for bonds of Russian constituent territories, municipalities and resident legal entities other than credit institutions to be included in the Lombard List, their issues (issuers) should be rated no lower than A (RU) / ruA in the classification of credit rating agencies ACRA JSC / Expert RA JSC respectively</p>

## V.2. LIQUIDITY SUPPORT INSTRUMENTS TO ENSURE THE FINANCIAL SUSTAINABILITY OF BANKS. SPECIALISED REFINANCING FACILITIES

<b>Irrevocable credit lines</b>	
The Bank of Russia continues to provide systemically important credit institutions with the option of using irrevocable liquidity lines to comply with the liquidity coverage ratio	The parameters of irrevocable liquidity lines are updated twice a year at the meetings of the Financial Stability Committee. In 2017, the parameters of irrevocable liquidity lines did not change: the maximum aggregate limit on irrevocable credit lines remains at ₱1.5 trillion, the fee for the right to use irrevocable liquidity lines remains at 0.15% p.a., and the premium on the key rate used to set the interest rate on loans taken out within the framework of irrevocable liquidity lines remains at 1.75 pp
<b>Emergency liquidity assistance mechanism</b>	
The Bank of Russia introduced emergency liquidity assistance (ELA) mechanism	Starting 1 September 2017, the Bank of Russia introduced emergency liquidity assistance (ELA) mechanism. Now, banks experiencing temporary liquidity problems may contact the Bank of Russia and receive funds for up to 90 days at a fixed rate equal to the corresponding key rate plus 1.75 pp
<b>Foreign currency refinancing facilities</b>	
The maximum debt of credit institutions to the Bank of Russia on foreign currency refinancing facilities was established for 2017	In 2017, the maximum debt of credit institutions to the Bank of Russia on repos in foreign currency and loans in foreign currency secured by the pledge of receivables on loans in foreign currency was established at the equivalent of \$25 billion
The Bank of Russia discontinued one-week and 28-day foreign currency repo auctions	Starting 11 September 2017, the Bank of Russia discontinued regular one-week and 28-day FX repo auctions; the maximum amount of funds provided via these facilities was \$100 million. After 2 October 2017, no 28-day FX repo auctions were held
<b>Specialised refinancing facilities</b>	
The Bank of Russia kept interest rates on lending facilities associated with support for small and medium-sized businesses unchanged	In 2017, interest rates on facilities associated with support for small and medium-sized business (loans secured by the pledge of receivables on credit agreements concluded by JSC SME Bank with credit institutions and microfinance and leasing organisations; loans secured by guarantees issued by JSC Russian Small and Medium Business Corporation) were kept at 6.50% p.a.
The Bank of Russia cut interest rates on individual specialised refinancing facilities	In 2017, the Bank of Russia cut interest rates on facilities intended to stimulate investment (loans secured by the pledge of receivables on loans issued to finance investment projects, performance under which is secured by state guarantees of the Russian Federation; loans secured by the pledge of bonds placed to finance investment projects and included in the Bank of Russia Lombard List; loans secured by the pledge of receivables on loans issued to leasing companies) six times in line with key rate cuts, they were: 9.00% p.a. as of 1 January 2017; 8.75% p.a. starting 27 March 2017; 8.25% p.a. starting 2 May 2017; 8.00% p.a. starting 19 June 2017; 7.50% p.a. starting 18 September 2017; 7.25% p.a. starting 30 October 2017; and 6.75% p.a. starting 18 December 2017. The interest rate on loans secured by mortgages issued under the Military Mortgage programme was 10.00% p.a. as of 1 January 2017; 9.75% p.a. starting 27 March 2017; 9.25% p.a. starting 2 May 2017; 9.00% p.a. starting 19 June 2017; 8.50% p.a. starting 18 September 2017; 8.25% p.a. starting 30 October 2017; and 7.75% p.a. starting 18 December 2017. The interest rate on Bank of Russia loans secured by the pledge of receivables which, in turn, were secured by insurance contracts of JSC EXIAR was 9.00% p.a. as of 1 January 2017; 8.75% p.a. starting 27 March 2017; and 6.50% p.a. starting 2 May 2017. As set forth by the Bank of Russia Board of Directors' decision, reduced interest rates shall also apply to loans issued earlier under these Bank of Russia facilities starting 27 March 2017

<p>The Bank of Russia raised the aggregate limit for loans secured by the guarantees of JSC Russian Small and Medium Business Corporation</p>	<p>As set forth by the Bank of Russia Board of Directors' decision as of 7 July 2017, the aggregate limit for loans secured by the guarantees of JSC Russian Small and Medium Business Corporation was increased to ₺175 billion</p>
<p>The Bank of Russia approved the strategy of a phased withdrawal from using specialised refinancing facilities</p>	<p>On 29 September 2017, the Bank of Russia Board of Directors approved the mid-term strategy for the phased withdrawal from using specialised refinancing facilities. The strategy is aimed at the gradual reduction of concessional lending as it is replaced with market mechanisms. One of the key principles of the strategy is to avoid the worsening of conditions for previously issued loans. The strategy will be implemented in phases over the course of several years. During the first stage (starting 2 October 2017), the Bank of Russia continued to issue loans, but stopped increasing limits on all specialised facilities</p>

## V.3. IMPLEMENTATION OF THE GUIDELINES FOR THE DEVELOPMENT OF FINANCIAL MARKET

Financial market development objectives	Regulatory documents for the fulfilment of objectives
Standardisation of financial operations and financial services	Bank of Russia Ordinance No. 4270-U, dated 25 January 2017, 'On the List of Mandatory Core Standards and Their Contents to be Developed by Financial Market Self-regulatory Organisations Comprising FX Dealers, and the List of Financial Market Operations (Activity Types) of FX Dealers to be Standardised'
	Bank of Russia Ordinance No. 4278-U, dated 3 February 2017, 'On the Requirements for Core Standard for the Protection of Rights and Interests of Individuals and Legal Entities Consuming Financial Services from Financial Market Self-regulatory Organisations Comprising Microfinance Organisations'
	Bank of Russia Ordinance No. 4467-U, dated 12 July 2017, 'On the List of Mandatory Core Standards and Their Contents to be Developed by Financial Market Self-regulatory Organisations Comprising Insurance Companies and Insurance Brokers, and the List of Financial Market Operations (Activity Types) of Insurance Companies and Insurance Brokers to be Standardised'
	Bank of Russia Ordinance No. 4491-U, dated 14 August 2017, 'On Amending Bank of Russia Ordinance No. 4027-U, Dated 30 May 2016, 'On the List of Mandatory Core Standards and Their Contents, and the List of Financial Market Operations (Activity Types) to be Standardised Depending on the Activity Types of Financial Institutions, and to be Developed by Financial Market Self-regulatory Organisations Comprising Microfinance Organisations, and Consumer Credit Cooperatives'
	Bank of Russia Ordinance No. 4490-U, dated 14 August 2017, 'On the Requirements for Core Standard for the Protection of Rights and Interests of Individuals and Legal Entities Consuming Financial Services from Financial Market Self-regulatory Organisations Comprising Consumer Credit Cooperatives'
	Bank of Russia Ordinance No. 4585-U, dated 26 October 2017, 'On the Requirements for Core Standards for the Protection of Rights and Interests of Individuals and Legal Entities Consuming Financial Services from Financial Market Self-regulatory Organisations Comprising Brokers, Manager, Depositories and Registrars'
	Organisation of internal accounting by professional securities market participants and potential transferring of the function to manage information systems and internal accounting systems
Updating the rules for investing collective investment funds in real estate and mortgage securities	Bank of Russia Regulation No. 580-P, dated 1 March 2017, 'On Additional Restrictions on Investing Pension Savings Placed with Non-governmental Pension Funds Providing Mandatory Pension Insurance; on Cases When a Management Company Acting as a Trustee of Pension Savings Is Entitled to Execute Repo Agreements; on Requirements Aimed at Risk Mitigation the Observance Whereof Entitles the Management Company to Execute Derivative Contracts; on Additional Requirements for Credit Institutions Which Servicemen Pension and Housing Savings are Placed with; and on the Additional Requirement for the Management Company to Finance Funded Pension under Pension Savings Trust Management Agreement'
Ensuring the financial stability of microfinance organisations	Bank of Russia Ordinance No. 4382-U, dated 24 May 2017, 'On Setting Economic Ratios for a Microfinance Company Attracting Funds from Individuals, Including Individual Entrepreneurs and (or) Legal Entities, in the Form of Loans, and for a Microfinance Company Issuing and Placing Bonds'
	Bank of Russia Ordinance No. 4384-U, dated 24 May 2017, 'On Setting Economic Ratios for a Microcredit Company Attracting Funds from Individuals, Including Individual Entrepreneurs, Who are Founders (Members, Shareholders), and (or) Legal Entities in the Form of Loans'

Ensuring the financial stability of professional securities market participants	Bank of Russia Ordinance No. 4402-U, dated 6 June 2017, 'On the Requirements for Brokerage with Regard to the Calculation of the Liquidity Coverage Ratio Where Customers Entitle Brokers to Use Their Funds in the Brokers' Interest'
Application of a reduced risk ratio for claims on small business entities	Bank of Russia Instruction No. 180-I, dated 28 June 2017, 'On Banks' Required Ratios'
	Bank of Russia Ordinance No. 4635-U, dated 6 December 2017, 'On Amending Bank of Russia Instruction No. 180-I, Dated 28 June 2017, 'On Banks' Required Ratios'
Organisation of the risk management system of professional securities market participants	Bank of Russia Ordinance No. 4501-U, dated 21 August 2017, 'On the Requirements for Professional Securities Market Participants to Organise a System to Manage Risks Related to Their Professional Activities in the Securities Market and Operations with Their Own Property Depending on the Type of Activities and the Nature of Operations Performed'
Improvement of the Russian legislation on insolvency (bankruptcy) with regard to insurance companies	Bank of Russia Regulation No. 599-P, dated 30 August 2017, 'On the Requirements for the Procedure to Create and Maintain Information System Databases, to Store Their Information on Insurance Reserves, Insurance Reserve Funds, Equity Capital and Their Movements, and on Providing Access to Such Information to the Bank of Russia'
Improvement of the practice of applying regulatory impact assessment procedures	Bank of Russia Regulation No. 602-P, dated 22 September 2017, 'On the Rules for Preparing Bank of Russia Regulations'
Improvement of interaction of financial consumers and investors with the Bank of Russia	Bank of Russia Ordinance No. 4580-U, dated 11 October 2017, 'On the Procedure for Organising and Carrying out Personal Reception of Citizens by the Bank of Russia Public Reception at the Bank of Russia Head Office'

## V.4. STATISTICAL TABLES

Table 1

### Key macroeconomic indicators (percent of previous year)

	2015	2016	2017
Gross domestic product <sup>1,2</sup>	97.5	99.8	101.5 <sup>3</sup>
of which <sup>4</sup> :			
– agriculture, hunting and forestry	102.6	103.2	101.2 <sup>3</sup>
– mining and quarrying	100.1	102.3	101.4
– manufacturing	95.5	99.6	100.1
– electricity, gas and water supply	98.4	101.0	100.2 <sup>3</sup>
– construction	97.8	99.2	100.5
– wholesale and retail trade, and other	93.0	94.4	103.3
– transport and communications	97.3	99.6	103.6 <sup>3</sup>
GDP deflator index <sup>2</sup>	108.0	103.5	105.2
Consumer price index (December on previous December) <sup>2</sup>	112.9	105.4	102.5
Fixed capital investment <sup>1,2</sup>	89.9	99.8	104.4
Retail trade turnover <sup>1,2</sup>	90.0	95.4	101.2
Unemployment rate calculated according to ILO methodology (annual average), percent of economically active population <sup>2</sup>	5.6	5.5	5.2
External trade (per balance of payments methodology) <sup>5</sup>			
– merchandise exports	68.7	82.6	125.2
– merchandise imports	62.7	99.3	124.2
– exports of services	78.6	97.8	114.4
– imports of services	73.5	83.9	119.2

<sup>1</sup> Index of quantity.

<sup>2</sup> Rosstat data.

<sup>3</sup> GDP component data for 2017 are provided according to OKVED 2 (NACE, Rev. 2): agriculture, forestry, hunting, fishery and fish breeding; electricity, gas and steam supply, air conditioning; transportation and storage.

<sup>4</sup> Gross value added in core prices.

<sup>5</sup> Bank of Russia data.

Table 2

**Consumer prices by group of goods and services<sup>1</sup>**  
**(growth, December as a percentage of previous December)**

	2015	2016	2017
Consumer prices, total	12.9	5.4	2.5
of which:			
– food prices	14.0	4.6	1.1
of which:			
– food prices exclusive of fruit and vegetables	13.6	6.0	1.0
– fruit and vegetable prices	17.4	–6.8	1.2
– nonfood prices	13.7	6.5	2.8
– paid services provided to the public	10.2	4.9	4.4
Prices of goods and services included in calculation of core consumer price index (CCPI)	13.7	6.0	2.1

<sup>1</sup> Rosstat data.

Table 3

**Consumer price inflation structure<sup>1</sup>**

	2016		2017	
	growth, percentage points	contribution to growth, percent	growth, percentage points	contribution to growth, percent
<b>Headline inflation (December on December)</b>	<b>5.4</b>	<b>100.0</b>	<b>2.5</b>	<b>100.0</b>
Inflation growth due to:				
– change in prices of goods and services included in CCPI calculation	4.4	80.7	1.5	60.7
– change in prices of goods and services not included in CCPI calculation	1.0	19.3	1.0	39.3
of which:				
– change in fruit and vegetable prices	–0.3	–5.3	0.0	1.9
– change in administered service and fuel prices	1.3	23.4	0.9	35.6

<sup>1</sup> Rosstat data, Bank of Russia calculations.

Table 4

**Balance of household money income and expenditures<sup>1</sup>**  
(millions of rubles)

	2016	2017	2017 as a percentage of 2016
<b>Money income</b>	<b>54,117,670.6</b>	<b>55,466,557.3</b>	<b>102.5</b>
Wages and salaries	34,951,909.1	36,111,716.5	103.3
Share, percent	64.6	65.1	
Social allowances	10,341,264.8	10,942,767.9	105.8
Share, percent	19.1	19.8	
Income from entrepreneurial activities	4,209,380.9	4,234,616.8	100.6
Share, percent	7.8	7.6	
Income from property	3,532,762.4	3,068,124.9	86.8
Share, percent	6.5	5.5	
Other income	1,082,353.4	1,109,331.2	102.5
Share, percent	2.0	2.0	
<b>Money expenditures</b>	<b>45,595,899.4</b>	<b>48,090,466.5</b>	<b>105.5</b>
– consumer expenditures	39,530,002.3	41,574,662.7	105.2
– compulsory payments and contributions	6,065,897.1	6,515,803.8	107.4
<b>Growth in savings and cash on hand, purchase of foreign currency</b>	<b>8,521,771.2</b>	<b>7,376,090.8</b>	<b>86.6</b>
– savings <sup>2</sup>	5,989,630.4	4,515,883.1	75.4
of which:			
– deposits and securities	2,872,684.0	2,705,704.9	94.2
– foreign currency purchase	2,175,333.4	2,057,908.1	94.6
– cash on hand	356,807.4	802,299.6	224.9
<b>Memo item</b>			
<b>Share of money income, percent</b>			
– consumer expenditures	73.0	75.0	
– compulsory payments and contributions	11.2	11.8	
– savings	11.1	8.1	
of which:			
– deposits and securities	5.3	4.9	
– foreign currency purchase	4.0	3.7	
– cash on hand	0.7	1.4	
<b>Disposable money income</b>	<b>48,164,883.9</b>	<b>49,108,998.8</b>	<b>102.0</b>
Share of, percent			
– consumer expenditures	82.1	84.7	
– savings	12.4	9.2	
of which:			
– deposits and securities	6.0	5.5	
– foreign currency purchase	4.5	4.2	
– cash on hand	0.8	1.6	
– remittances	0.2	0.3	

<sup>1</sup> The table was compiled based on Rosstat data.

<sup>2</sup> Savings include increase (decrease) in deposits, purchase of securities, change in accounts of individual entrepreneurs, change in outstanding loans, purchase of real estate and cattle and poultry.

Table 5

Budget system and government debt<sup>1</sup>

	2016		2017	
	billions of rubles	percentage of GDP	billions of rubles	percentage of GDP
<b>Consolidated budget</b>				
<b>Revenue</b>	<b>28,181.5</b>	<b>32.7</b>	<b>30,640.0</b>	<b>33.3</b>
– oil and gas revenues	4,844.0	5.6	5,971.9	6.5
– nonoil and gas revenues	23,337.5	27.1	24,668.1	26.8
<b>Expenditure</b>	<b>31,323.7</b>	<b>36.4</b>	<b>31,989.1</b>	<b>34.8</b>
<b>Balance</b>	<b>-3,142.1</b>	<b>-3.6</b>	<b>-1,349.1</b>	<b>-1.5</b>
<b>Federal budget</b>				
<b>Revenue</b>	<b>13,460.0</b>	<b>15.6</b>	<b>15,088.9</b>	<b>16.4</b>
– oil and gas revenues	4,844.0	5.6	5,971.9	6.5
– nonoil and gas revenues	8,616.0	10.0	9,117.0	9.9
<b>Expenditure</b>	<b>16,416.4</b>	<b>19.1</b>	<b>16,420.3</b>	<b>17.8</b>
<b>Balance</b>	<b>-2,956.4</b>	<b>-3.4</b>	<b>-1,331.4</b>	<b>-1.4</b>
– use of sovereign funds to finance budget deficit and replenish the balances of budget accounts	2,136.9	2.5	1,124.5	1.2
– net placement of domestic government securities	524.4	0.6	1,123.5	1.2
– replenishment of balances of the federal budget account in foreign currency (MinFin interventions, the ‘-’ sign)	0.0	0.0	-829.2	-0.9
<b>Sovereign funds’ balances as of year-end</b>	<b>5,331.3</b>	<b>6.2</b>	<b>3,752.9</b>	<b>4.1</b>
of which:				
– Reserve Fund	972.1	1.1	0.0	0.0
– National Wealth Fund <sup>2</sup>	4,359.2	5.1	3,752.9	4.1
<b>Aggregate public debt as of year-end</b>	<b>13,827.3</b>	<b>16.1</b>	<b>14,243.1</b>	<b>15.5</b>
– aggregate public and municipal domestic debt	10,721.0	12.4	11,372.7	12.4
– aggregate public and municipal external debt	3,106.6	3.6	2,870.3	3.1
– federal domestic debt	8,003.4	9.3	8,689.6	9.4
of which:				
– in securities	6,100.3	7.1	7,247.1	7.9
– OFZs	5,632.8	6.5	6,779.6	7.4
– other securities	467.6	0.5	467.6	0.5
– in government guarantees	1,903.1	2.2	1,442.5	1.6

<sup>1</sup> The figures to execute the consolidated and federal budgets of the Russian Federation and also the consolidated budget of the constituent territories of the Russian Federation and government extra-budgetary funds in 2017 are presented in accordance with the monthly report on the consolidated budget performance as of 1 January 2018 published by the Federal Treasury.

<sup>2</sup> Including funds of the National Wealth Fund in accounts with the Bank of Russia in national currency and in foreign currency, and also funds in credit institutions, Vnesheconombank State Corporation, preference shares of nonfinancial organisations, and other assets.

Table 6

**Russia's domestic government debt as of 1 January 2018**  
**(at face value, billions of rubles)**

Debt instruments	Russia's domestic government debt
Permanent coupon-income federal government bonds (OFZ-PD)	4,283.6
Debt depreciation federal government bonds (OFZ-AD)	539.8
Variable coupon-income federal government bonds (OFZ-PK)	1,748.4
Inflation-indexed federal government bonds (OFZ-IN)	168.5
Federal government bonds for individuals (OFZ-n) <sup>1</sup>	39.2
Government savings bonds (GSO)	377.6
MinFin bonds (OVOZ)	90.0
Russian government guarantees in national currency	1,442.5
<b>Total</b>	<b>8,689.6</b>

<sup>1</sup> Federal government bonds for individuals (OFZ-n) have been placed since April 2017.

Table 7

**Ministry of Finance debt to the Bank of Russia as of 1 January 2018<sup>1</sup>**  
**(millions of rubles)**

	At face value
Russian government debt obligations	184,106
of which:	
– Russian government debt obligations available for sale, in national currency	0
– Russian government debt obligations available for sale, in foreign currency	184,106

<sup>1</sup> Exclusive of repo transactions.

Table 8

**Volume (turnover) of residents' transactions with nonresidents to buy and sell  
Russian government foreign currency bonds in secondary market  
(at market prices, billions of US dollars)**

	Currency	Q1	Q2	Q3	Q4	2017
Eurobonds maturing in 2017	US dollar	0.12	–	–	–	0.12
Eurobonds maturing in 2018 (issued in the course of restructuring GKO's)	US dollar	0.16	0.07	0.07	0.04	0.33
Eurobonds maturing in 2019	US dollar	0.17	0.05	0.05	0.17	0.44
Eurobonds maturing in 2020	US dollar	0.46	0.16	0.22	0.14	0.97
Eurobonds maturing in 2020	Euro	0.08	0.01	0.01	0.03	0.14
Eurobonds maturing in 2022	US dollar	0.29	0.05	0.05	0.11	0.50
Eurobonds maturing in 2023	US dollar	0.49	0.56	0.32	0.26	1.63
Eurobonds maturing in 2026	US dollar	1.29	1.06	0.90	0.78	4.03
Eurobonds maturing in 2027	US dollar	–	0.54	2.78	0.33	3.66
Eurobonds maturing in 2028	US dollar	0.30	0.58	0.35	0.71	1.94
Eurobonds maturing in 2030 (issued in the course of the second restructuring of debt to the London Club of commercial creditors)	US dollar	0.53	1.72	15.22	0.21	17.68
Eurobonds maturing in 2042	US dollar	0.63	0.48	0.57	0.29	1.96
Eurobonds maturing in 2043	US dollar	0.11	0.11	0.28	0.02	0.52
Eurobonds maturing in 2047	US dollar	–	0.28	4.52	1.33	6.13

Table 9

**Institutional financial market participants  
(units)**

Name of institutional financial market participants	Number of participants	
	as of 1.01.2017	as of 1.01.2018
Credit institutions	623	561
of which:		
– banks	575	517
– nonbank credit institutions	48	44
Credit institutions with foreign stakes in authorised capital	174	160
Branches of credit institutions operating in Russia	1,098	890
Representative offices of operating Russian credit institutions	285	224
Internal divisions of credit institutions (branches), total	34,200	33,286
of which:		
– additional offices	19,776	20,263
– mobile cash offices	4,995	3,033
– credit and cash offices	1,943	1,972
– operations offices	7,230	7,743
– mobile banking vehicles	256	275
Insurance market entities, total	364	309
of which:		
– insurance companies	255	225
– national reinsurance company <sup>1</sup>	1	1
– mutual insurance companies	12	12
– insurance brokers	96	71
Professional securities market participants <sup>2</sup> , total	681	614
of which:		
– brokers	449	384
– forex dealers	6	8
– dealers	479	424
– trust managers	348	279
– depositories	397	350
– register holders	35	35
Infrastructures	69	68
of which:		
– clearing houses	5	6
– exchanges	8	7
– commodity delivery operators	3	5
– repositories	1	2
– central depository	1	1
– central counterparties <sup>3</sup>	–	1
– institutions performing the functions of the central counterparty <sup>4</sup>	3	2
– payment system operators	33	30
– nationally important payment system operators <sup>5</sup>	2	2
– credit history bureaus	16	17
– news agencies <sup>6</sup>	5	5

End

Name of institutional financial market participants	Number of participants	
	as of 1.01.2017	as of 1.01.2018
Collective investment market entities, total	449	405
of which:		
– non-governmental pension funds	74	66
– joint-stock investment funds	3	3
– management companies	333	305
– specialised depositories	39	31
Unit investment funds, total	1,553	1,497
of which:		
– open-end	356	327
– interval	47	39
– closed-end	1,150	1,131
Microfinance agents and cooperatives, total	14,601	12,024
of which:		
– microfinance organisations	2,588	2,271
– housing savings cooperatives	69	63
– consumer credit cooperatives	3,059	2,666
– agricultural consumer credit cooperatives	1,470	1,242
– pawnshops	7,415	5,782
Responsible actuaries	104	104
Self-regulatory organisations, total	22	22
of which:		
– self-regulatory organisations in the financial market	20	20
– self-regulatory organisations of actuaries	2	2
Credit rating agencies	2	2
Branches and representative offices of foreign credit rating agencies	–	3

<sup>1</sup> Russian National Reinsurance Company, Joint-stock Company (RNRC JSC), is operating based on Russian Federation Law No. 4015-1, dated 27 November 1992, 'On the Organisation of the Insurance Business in the Russian Federation'.

<sup>2</sup> Including credit institutions, which are professional securities market players.

<sup>3</sup> Organisations which have been assigned the status of the central counterparty in pursuance of Federal Law No. 7-FZ, dated 7 February 2011, 'On Clearing, Clearing Activities and the Central Counterparty'. As of 1 January 2018, nonbank credit institution – Central Counterparty National Clearing Centre (Joint-stock Company).

<sup>4</sup> Organisations performing the functions of the central counterparty in pursuance of the transitional provisions of Federal Law No. 403-FZ, dated 29 December 2015, 'On Amending Certain Laws of the Russian Federation'. As of 1 January 2018, Joint-stock Company Settlement and Depository Company and Public Joint-stock Company Clearing Centre MFB.

<sup>5</sup> The Bank of Russia and the Joint-stock Company National Payment Card System (JSC NPCCS) are operators of the Bank of Russia payment system and the Mir payment system respectively based on Federal Law No. 161-FZ. The procedure for registering these operators and entering them into the register of payment system operators has not been specified.

<sup>6</sup> News agencies accredited to disclose information about securities and other financial instruments.

Table 10

**Self-regulatory organisations**

Financial market participants	As of 1.01.2017			As of 1.01.2018		
	Number of self-regulatory organisations, units	Number of members of self-regulatory organisations, units	Share of members of self-regulatory organisations in the total number of financial institutions of the respective type of activity, percent	Number of self-regulatory organisations, units	Number of members of self-regulatory organisations, units	Share of members of self-regulatory organisations in the total number of financial institutions of the respective type of activity, percent
Professional securities market participants (brokers, dealers, managers, depositories, register holders, forex dealers)	5	681	99.9	5	614	100
Joint-stock investment funds and management companies of investment funds, unit investment funds and non-governmental pension funds	2	333	100	2	302	99.0
Specialised depositories	1	17	43.5	2	31	100
Non-governmental pension funds	2	75	100	2	66	100
Insurance companies	1	129	50.4	1	225	99.5
Insurance brokers	0	0	0	1	68	95.8
Microfinance organisations	3	2,379	92.0	3	2,145	94.5
Consumer credit cooperatives	9	1,480	48.4	8	1,317	49.4
Actuaries	2	237	100	2	258	100

Table 11

**Balance of payments<sup>1</sup> of the Russian Federation  
(analytical presentation, millions of US dollars)**

	Q1	Q2	Q3	Q4	2017	Memo item: 2016
<b>Current account</b>	<b>22,253</b>	<b>2,210</b>	<b>-2,987</b>	<b>13,698</b>	<b>35,173</b>	<b>24,401</b>
Goods	34,480	25,230	20,781	34,491	114,982	90,262
<i>Exports</i>	<i>82,588</i>	<i>83,870</i>	<i>84,572</i>	<i>101,944</i>	<i>352,975</i>	<i>281,850</i>
oil	23,265	22,666	22,364	25,011	93,306	73,712
oil products	15,936	14,874	13,370	14,064	58,244	46,106
natural gas	10,114	8,390	8,428	11,214	38,147	31,280
liquefied natural gas	544	818	939	873	3,174	2,900
other	32,729	37,121	39,471	50,782	160,103	127,852
<i>Imports</i>	<i>48,108</i>	<i>58,640</i>	<i>63,792</i>	<i>67,453</i>	<i>237,993</i>	<i>191,588</i>
Services	-5,188	-7,589	-9,710	-8,609	-31,096	-24,053
<i>Exports</i>	<i>12,354</i>	<i>14,768</i>	<i>15,384</i>	<i>15,312</i>	<i>57,818</i>	<i>50,546</i>
transport	4,221	5,070	5,262	5,259	19,812	17,115
travel	1,622	2,313	3,126	1,884	8,945	7,785
other services	6,511	7,385	6,996	8,169	29,061	25,646
<i>Imports</i>	<i>17,542</i>	<i>22,357</i>	<i>25,095</i>	<i>23,920</i>	<i>88,914</i>	<i>74,600</i>
transport	2,953	3,659	3,871	3,969	14,451	11,804
travel	5,338	8,127	10,528	7,065	31,058	23,951
other services	9,251	10,572	10,696	12,887	43,405	38,845
Compensation of employees	-588	-578	-455	-657	-2,278	-1,813
Investment income	-4,610	-13,325	-10,641	-8,710	-37,287	-33,744
Receivable	10,556	9,471	10,743	13,370	44,139	36,749
Payable	15,167	22,796	21,384	22,079	81,426	70,493
<i>Federal government</i>	<i>-392</i>	<i>-632</i>	<i>-525</i>	<i>-770</i>	<i>-2,318</i>	<i>-1,243</i>
Receivable	299	155	309	168	930	960
Payable	691	786	834	938	3,249	2,203
<i>Local government (payable)</i>	<i>6</i>	<i>6</i>	<i>6</i>	<i>6</i>	<i>23</i>	<i>38</i>
<i>Central bank</i>	<i>316</i>	<i>425</i>	<i>514</i>	<i>646</i>	<i>1,901</i>	<i>1,009</i>
Receivable	327	446	547	681	2,001	1,021
Payable	11	21	33	35	100	12
<i>Banks</i>	<i>934</i>	<i>-695</i>	<i>102</i>	<i>542</i>	<i>883</i>	<i>3,408</i>
Receivable	2,629	2,654	2,316	2,539	10,138	11,903
Payable	1,695	3,349	2,214	1,997	9,255	8,495
<i>Other sectors<sup>2</sup></i>	<i>-5,463</i>	<i>-12,418</i>	<i>-10,727</i>	<i>-9,122</i>	<i>-37,729</i>	<i>-36,879</i>
Receivable	7,302	6,216	7,571	9,982	31,070	22,865
Payable	12,765	18,634	18,297	19,103	68,800	59,745
Rent	14	11	10	11	46	39
Secondary income	-1,855	-1,538	-2,971	-2,830	-9,194	-6,291
<b>Capital account</b>	<b>43</b>	<b>-178</b>	<b>-57</b>	<b>-40</b>	<b>-233</b>	<b>-764</b>
<b>Net lending (+) / net borrowing (-) (balance from current and capital accounts)</b>	<b>22,296</b>	<b>2,031</b>	<b>-3,044</b>	<b>13,657</b>	<b>34,941</b>	<b>23,637</b>

End

	Q1	Q2	Q3	Q4	2017	Memo item: 2016
<b>Net lending (+) / net borrowing (-)</b> <b>(balance from financial account, excluding reserve assets)</b>	<b>11,700</b>	<b>-1,631</b>	<b>-10,311</b>	<b>16,354</b>	<b>16,111</b>	<b>10,871</b>
<b>Net incurrence of liabilities ('+' - increase, '-' - decrease)</b>	<b>-1,619</b>	<b>6,032</b>	<b>6,072</b>	<b>-9,299</b>	<b>1,187</b>	<b>-6,225</b>
<i>Federal government</i>	4,406	2,305	7,148	1,268	15,127	4,867
Portfolio investment	4,423	2,414	7,279	1,411	15,526	5,194
Issue	0	2,610	0	0	2,610	2,647
Redemption	-856	-1,237	-869	-959	-3,921	-2,644
principal	-39	-632	-5	-47	-724	-498
coupons	-817	-604	-863	-912	-3,197	-2,146
Interest reinvestment	687	777	831	929	3,224	2,178
Secondary market	4,592	263	7,317	1,441	13,613	3,013
Loans	-22	-101	-136	-83	-341	-333
Other liabilities	5	-7	5	-61	-58	6
<i>Local government</i>	9	-20	10	-2	-3	-377
<i>Central bank</i>	1,636	2,532	3,979	-6,882	1,265	387
<i>Banks</i>	-3,947	-11,704	-7,811	-5,795	-29,256	-27,148
Direct investment	394	439	-248	886	1,470	1,608
Loans and deposits	-1,051	-7,728	-3,739	-2,918	-15,437	-16,371
Other liabilities	-3,289	-4,415	-3,823	-3,762	-15,290	-12,384
<i>Other sectors<sup>2</sup></i>	-3,723	12,920	2,746	2,112	14,054	16,045
Direct investment	4,882	12,571	8,108	856	26,416	30,931
Portfolio investment	-5,127	-987	2,171	-532	-4,475	23
Loans	-1,895	-2,188	-5,508	1,002	-8,588	-13,590
Other liabilities	-1,583	3,523	-2,026	786	700	-1,319
<b>Net acquisition of financial assets, excluding reserve assets</b> <b>('+' - increase, '-' - decrease)</b>	<b>10,081</b>	<b>4,401</b>	<b>-4,239</b>	<b>7,055</b>	<b>17,298</b>	<b>4,646</b>
<i>General government</i>	177	945	863	1,096	3,082	931
Loans	317	10	1,049	876	2,252	-3
Other assets	-140	935	-186	219	829	935
<i>Central bank</i>	6	3	10	-5	14	-73
<i>Banks</i>	13,646	-2,493	-16,290	782	-4,356	-28,294
Direct investment	376	170	422	-95	873	2,203
Loans and deposits	13,524	-3,060	-18,433	-2,227	-10,196	-30,081
Other assets	-253	398	1,720	3,103	4,968	-416
<i>Other sectors<sup>2</sup></i>	-3,748	5,946	11,177	5,183	18,559	32,081
Direct investment	8,300	7,634	9,206	12,622	37,762	20,112
Portfolio investment	1,615	1,071	1,849	565	5,100	3,570
Cash foreign currency	-917	-1,654	-2,204	-1,263	-6,038	-4,665
Trade credit and advances	-1,861	-3,853	-381	-2,299	-8,395	-4,307
Indebtedness on supplies according to intergovernmental agreements	443	-129	167	284	766	989
Fictitious transactions <sup>3</sup>	62	249	43	25	378	541
Other assets	-11,390	2,628	2,499	-4,751	-11,014	15,842
<b>Net errors and omissions</b>	<b>706</b>	<b>3,887</b>	<b>-754</b>	<b>-33</b>	<b>3,806</b>	<b>-4,522</b>
<b>Change in reserve assets ('+' - increase, '-' - decrease)</b>	<b>11,302</b>	<b>7,550</b>	<b>6,514</b>	<b>-2,730</b>	<b>22,636</b>	<b>8,244</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 BPM6.

<sup>2</sup> Other sectors include other financial corporations (except banks), nonfinancial corporations, households, and nonprofit institutions serving households.

<sup>3</sup> Includes fictitious transactions related to foreign trade in goods and services, securities trading, lending to nonresidents and fictitious transactions with money transfers to residents' accounts abroad the purpose of which is transferring money abroad.

Table 12

**Private sector net capital inflows (outflows)  
(according to balance of payments data, billions of US dollars)**

	Private sector net capital inflows (outflows), total	Banks			Other sectors			
		Net capital inflows (outflows)	Net acquisition of financial assets	Net incurrence of liabilities	Net capital inflows (outflows)	Net acquisition of financial assets <sup>1</sup>	Net incurrence of liabilities	Balance of payments net errors and omissions <sup>2</sup>
2016	18.4	-1.1	-28.3	-27.1	19.6	31.1	16.0	-4.5
Q1	8.3	-2.3	-9.9	-7.6	10.6	7.3	-0.5	-2.8
Q2	-0.4	0.2	-4.4	-4.6	-0.6	6.0	4.9	1.7
Q3	1.0	-0.6	-8.3	-7.7	1.7	0.4	-2.5	1.2
Q4	9.5	1.6	-5.6	-7.3	7.9	17.3	14.1	-4.6
2017	24.8	24.9	-4.4	-29.3	-0.1	17.8	14.1	3.8
Q1	16.4	17.6	13.6	-3.9	-1.2	-4.2	-3.7	0.7
Q2	-1.5	9.2	-2.5	-11.7	-10.7	6.1	12.9	3.9
Q3	0.5	-8.5	-16.3	-7.8	9.0	11.0	2.7	-0.8
Q4	9.4	6.6	0.8	-5.8	2.8	4.9	2.1	0.0

<sup>1</sup> Excluding the indebtedness on supplies of goods according to intergovernmental agreements.

<sup>2</sup> Net errors and omissions item entirely relates to the other sectors. It is assumed that most difficulties arise in recording financial transactions of these sectors in the balance of payments.

Note. The use of signs corresponds to BPM6: '+' denotes net capital outflows, '-' denotes net capital inflows.

Table 13

**Private sector net capital inflows (outflows) by type of investment  
(according to balance of payments data, billions of US dollars)**

	Q1	Q2	Q3	Q4	2017	Memo item: 2016
Direct investment	3.4	-5.2	1.8	10.8	10.7	-10.2
Net incurrence of liabilities	5.3	13.0	7.9	1.7	27.9	32.5
Banks	0.4	0.4	-0.2	0.9	1.5	1.6
Other sectors	4.9	12.6	8.1	0.9	26.4	30.9
Net acquisition of financial assets	8.7	7.8	9.6	12.5	38.6	22.3
Banks	0.4	0.2	0.4	-0.1	0.9	2.2
Other sectors	8.3	7.6	9.2	12.6	37.8	20.1
Portfolio investment	6.6	3.9	-3.0	-0.1	7.4	2.9
Net incurrence of liabilities	-6.5	-1.5	2.6	-0.8	-6.2	-2.2
Banks	-1.3	-0.5	0.4	-0.3	-1.7	-2.3
Other sectors	-5.1	-1.0	2.2	-0.5	-4.5	0.0
Net acquisition of financial assets	0.1	2.4	-0.4	-0.9	1.2	0.7
Banks	-1.5	1.3	-2.2	-1.5	-3.9	-2.9
Other sectors	1.6	1.1	1.8	0.6	5.1	3.6
Financial derivatives	0.4	0.2	0.1	-0.6	0.1	0.5
Net incurrence of liabilities	-3.3	-4.9	-2.9	-3.1	-14.2	-13.6
Banks	-3.0	-4.7	-2.8	-3.3	-13.8	-11.5
Other sectors	-0.3	-0.2	-0.1	0.2	-0.4	-2.1
Net acquisition of financial assets	-2.8	-4.8	-2.8	-3.6	-14.0	-13.2
Banks	-2.5	-4.6	-2.5	-3.5	-13.1	-11.2
Other sectors	-0.3	-0.1	-0.3	-0.1	-0.9	-2.0
Other investment	6.7	3.5	0.9	-0.7	10.3	20.8
Net incurrence of liabilities	-3.2	-5.3	-12.6	-1.6	-22.7	-27.8
Banks	0.0	-6.8	-5.2	-3.2	-15.2	-15.0
Other sectors	-3.2	1.5	-7.4	1.6	-7.5	-12.8
Net acquisition of financial assets	3.5	-1.9	-11.7	-2.3	-12.4	-7.0
Banks	17.3	0.6	-12.0	5.9	11.7	-16.4
Other sectors <sup>1</sup>	-13.8	-2.5	0.3	-8.2	-24.2	9.4
Balance of payments net errors and omissions	0.7	3.9	-0.8	0.0	3.8	-4.5
<b>Private sector net capital inflows (outflows), total</b>	<b>16.4</b>	<b>-1.5</b>	<b>0.5</b>	<b>9.4</b>	<b>24.8</b>	<b>18.4</b>

<sup>1</sup> Excluding the indebtedness on supplies of goods according to intergovernmental agreements.

Note. The use of signs corresponds to BPM6: '+' denotes net capital outflows, '-' denotes net capital inflows.

Table 14

Cross-border transfers of individuals (residents and nonresidents)<sup>1</sup>

	Q1	Q2	Q3	Q4	2017	Memo item: 2016
<b>Total, millions of US dollars</b>						
<b>Money transfers from the Russian Federation by individuals</b>	<b>8,504</b>	<b>11,743</b>	<b>11,608</b>	<b>11,979</b>	<b>43,834</b>	<b>35,928</b>
to non-CIS countries	6,216	8,472	7,659	8,581	30,928	25,799
to CIS countries	2,288	3,270	3,949	3,398	12,906	10,129
<b>Money transfers to the Russian Federation for the benefit of individuals</b>	<b>4,262</b>	<b>5,487</b>	<b>5,047</b>	<b>5,991</b>	<b>20,786</b>	<b>18,363</b>
from non-CIS countries	3,544	4,644	4,205	5,058	17,451	15,515
from CIS countries	717	843	842	933	3,335	2,847
<b>Balance<sup>2</sup></b>	<b>-4,243</b>	<b>-6,256</b>	<b>-6,561</b>	<b>-5,988</b>	<b>-23,048</b>	<b>-17,565</b>
with non-CIS countries	-2,671	-3,829	-3,454	-3,523	-13,477	-10,283
with CIS countries	-1,571	-2,427	-3,107	-2,465	-9,571	-7,282
<b>Average amount of transfer, US dollars</b>						
<b>Money transfers from the Russian Federation by individuals</b>	<b>184</b>	<b>245</b>	<b>231</b>	<b>218</b>	<b>220</b>	<b>211</b>
to non-CIS countries	185	256	232	218	222	219
to CIS countries	180	220	230	219	214	192
<b>Money transfers to the Russian Federation for the benefit of individuals</b>	<b>436</b>	<b>558</b>	<b>523</b>	<b>520</b>	<b>510</b>	<b>560</b>
from non-CIS countries	533	674	610	628	613	699
from CIS countries	230	287	304	270	271	268

<sup>1</sup> Money transfers to Russia for the benefit of resident and nonresident individuals and money transfers from Russia of resident and nonresident individuals made via credit institutions (with or without opening an account), including remittances via payment systems.

<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 15

**Net incurrence of liabilities by Russian Federation residents by type of investment  
(according to balance of payments data, billions of US dollars)**

Type of investment	Q1	Q2	Q3	Q4	2017	Memo item: 2016
Direct investment	5.3	13.0	7.9	1.7	27.9	32.5
Portfolio investment	-2.0	0.9	9.9	0.6	9.3	3.0
Financial derivatives	-3.3	-4.9	-2.9	-3.1	-14.2	-13.6
Other investment	-1.6	-2.9	-8.8	-8.6	-21.9	-28.2
<b>Total</b>	<b>-1.6</b>	<b>6.0</b>	<b>6.1</b>	<b>-9.3</b>	<b>1.2</b>	<b>-6.2</b>

*Note. Net incurrence of liabilities reflects a difference between increase in liabilities and their decrease; '-' denotes net decrease in residents' foreign liabilities.*

Table 16

**Net acquisition of financial assets by Russian Federation residents,  
excluding reserve assets, by type of investment  
(according to balance of payments data, billions of US dollars)**

Type of investment	Q1	Q2	Q3	Q4	2017	Memo item: 2016
Direct investment	8.7	7.8	9.6	12.5	38.6	22.3
Portfolio investment	0.1	2.4	-0.4	-0.9	1.3	0.7
Financial derivatives	-2.8	-4.8	-2.8	-3.6	-14.0	-13.2
Other investment	4.1	-1.0	-10.7	-1.0	-8.6	-5.2
<b>Total</b>	<b>10.1</b>	<b>4.4</b>	<b>-4.2</b>	<b>7.1</b>	<b>17.3</b>	<b>4.6</b>

*Note. Net acquisition of financial assets reflects a difference between increase in assets and their decrease; '-' denotes net decrease in residents' foreign assets.*

Table 17

**International investment position of the Russian Federation**  
(millions of US dollars)

	Position as of 31.12.2016	Transactions	Valuation changes	Other changes	Total changes	Position as of 31.12.2017
	1	2	3	4	5	6
<b>Net international investment position</b>	<b>211,433</b>	<b>38,747</b>	<b>-1,024</b>	<b>18,613</b>	<b>56,336</b>	<b>267,768</b>
<b>Assets</b>	<b>1,232,785</b>	<b>39,934</b>	<b>52,950</b>	<b>15,513</b>	<b>108,397</b>	<b>1,341,181</b>
<b>Direct investment</b>	<b>418,034</b>	<b>38,634</b>	<b>3,100</b>	<b>11,114</b>	<b>52,848</b>	<b>470,882</b>
Equity and investment fund shares	320,873	35,944	-51	9,312	45,205	366,078
Debt instruments	97,161	2,690	3,151	1,802	7,643	104,804
<b>Portfolio investment</b>	<b>72,060</b>	<b>1,258</b>	<b>2,307</b>	<b>-1,720</b>	<b>1,845</b>	<b>73,905</b>
Equity and investment fund shares	3,172	198	1,354	-79	1,473	4,645
Debt securities	68,888	1,059	954	-1,641	372	69,260
<b>Financial derivatives (other than reserves) and employee stock options</b>	<b>6,857</b>	<b>-14,015</b>	<b>12,644</b>	<b>-632</b>	<b>-2,003</b>	<b>4,853</b>
<b>Other investment</b>	<b>358,092</b>	<b>-8,579</b>	<b>10,125</b>	<b>-840</b>	<b>706</b>	<b>358,799</b>
Other equity	6,249	676	51	0	727	6,975
Currency and deposits	136,218	8,424	5,041	319	13,784	150,002
Loans	178,061	-9,239	4,342	-2,806	-7,703	170,358
Insurance, pension, and standardised guarantee schemes	2,127	-341	115	27	-199	1,928
Trade credit and advances	24,717	-7,629	282	0	-7,347	17,371
Other accounts receivable	10,720	-470	294	1,620	1,444	12,164
<b>Reserve assets</b>	<b>377,741</b>	<b>22,636</b>	<b>24,774</b>	<b>7,591</b>	<b>55,001</b>	<b>432,742</b>
<b>Liabilities</b>	<b>1,021,352</b>	<b>1,187</b>	<b>53,974</b>	<b>-3,100</b>	<b>52,061</b>	<b>1,073,413</b>
<b>Direct investment</b>	<b>477,670</b>	<b>27,886</b>	<b>19,945</b>	<b>9,698</b>	<b>57,529</b>	<b>535,200</b>
Equity and investment fund shares	336,055	25,516	15,079	9,676	50,271	386,326
Debt instruments	141,615	2,370	4,866	22	7,258	148,873
<b>Portfolio investment</b>	<b>215,960</b>	<b>9,330</b>	<b>12,928</b>	<b>-7,421</b>	<b>14,837</b>	<b>230,797</b>
Equity and investment fund shares	165,796	-7,851	9,520	-7,284	-5,615	160,181
Debt securities	50,164	17,180	3,408	-137	20,451	70,616
<b>Financial derivatives (other than reserves) and employee stock options</b>	<b>6,455</b>	<b>-14,165</b>	<b>12,446</b>	<b>-232</b>	<b>-1,951</b>	<b>4,505</b>
<b>Other investment</b>	<b>321,266</b>	<b>-21,865</b>	<b>8,655</b>	<b>-5,145</b>	<b>-18,355</b>	<b>302,912</b>
Other equity	225	8	13	-35	-14	211
Currency and deposits	107,259	-15,297	2,851	-2,082	-14,528	92,731
Loans	197,344	-7,799	5,168	-2,892	-5,523	191,820
Insurance, pension, and standardised guarantee schemes	594	125	30	0	155	749
Trade credit and advances	2,926	456	0	0	456	3,382
Other accounts payable	5,292	635	139	-135	639	5,931
Special drawing rights	7,628	7	453	0	460	8,087

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 denotes net increase in assets or liabilities, '-' denotes their net decrease.

3. Data on portfolio investment (including government securities) are presented at market value.

Table 18

**International investment position of the banking sector of the Russian Federation  
(millions of US dollars)**

	Position as of 31.12.2016	Transactions	Valuation changes	Other changes	Total changes	Position as of 31.12.2017
	1	2	3	4	5	6
<b>International investment position, net</b>	<b>44,871</b>	<b>24,900</b>	<b>-889</b>	<b>-23,443</b>	<b>568</b>	<b>45,439</b>
<b>Assets</b>	<b>214,954</b>	<b>-4,356</b>	<b>17,915</b>	<b>-26,175</b>	<b>-12,616</b>	<b>202,338</b>
<b>Direct investment</b>	<b>12,501</b>	<b>873</b>	<b>588</b>	<b>-363</b>	<b>1,097</b>	<b>13,599</b>
Equity and investment fund shares	10,697	962	592	-6	1,549	12,246
Debt instruments	1,804	-90	-4	-358	-452	1,353
<b>Portfolio investment</b>	<b>46,070</b>	<b>-3,856</b>	<b>446</b>	<b>-3,484</b>	<b>-6,894</b>	<b>39,176</b>
Equity	833	-231	812	-95	485	1,318
Debt securities	45,237	-3,625	-366	-3,389	-7,380	37,858
Short-term	384	-150	2	-140	-288	96
Long-term	44,854	-3,474	-369	-3,249	-7,092	37,762
<b>Financial derivatives</b>	<b>6,693</b>	<b>-13,111</b>	<b>11,892</b>	<b>-632</b>	<b>-1,851</b>	<b>4,842</b>
Options	709	-39	-56	0	-95	614
Forward-type contracts	5,984	-13,072	11,948	-632	-1,756	4,229
<b>Other investment</b>	<b>149,689</b>	<b>11,738</b>	<b>4,989</b>	<b>-21,695</b>	<b>-4,968</b>	<b>144,722</b>
Other equity	7	0	1	0	1	8
Foreign currency	5,490	23,108	311	-17,767	5,652	11,142
Deposits	54,891	-9,459	2,423	-3,949	-10,986	43,905
Short-term	38,782	-4,055	2,030	-5,763	-7,787	30,994
Long-term	16,109	-5,405	393	1,814	-3,198	12,911
Loans	79,639	-737	2,000	-1,771	-508	79,132
Short-term	19,235	-5,218	1,163	-3,754	-7,810	11,426
Long-term	60,404	4,481	838	1,983	7,302	67,706
Other accounts receivable	9,662	-1,173	253	1,793	873	10,535
Short-term	4,678	3,451	151	-3,430	171	4,849
Long-term	4,984	-4,624	102	5,223	701	5,686

End

	Position as of 31.12.2016	Transactions	Valuation changes	Other changes	Total changes	Position as of 31.12.2017
	1	2	3	4	5	6
<b>Liabilities</b>	<b>170,083</b>	<b>-29,256</b>	<b>18,804</b>	<b>-2,731</b>	<b>-13,184</b>	<b>156,899</b>
<b>Direct investment</b>	<b>24,219</b>	<b>1,470</b>	<b>-2,269</b>	<b>-211</b>	<b>-1,010</b>	<b>23,208</b>
Equity	19,040	2,242	-2,285	-329	-372	18,668
Debt instruments	5,179	-772	16	118	-638	4,541
<b>Portfolio investment</b>	<b>31,179</b>	<b>-1,719</b>	<b>6,182</b>	<b>-66</b>	<b>4,398</b>	<b>35,577</b>
Equity	25,031	-1,139	6,351	-42	5,170	30,201
Debt securities	6,148	-579	-169	-24	-772	5,376
Short-term	1,592	-218	3	-19	-234	1,358
Long-term	4,556	-362	-172	-5	-538	4,018
<b>Financial derivatives</b>	<b>6,449</b>	<b>-13,781</b>	<b>12,067</b>	<b>-232</b>	<b>-1,946</b>	<b>4,503</b>
Options	347	-166	125	0	-42	305
Forward-type contracts	6,102	-13,615	11,942	-232	-1,904	4,197
<b>Other investment</b>	<b>108,236</b>	<b>-15,226</b>	<b>2,824</b>	<b>-2,222</b>	<b>-14,625</b>	<b>93,611</b>
Other equity	168	0	10	-35	-25	143
Deposits	105,302	-15,187	2,756	-2,118	-14,549	90,754
Short-term	22,824	3,078	1,118	-207	3,989	26,814
Long-term	82,478	-18,265	1,637	-1,911	-18,538	63,940
Loans <sup>1</sup>	451	-250	0	0	-249	202
Short-term	451	-250	0	0	-249	202
Other accounts payable	2,314	210	57	-69	198	2,512
Short-term	1,817	1,255	55	-866	444	2,261
Long-term	497	-1,045	3	796	-246	251

<sup>1</sup> Liabilities of banks on securities repurchase agreements with nonresidents which are not banks.

Notes. 1. The international investment position of the banking sector is compiled on the basis of the methodology set out in the 6<sup>th</sup> edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).

2. The table covers data on credit institutions, excluding nonbank credit institutions, and includes data of Vnesheconombank.

3. Forward-type contracts include forwards, swaps and futures.

4. '+' in columns 2 to 5 denotes net increase in assets and liabilities, '-' denotes their net decrease.

5. Column 4 shows, inter alia, assets and liabilities of credit institutions that had their banking licences revoked within the reporting period.

Table 19

**Currency composition of foreign assets and liabilities of the banking sector of the Russian Federation  
(in percent of total)**

	Foreign assets					Foreign liabilities				
	US dollar	Euro	Russian ruble	Other currencies	Total	US dollar	Euro	Russian ruble	Other currencies	Total
1.01.2013	59.1	14.0	20.4	6.5	100.0	49.9	5.3	39.8	5.0	100.0
1.04.2013	62.3	14.4	17.5	5.8	100.0	49.9	6.0	39.2	4.9	100.0
1.07.2013	67.0	11.4	16.0	5.6	100.0	51.5	6.3	37.4	4.9	100.0
1.10.2013	65.2	12.0	16.2	6.5	100.0	51.7	6.5	37.3	4.5	100.0
1.01.2014	65.8	11.2	17.0	6.0	100.0	52.9	7.0	37.3	2.9	100.0
1.04.2014	64.3	12.4	16.6	6.7	100.0	56.0	7.9	32.7	3.4	100.0
1.07.2014	63.7	13.3	16.9	6.2	100.0	52.9	8.8	35.1	3.3	100.0
1.10.2014	63.4	13.4	16.4	6.7	100.0	55.4	9.8	31.3	3.5	100.0
1.01.2015	67.8	15.5	10.8	5.9	100.0	59.9	10.5	26.1	3.5	100.0
1.04.2015	68.6	14.5	11.1	5.8	100.0	59.9	10.0	26.2	3.8	100.0
1.07.2015	67.5	13.6	12.8	6.1	100.0	56.7	10.2	29.1	3.9	100.0
1.10.2015	70.7	13.8	10.1	5.4	100.0	58.6	11.5	26.6	3.4	100.0
1.01.2016	71.1	14.9	8.8	5.3	100.0	58.5	11.4	26.8	3.3	100.0
1.04.2016	69.5	15.1	8.9	6.5	100.0	56.7	11.1	28.5	3.7	100.0
1.07.2016	68.9	14.8	9.8	6.5	100.0	54.1	10.2	32.0	3.7	100.0
1.10.2016	67.8	14.5	10.9	6.8	100.0	52.8	9.9	33.7	3.6	100.0
1.01.2017	67.5	15.5	10.4	6.5	100.0	51.5	8.8	36.8	2.9	100.0
1.04.2017	67.2	16.6	9.9	6.4	100.0	50.4	9.5	37.2	2.9	100.0
1.07.2017	65.7	17.9	9.9	6.5	100.0	48.9	9.9	38.0	3.1	100.0
1.10.2017	63.7	17.5	11.9	7.0	100.0	45.3	9.6	42.1	3.1	100.0
1.01.2018	61.1	18.4	12.8	7.7	100.0	39.7	12.6	44.1	3.6	100.0

Note. Excluding data on financial derivatives.

**Foreign assets and liabilities of the banking sector of the Russian Federation by group of countries as of 31 December 2017**  
(millions of US dollars)

	Foreign assets						Foreign liabilities						Net international positions	
	interbank positions		other positions		total		interbank positions		other positions		total			
	short-term	long-term	short-term	long-term	short-term	long-term	short-term	long-term	short-term	long-term	short-term	long-term	short-term	long-term
<b>Total</b>	<b>45,706.4</b>	<b>24,680.8</b>	<b>17,719.3</b>	<b>114,231.7</b>	<b>63,425.7</b>	<b>138,912.5</b>	<b>14,125.2</b>	<b>44,261.4</b>	<b>21,417.3</b>	<b>77,095.1</b>	<b>35,542.5</b>	<b>121,356.5</b>	<b>27,883.2</b>	<b>17,556.0</b>
of which:														
<b>CIS countries</b>	<b>1,142.4</b>	<b>7,344.7</b>	<b>597.0</b>	<b>7,148.0</b>	<b>1,739.4</b>	<b>14,492.8</b>	<b>1,561.0</b>	<b>406.7</b>	<b>2,044.8</b>	<b>923.8</b>	<b>3,605.8</b>	<b>1,330.5</b>	<b>-1,866.4</b>	<b>13,162.3</b>
of which:														
EAEU countries	769.6	3,792.1	367.2	6,625.0	1,136.8	10,417.1	1,207.1	274.8	836.9	325.4	2,044.0	600.1	-907.2	9,817.0
Other countries	372.8	3,552.6	229.8	523.0	602.6	4,075.6	353.9	131.9	1,207.9	598.5	1,561.8	730.3	-959.2	3,345.3
<b>Non-CIS countries</b>	<b>44,562.7</b>	<b>17,334.3</b>	<b>17,081.2</b>	<b>106,666.6</b>	<b>61,643.9</b>	<b>124,000.9</b>	<b>12,510.3</b>	<b>43,746.1</b>	<b>18,531.9</b>	<b>75,617.4</b>	<b>31,042.2</b>	<b>119,363.5</b>	<b>30,601.7</b>	<b>4,637.5</b>
of which:														
EU countries	23,768.5	10,960.3	12,579.9	85,136.1	36,348.3	96,096.4	8,537.8	19,736.2	8,564.2	61,661.4	17,102.0	81,397.6	19,246.3	14,698.8
APEC countries	14,827.7	153.5	1,692.4	5,283.1	16,520.1	5,436.5	1,012.7	20,559.3	4,808.5	9,317.3	5,821.2	29,876.7	10,698.9	-24,440.2
Other countries	5,966.6	6,220.5	2,808.8	16,247.5	8,775.5	22,468.1	2,959.8	3,450.6	5,159.1	4,638.6	8,119.0	8,089.2	656.5	14,378.9
<b>International organisations</b>	<b>1.2</b>	<b>1.8</b>	<b>41.2</b>	<b>417.1</b>	<b>42.4</b>	<b>418.8</b>	<b>53.9</b>	<b>108.7</b>	<b>840.6</b>	<b>553.9</b>	<b>894.5</b>	<b>662.6</b>	<b>-852.1</b>	<b>-243.8</b>

Table 21

**Russia's international reserves  
(billions of US dollars)**

	2016	2017											
	31.12	31.01	28.02	31.03	30.04	31.05	30.06	31.07	31.08	30.09	31.10	30.11	31.12
Reserve assets	377.7	390.6	397.3	397.9	401.0	405.7	412.2	418.4	424.0	424.8	424.9	431.6	432.7
Foreign currency assets	317.5	327.6	330.5	330.3	332.3	336.4	343.5	348.4	350.5	351.2	351.2	355.5	356.1
Monetary gold	60.2	62.9	66.9	67.6	68.7	69.3	68.8	70.0	73.5	73.6	73.7	76.1	76.6

Table 22

**Return<sup>1</sup> on Bank of Russia foreign currency reserves in 2017<sup>2</sup>  
(percent p.a.)**

	Actual	Standard
US dollar	0.82	0.71
Euro	-0.55	-0.74
Pound sterling	-0.04	-0.08
Canadian dollar	0.31	0.19
Australian dollar	1.89	1.70
Chinese yuan	1.40	0.69

<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 23

## Basic derived indicators of ruble's exchange rate dynamics in 2017

	January	February	March	April	May	June	July	August	September	October	November	December
Nominal exchange rate of US dollar against ruble, end of period	60.16	57.94	56.38	56.98	56.52	59.09	59.54	58.73	58.02	57.87	58.33	57.60
Nominal exchange rate of US dollar against ruble, period averages	59.96	58.39	58.10	56.43	57.17	57.82	59.67	59.65	57.69	57.73	58.92	58.59
Nominal exchange rate of US dollar against ruble, period averages from the beginning of the year	59.96	59.17	58.81	58.21	58.00	57.97	58.21	58.39	58.31	58.25	58.31	58.33
Nominal exchange rate of euro against ruble, end of period	64.43	61.26	60.60	62.04	62.95	67.50	69.68	70.20	68.45	67.22	69.20	68.87
Nominal exchange rate of euro against ruble, period averages	63.67	62.16	62.05	60.42	63.09	64.82	68.64	70.39	68.80	67.87	69.11	69.36
Nominal exchange rate of euro against ruble, period averages from the beginning of the year	63.67	62.91	62.62	62.06	62.27	62.69	63.50	64.33	64.81	65.11	65.46	65.78
<b>Percentage change over December 2016<sup>1</sup></b>												
Nominal exchange rate of ruble against US dollar	3.7	6.5	7.0	10.2	8.8	7.6	4.2	4.3	7.8	7.7	5.5	6.1
Nominal exchange rate of ruble against euro	3.0	5.5	5.7	8.6	4.0	1.2	-4.4	-6.8	-4.7	-3.4	-5.1	-5.4
Nominal effective exchange rate of ruble vis-a-vis foreign currencies	3.7	5.4	5.7	8.3	5.1	3.0	-1.2	-2.8	-0.2	1.1	-0.6	-0.5
Real exchange rate of ruble against US dollar	3.7	6.4	6.9	10.1	9.0	8.4	5.2	4.4	7.2	7.4	5.5	6.6
Real exchange rate of ruble against euro	3.9	6.1	6.1	8.9	4.8	2.7	-3.1	-6.2	-4.1	-2.6	-4.2	-4.4
Real effective exchange rate of ruble vis-a-vis foreign currencies	4.0	5.4	5.6	8.1	5.3	3.7	-0.6	-2.8	-0.7	0.5	-1.2	-1.1
<b>Percentage change over previous period<sup>1</sup></b>												
Nominal exchange rate of ruble against US dollar	3.7	2.7	0.5	3.0	-1.3	-1.1	-3.1	0.0	3.4	-0.1	-2.0	0.6
Nominal exchange rate of ruble against euro	3.0	2.4	0.2	2.7	-4.2	-2.7	-5.6	-2.5	2.3	1.4	-1.8	-0.4
Nominal effective exchange rate of ruble vis-a-vis foreign currencies	3.7	1.7	0.3	2.4	-2.9	-2.0	-4.1	-1.6	2.6	1.4	-1.7	0.1
Real exchange rate of ruble against US dollar	3.7	2.6	0.5	3.0	-1.0	-0.6	-2.9	-0.8	2.7	0.2	-1.8	1.0
Real exchange rate of ruble against euro	3.9	2.1	0.0	2.7	-3.7	-2.1	-5.6	-3.1	2.2	1.5	-1.6	-0.2
Real effective exchange rate of ruble vis-a-vis foreign currencies	4.0	1.4	0.2	2.4	-2.6	-1.5	-4.1	-2.3	2.2	1.2	-1.7	0.1
<b>Percentage change over corresponding period of 2016<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
Nominal exchange rate of ruble against US dollar	27.2	29.7	26.8	24.6	22.6	20.9	19.0	17.6	17.0	16.1	15.5	14.7
Nominal exchange rate of ruble against euro	30.4	34.2	31.5	29.8	27.3	24.8	21.6	19.1	17.5	15.9	14.4	12.6
Nominal effective exchange rate of ruble vis-a-vis foreign currencies	32.3	34.5	31.7	29.9	27.6	25.4	22.7	20.8	19.6	18.3	17.1	15.5
Real exchange rate of ruble against US dollar	30.2	32.3	29.2	26.9	24.9	23.3	21.3	19.9	19.1	18.1	17.3	16.3
Real exchange rate of ruble against euro	34.6	38.0	35.0	33.2	30.6	28.1	24.7	22.0	20.2	18.4	16.8	14.8
Real effective exchange rate of ruble vis-a-vis foreign currencies	34.3	36.4	33.3	31.3	28.9	26.7	23.9	21.8	20.4	19.0	17.6	15.9

<sup>1</sup> '+' denotes appreciation of the Russian ruble vis-a-vis foreign currencies, '-' denotes depreciation of the Russian ruble vis-a-vis foreign currencies.

Table 24

**External debt of the Russian Federation**  
(millions of US dollars)

	31.12.2016	31.03.2017	30.06.2017	30.09.2017	31.12.2017
<b>Total</b>	<b>511,697</b>	<b>521,540</b>	<b>526,972</b>	<b>529,634</b>	<b>518,872</b>
<b>General government</b>	<b>39,143</b>	<b>45,829</b>	<b>46,485</b>	<b>54,287</b>	<b>55,804</b>
<b>Federal government</b>	<b>38,931</b>	<b>45,594</b>	<b>46,279</b>	<b>54,069</b>	<b>55,585</b>
<b>New Russian debt</b>	<b>37,886</b>	<b>44,548</b>	<b>45,267</b>	<b>53,258</b>	<b>54,809</b>
Multilateral creditors	858	836	771	761	713
<i>IBRD</i>	671	656	612	609	575
<i>Other</i>	187	180	159	151	138
Foreign currency bonds	11,662	11,302	12,525	14,561	15,030
<i>Eurobonds</i>	11,034	10,654	11,850	11,791	14,557
<i>Eurobonds (related to the second London Club debt restructuring)</i>	628	648	675	1	19
Ruble-denominated bonds	25,032	32,069	31,634	37,592	38,781
<i>OFZ</i>	25,017	32,013	31,626	37,591	38,712
<i>Eurobonds</i>	14	56	8	1	69
Other	334	341	337	344	285
<b>Debt of the former USSR</b>	<b>1,045</b>	<b>1,046</b>	<b>1,012</b>	<b>811</b>	<b>776</b>
Debt owed to former socialist countries	395	396	396	196	196
Other official creditors	629	629	594	594	559
Other	21	21	21	21	21
<b>Local government</b>	<b>564</b>	<b>583</b>	<b>591</b>	<b>662</b>	<b>212</b>
Ruble-denominated bonds	212	235	207	218	219
<b>Central bank</b>	<b>12,077</b>	<b>13,987</b>	<b>16,928</b>	<b>21,256</b>	<b>14,480</b>
Loans	2,546	4,298	6,944	11,332	4,487
Currency and deposits	1,903	1,989	2,085	1,900	1,907
Other (SDR allocations)	7,628	7,700	7,899	8,023	8,087
<b>Banks</b>	<b>119,395</b>	<b>120,195</b>	<b>113,254</b>	<b>108,023</b>	<b>103,385</b>
Debt liabilities to direct investors and to direct investment enterprises	5,179	5,353	5,294	4,389	4,541
Loans	451	254	202	265	202
Current accounts and deposits	105,302	105,485	98,035	94,896	90,754
Debt securities	6,148	5,681	5,564	5,815	5,376
Other	2,314	3,424	4,159	2,658	2,512
<b>Other sectors</b>	<b>341,082</b>	<b>341,528</b>	<b>350,304</b>	<b>346,069</b>	<b>345,202</b>
Debt liabilities to direct investors and to direct investment enterprises	136,436	135,709	144,799	145,705	144,332
Loans and deposits	187,836	189,010	185,611	181,086	181,495
Debt securities	5,987	7,187	6,792	8,255	7,891
Trade credits	2,926	2,868	3,026	3,279	3,382
Financial leases	4,681	4,602	4,501	4,375	4,239
Other	3,217	2,152	5,575	3,370	3,862

Notes. 1. Included is the external debt in both domestic and foreign currencies.

2. Government securities are accounted for in the part of the debt owed to nonresidents at face value.

3. The external debt data are compiled on the basis of the methodology set out in the 6<sup>th</sup> edition of the IMF's *Balance of Payments and International Investment Position Manual (BPM6)* and in the *External Debt Statistics: Guide for Compilers and Users (2013)*, prepared under the joint responsibility of a number of international organisations.

4. Banks' totals include Vnesheconombank data.

Table 25

**External debt of the Russian Federation**  
(in domestic and foreign currencies by maturity, millions of US dollars)

	31.12.2016	31.03.2017	30.06.2017	30.09.2017	31.12.2017
<b>Total</b>	<b>511,697</b>	<b>521,540</b>	<b>526,972</b>	<b>529,634</b>	<b>518,872</b>
<b>Foreign currency</b>	<b>401,166</b>	<b>399,812</b>	<b>396,355</b>	<b>392,560</b>	<b>381,449</b>
<b>Domestic currency</b>	<b>110,531</b>	<b>121,728</b>	<b>130,616</b>	<b>137,074</b>	<b>137,423</b>
<b>General Government</b>	<b>39,143</b>	<b>45,829</b>	<b>46,485</b>	<b>54,287</b>	<b>55,804</b>
Foreign currency	13,900	13,525	14,645	16,477	16,804
Short-term	334	341	337	344	285
Long-term	13,566	13,184	14,308	16,133	16,519
Domestic currency	25,243	32,305	31,841	37,810	39,000
Short-term	0	0	0	0	0
Long-term	25,243	32,305	31,841	37,810	39,000
<b>Central bank</b>	<b>12,077</b>	<b>13,987</b>	<b>16,928</b>	<b>21,256</b>	<b>14,480</b>
Foreign currency	10,174	11,998	14,843	19,356	12,574
Short-term	2,546	4,298	6,944	11,332	4,487
Long-term	7,628	7,700	7,899	8,023	8,087
Domestic currency	1,903	1,989	2,085	1,900	1,907
Short-term	1,903	1,989	2,085	1,900	1,907
Long-term	0	0	0	0	0
<b>Banks (excluding debt liabilities to direct investors and to direct investment enterprises)</b>	<b>114,216</b>	<b>114,843</b>	<b>107,959</b>	<b>103,634</b>	<b>98,844</b>
Foreign currency	97,969	98,887	90,447	85,914	81,146
Short-term	18,349	24,174	21,519	17,732	20,328
Long-term	79,620	74,713	68,929	68,183	60,818
Domestic currency	16,247	15,955	17,512	17,719	17,698
Short-term	8,336	8,347	10,483	9,904	10,308
Long-term	7,912	7,608	7,029	7,815	7,390
<b>Other sectors (excluding debt liabilities to direct investors and to direct investment enterprises)</b>	<b>204,646</b>	<b>205,819</b>	<b>205,505</b>	<b>200,363</b>	<b>200,870</b>
Foreign currency	165,989	164,657	161,824	157,783	158,487
Short-term	9,084	9,473	9,733	9,917	9,380
Long-term	156,905	155,184	152,091	147,865	149,106
Domestic currency	38,658	41,162	43,681	42,581	42,383
Short-term	4,408	3,327	6,698	4,417	4,812
Long-term	34,249	37,835	36,983	38,164	37,571
<b>Banks and other sectors – debt liabilities to direct investors and to direct investment enterprises</b>	<b>141,615</b>	<b>141,061</b>	<b>150,093</b>	<b>150,095</b>	<b>148,873</b>
Foreign currency	113,135	110,745	114,596	113,031	112,438
Domestic currency	28,480	30,317	35,497	37,064	36,435

Notes. 1. Included is the external debt in both domestic and foreign currencies.

2. Only nonresident holdings of government securities are reported. Data are presented at face value.

3. Information on external debt 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) and in the External Debt Statistics: Guide for Compilers and Users (2013), prepared under the joint responsibility of a number of international organisations.

4. Data on banks include Vnesheconombank.

Table 26

**Money supply (national definition) and its structure**

	As of 1.01.2017		As of 1.01.2018		1.01.2018 as a percentage of 1.01.2017
	billions of rubles	percent	billions of rubles	percent	
<b>Money supply (M2), total</b>	<b>38,418.0</b>	<b>100.0</b>	<b>42,442.1</b>	<b>100.0</b>	<b>110.5</b>
of which:					
– currency in circulation (M0) <sup>1</sup>	7,714.8	20.1	8,446.0	19.9	109.5
– deposits	30,703.2	79.9	33,996.1	80.1	110.7
of which:					
– nonfinancial and financial organisations <sup>2</sup>	18,327.9	47.7	20,643.2	48.6	112.6
– households	12,375.3	32.2	13,352.9	31.5	107.9

<sup>1</sup> Currency in circulation outside the banking system.

<sup>2</sup> Except credit institutions.

Table 27

**Monetary base (broad definition) and its structure**

	As of 1.01.2017		As of 1.01.2018		1.01.2018 as a percentage of 1.01.2017
	billions of rubles	percent	billions of rubles	percent	
<b>Monetary base (broad definition)</b>	<b>11,882.7</b>	<b>100.0</b>	<b>14,701.5</b>	<b>100.0</b>	<b>123.7</b>
of which:					
– currency in circulation, including balances in credit institutions' cash vaults <sup>1</sup>	8,789.8	74.0	9,539.0	64.9	108.5
– credit institutions' correspondent accounts with the Bank of Russia <sup>2</sup>	1,822.7	15.3	1,930.7	13.1	105.9
– required reserves <sup>3</sup>	484.7	4.1	506.2	3.4	104.4
– credit institutions' deposits with the Bank of Russia	785.6	6.6	2,373.2	16.1	302.1
– Bank of Russia bonds with credit institutions <sup>4</sup>	–	–	352.4	2.4	–

<sup>1</sup> Excluding cash rubles in Bank of Russia vaults, ATMs and in transit, as well as precious metal coins 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.

<sup>4</sup> At market value.

**Interest rates on Bank of Russia operations to provide and absorb ruble liquidity  
(percent p.a.)**

Purpose	Type of instrument	Instrument	Maturity	Rate from:						
				19.09.2016	27.03.2017	2.05.2017	19.06.2017	18.09.2017	30.10.2017	18.12.2017
Liquidity provision	Standing facilities	Overnight loans; Lombard loans; FX swaps <sup>1</sup> ; repos; loans secured by non-marketable assets or guarantees; loans secured by gold <sup>2</sup>	1 day	11.00	10.75	10.25	10.00	9.50	9.25	8.75
		Loans secured by gold <sup>2</sup>	from 2 to 549 days <sup>3</sup>	11.50	11.25	10.75	10.50	–	–	–
		Loans secured by non-marketable assets or guarantees		11.75	11.50	11.00	10.75	10.25	10.00	9.50
	Open market operations (minimum interest rates)	Auctions to provide loans secured by non-marketable assets <sup>3</sup>	3 months	10.25	10.00	9.50	9.25	8.75	8.50	8.00
		FX swap auctions <sup>1</sup>	from 1 to 2 days <sup>4</sup>	10.00 (key rate)	9.75 (key rate)	9.25 (key rate)	9.00 (key rate)	8.50 (key rate)	8.25 (key rate)	7.75 (key rate)
		Repo auctions	from 1 to 6 days <sup>4</sup> , 1 week							
Liquidity absorption	Open market operations (maximum interest rates)	Deposit auctions	from 1 to 6 days <sup>4</sup> , 1 week	–	–	–	8.00	7.50	7.25	6.75
		Auctions to place coupon OBRs	3 months							
	Standing facilities (fixed interest rates)	Deposit operations	1 day, call	9.00	8.75	8.25	8.00	7.50	7.25	6.75

<sup>1</sup> Interest rate on ruble leg; interest rate on foreign currency leg has been made equal to LIBOR interest rates on one-day loans in corresponding foreign currencies.

<sup>2</sup> Operations have been suspended from 1 April 2017 and cancelled from 16 July 2017.

<sup>3</sup> Loans provided at a floating interest rate pegged to the Bank of Russia key rate.

<sup>4</sup> Fine-tuning operations.

Memo item: From 1 January 2016, the Bank of Russia refinancing rate has been set equal to the Bank of Russia key rate as of the respective date. From 1 January 2016, the independent value of the refinancing rate has not been set.

Table 29

**Interest rates on Bank of Russia operations to provide foreign currency on repayable basis in 2017**

Instrument	Maturity	Minimum auction rate and FX swap rate <sup>1</sup> (as a spread to LIBOR <sup>2</sup> , pp)
		from 23.12.2016
Repo auctions <sup>3</sup>	1 week	2.00
	28 days	2.00
	12 months	3.00
Credit auctions <sup>4</sup>	28 days	2.25
	365 days	3.25
FX swaps to sell US dollars for rubles	1 day	1.50

<sup>1</sup> The rate on US dollar leg; the rate on ruble leg is set equal to the Bank of Russia key rate minus 1 percentage point.

<sup>2</sup> LIBOR in corresponding currencies and for comparable terms.

<sup>3</sup> 365-day repo auctions have been suspended from 1 April 2016. Regular 7-day and 28-day repo auctions, the maximum amount of which is US\$ 100 million, have been cancelled from 11 September 2017.

<sup>4</sup> Not held in 2017.

**Bank of Russia operations to provide and absorb liquidity in 2017  
(billions of rubles)**

Purpose	Type of instrument	Instrument	Maturity	Bank of Russia claims on liquidity provision instruments, Bank of Russia liabilities on liquidity absorption instruments				
				as of 1.01.2017	as of 1.04.2017	as of 1.07.2017	as of 1.10.2017	as of 1.01.2018
Liquidity provision	Standing facilities	Overnight loans	1 day	0.0	0.0	4.2	0.0	0.0
		FX swaps		37.8	0.0	0.0	0.0	0.0
		Lombard loans		0.6	0.0	0.0	0.0	0.0
		Repos		593.9	59.1	103.2	43.9	3.6
		Loans secured by non-marketable assets or guarantees	from 1 to 549 days	410.7	259.8	8.8	57.8	5.5
		Loans secured by gold <sup>1</sup>		0.0	0.0	–	–	–
	Open market operations	Auctions to provide loans secured by non-marketable assets	3 months	215.6	0.0	0.0	0.0	0.0
		FX swap auctions	from 1 to 2 days	0.0	0.0	0.0	0.0	0.0
Repo auctions		from 1 to 6 days, 1 week	0.0	0.0	0.0	0.0	0.0	
Liquidity absorption	Open market operations	Deposit auctions		396.9	319.6	469.7	886.1	2,124.9
		Auctions to place coupon OBRs <sup>2</sup>	3 months	–	–	–	151.3	357.0
	Standing facilities	Deposit operations	1 day, call	388.3	174.5	188.7	223.1	246.8

<sup>1</sup> Operations have been suspended from 1 April 2017 and cancelled from 16 July 2017.

<sup>2</sup> Auctions to place coupon OBRs in 2017 have been held from 15 August 2017.

Table 31

**Bank of Russia operations to provide foreign currency on repayable basis**

Instrument	Maturity	Bank of Russia claims to credit institutions, billions of US dollars <sup>1</sup>				
		as of 1.01.2017	as of 1.04.2017	as of 1.07.2017	as of 1.10.2017	as of 1.01.2018
Repo auctions <sup>2</sup>	1 week	2.6	0.0	0.0	0.0	0.0
	28 days	8.7	4.8	2.3	0.6	0.0
	365 days	0.03	0.0	0.0	0.0	0.0
Credit auctions <sup>3</sup>	28 days	0.0	0.0	0.0	0.0	0.0
	365 days	0.0	0.0	0.0	0.0	0.0
FX swaps to sell US dollars for rubles	1 day	1.0	0.05	0.0	0.0	4.5

<sup>1</sup> Claims to credit institutions on the second leg of repos.

<sup>2</sup> 365-day repo auctions have been suspended from 1 April 2016. Regular 7-day and 28-day repo auctions, the maximum amount of which is US\$ 100 million, have been cancelled from 11 September 2017.

<sup>3</sup> Not held in 2017.

## Bank of Russia specialised refinancing instruments

Area of indirect support of bank lending	Maturity	Security	Interest rate, percent p.a.							Bank of Russia claims to credit institutions as of 1.01.2017, billions of rubles	Bank of Russia claims to credit institutions as of 1.01.2018, billions of rubles	Limit as of 1.01.2018, billions of rubles
			from 19.09.2016	from 27.03.2017	from 2.05.2017	from 19.06.2017	from 18.09.2017	from 30.10.2017	from 18.12.2017			
Exports	Up to 3 years	Receivables on loan agreements secured by insurance agreements of JSC EXIAR	9.00	8.75	6.50	6.50	6.50	6.50	6.50	43.38	47.37	75.00
Investment projects <sup>1</sup>	Up to 3 years	Receivables on bank loans to implement investment projects, obligations under which are secured by state guarantees of the Russian Federation	9.00	8.75	8.25	8.00	7.50	7.25	6.75	112.62	108.33	150.00
		Bonds placed to finance investment projects and included in the Bank of Russia Lombard List								0.59	0.00	
Small and medium-sized businesses	Up to 3 years	Receivables on loan agreements of JSC SME Bank <sup>2</sup>	6.50	6.50	6.50	6.50	6.50	6.50	6.50	43.12	18.27	175.00
		Guarantees of JSC Russian Small and Medium Business Corporation issued under the programme to stimulate lending to small and medium-sized businesses								48.17	81.53	
Leasing	Up to 3 years	Receivables on loans extended to leasing companies	9.00	8.75	8.25	8.00	7.50	7.25	6.75	–	0.20	10.00
Military mortgage	Up to 3 years	Mortgages issued under 'Military Mortgage' programme	10.00	9.75	9.25	9.00	8.50	8.25	7.75	29.31	29.31	30.00

<sup>1</sup> Projects should be selected in accordance with the rules set by Resolution of the Russian Federation Government No. 1016, dated 14 December 2010, 'On the Approval of Rules to Select Investment Projects and Principals to Provide State Guarantees of the Russian Federation under Loans or Bonded Loans Raised for Investment Projects Implementation' or Resolution of the Russian Federation Government No. 1044, dated 11 October 2014, 'On the Approval of the Programme to Support Investment Projects Implemented in the Russian Federation on a Project Financing Basis'.

<sup>2</sup> Receivables on loans extended to banks and microfinance organisations, which are JSC SME Bank partners under the programme for financial support of small and medium-sized enterprises, for the purposes of lending to SMEs, and also to leasing companies, which are JSC SME Bank partners, for the purposes of leasing property to SMEs.

Table 33

**Banking sector survey  
(billions of rubles)**

	1.01.2017	1.01.2018	1.01.2018 as a percentage of 1.01.2017
Net foreign assets	27,374.5	29,580.3	108.1
Claims on nonresidents	35,246.8	36,293.2	103.0
Monetary gold and SDR	4,043.3	4,810.4	119.0
Foreign currency	1,250.6	2,067.8	165.3
Deposits	6,533.0	5,955.8	91.2
– in rubles	229.2	218.4	95.3
– in foreign currency	6,303.9	5,737.4	91.0
Debt securities	17,681.2	17,863.0	101.0
– in rubles	189.4	195.3	103.1
– in foreign currency	17,491.8	17,667.7	101.0
Loans	4,817.2	4,694.2	97.4
– in rubles	784.1	891.3	113.7
– in foreign currency	4,033.1	3,802.9	94.3
Shares and other equity	904.1	870.0	96.2
– in rubles	5.4	12.8	237.0
– in foreign currency	898.7	857.1	95.4
Other claims	17.2	32.1	186.6
– in rubles	3.7	18.7	505.4
– in foreign currency	13.5	13.3	98.5
Liabilities to nonresidents	7,872.3	6,712.9	85.3
Deposits	6,930.6	5,633.7	81.3
– in rubles	849.4	854.6	100.6
– in foreign currency	6,081.2	4,779.1	78.6
Debt securities	262.7	237.2	90.3
– in rubles	262.7	237.2	90.3
– in foreign currency	0.0	0.0	–
Loans	214.1	373.4	174.4
– in rubles	0.0	4.9	–
– in foreign currency	214.1	368.5	172.1
Liabilities on SDR allocations	461.2	464.7	100.8
Other liabilities	3.6	3.9	108.3
– in rubles	0.2	0.1	50.0
– in foreign currency	3.4	3.7	108.8
Domestic claims	50,184.0	54,166.6	107.9
Net claims on central government	–2,504.5	–2,857.6	114.1
Claims on federal government	4,699.7	4,863.5	103.5
Debt securities	4,640.1	4,807.3	103.6
– in rubles	3,530.2	3,574.1	101.2
– in foreign currency	1,109.9	1,233.1	111.1
Loans	59.6	56.2	94.3
– in rubles	59.6	56.2	94.3
– in foreign currency	0.0	0.0	–
Other claims	0.0	0.0	–
– in rubles	0.0	0.0	–
– in foreign currency	0.0	0.0	–

Cont.

	1.01.2017	1.01.2018	1.01.2018 as a percentage of 1.01.2017
Claims on regional government and local self-government bodies	1,474.0	1,437.4	97.5
Debt securities	437.4	527.6	120.6
– in rubles	437.4	527.6	120.6
– in foreign currency	0	0	–
Loans	1,036.7	909.8	87.8
– in rubles	1,036.6	909.7	87.8
– in foreign currency	0.1	0.1	100.0
Other claims	0.0	0.0	–
– in rubles	0.0	0.0	–
– in foreign currency	0.0	0.0	–
Liabilities to federal government	7,292.4	7,430.3	101.9
Deposits	7,229.1	7,354.1	101.7
– in rubles	2,919.3	3,824.5	131.0
– in foreign currency	4,309.8	3,529.6	81.9
Other liabilities	63.3	76.3	120.5
– in rubles	0.0	0.0	–
– in foreign currency	63.3	76.3	120.5
Liabilities to regional government and local self-government bodies	1,385.9	1,728.1	124.7
Deposits	1,385.9	1,728.1	124.7
– in rubles	1,385.8	1,728.1	124.7
– in foreign currency	0.1	0.1	100.0
Other liabilities	0.0	0.0	–
– in rubles	0.0	0.0	–
– in foreign currency	0.0	0.0	–
Claims on other sectors	52,688.5	57,024.3	108.2
– in rubles	43,110.4	48,880.4	113.4
– in foreign currency	9,578.1	8,143.8	85.0
Claims on other financial corporations	6,718.0	8,539.0	127.1
In rubles	5,046.2	7,658.4	151.8
– debt securities	664.4	1,016.1	152.9
– loans	3,381.7	5,433.3	160.7
– other claims	1,000.0	1,209.1	120.9
In foreign currency	1,671.8	880.6	52.7
– debt securities	99.5	143.9	144.6
– loans	1,201.1	484.5	40.3
– other claims	371.2	252.1	67.9
Claims on nonfinancial corporations	34,214.8	35,316.5	103.2
In rubles	26,525.7	28,220.3	106.4
– debt securities	1,275.5	1,268.1	99.4
– loans	23,499.8	24,538.0	104.4
– other claims	1,750.5	2,414.2	137.9
In foreign currency	7,689.1	7,096.2	92.3
– debt securities	11.9	0.5	4.2
– loans	7,564.3	6,939.1	91.7
– other claims	112.9	156.6	138.7

End

	1.01.2017	1.01.2018	1.01.2018 as a percentage of 1.01.2017
Claims on households	11,755.7	13,168.7	112.0
In rubles	11,538.5	13,001.7	112.7
– debt securities	0.0	0.0	–
– loans	11,538.5	13,001.7	112.7
– other claims	0.0	0.0	–
In foreign currency	217.3	167.0	76.9
– debt securities	0.0	0.0	–
– loans	217.3	167.0	76.9
– other claims	0.0	0.0	–
Broad money liabilities	50,903.3	54,667.4	107.4
Money supply (national definition)	38,418.0	42,442.1	110.5
In rubles			
Currency outside depository corporations	7,714.8	8,446.0	109.5
Transferable deposits	9,927.6	11,062.7	111.4
Other financial corporations	549.0	654.5	119.2
Nonfinancial corporations	5,684.2	5,842.3	102.8
Households	3,694.4	4,565.9	123.6
Other deposits	20,775.6	22,933.3	110.4
Other financial corporations	1,379.9	1,319.2	95.6
Nonfinancial corporations	4,762.2	5,536.9	116.3
Households	14,633.5	16,077.3	109.9
In foreign currency	11,997.3	11,835.6	98.7
Transferable deposits	0.0	0.0	–
Other financial corporations	0.0	0.0	–
Nonfinancial corporations	0.0	0.0	–
Households	0.0	0.0	–
Other deposits	11,997.3	11,835.6	98.7
Other financial corporations	217.3	217.7	100.2
Nonfinancial corporations	6,262.0	6,490.7	103.7
Households	5,518.1	5,127.2	92.9
Debt securities included in broad money <sup>1</sup>	488.0	389.7	79.9
Other financial corporations	0.0	0.0	–
Nonfinancial corporations	0.5	0.5	100.0
Households	487.4	389.2	79.9
Deposits excluded from broad money	842.8	1,430.9	169.8
Debt securities excluded from broad money	1,026.4	1,401.5	136.5
Shares and other equity	17,575.6	17,988.9	102.4
Other items (net)	7,210.4	8,258.2	114.5
Other liabilities	15,129.9	16,991.5	112.3
Other assets	5,313.1	5,248.1	98.8
Consolidating adjustment	–2,606.3	–3,485.2	133.7

<sup>1</sup> Certificates of deposit and savings certificates.

Note. Certain indicators are updated as compared with those published in the Bank of Russia Annual Report for 2016.

Table 34

**Survey of credit institutions  
(billions of rubles)**

	1.01.2017	1.01.2018	1.01.2018 as a percentage of 1.01.2017
Net foreign assets	5,031.5	5,223.3	103.8
Claims on nonresidents	12,286.2	11,210.2	91.2
Foreign currency	335.2	643.0	191.8
Deposits	3,481.4	2,790.5	80.2
Debt securities	2,803.1	2,282.9	81.4
Loans	4,751.6	4,599.6	96.8
Shares and other equity	904.1	870.0	96.2
Other claims	10.8	24.3	225.0
Liabilities to nonresidents	7,254.7	5,986.9	82.5
Deposits	6,928.7	5,630.8	81.3
Debt securities	262.7	237.2	90.3
Loans	59.6	115.0	193.0
Other liabilities	3.6	3.9	108.3
Claims on central bank	4,168.2	6,255.7	150.1
Currency	1,075.0	1,093.0	101.7
Deposits, of which	3,093.2	4,810.4	155.5
Required reserves	484.7	506.2	104.4
Debt securities	0.0	352.4	–
Net claims on central government	3,763.1	2,778.4	73.8
Claims on federal government	4,387.9	4,644.6	105.9
Debt securities	4,328.3	4,588.4	106.0
– in rubles	3,470.4	3,574.1	103.0
– in foreign currency	857.9	1,014.3	118.2
Loans	59.6	56.2	94.3
– in rubles	59.6	56.2	94.3
– in foreign currency	0.0	0.0	–
Other claims	0.0	0.0	–
– in rubles	0.0	0.0	–
– in foreign currency	0.0	0.0	–
Claims on regional government and local self-government bodies	1,474.0	1,437.4	97.5
Debt securities	437.4	527.6	120.6
– in rubles	437.4	527.6	120.6
– in foreign currency	0.0	0.0	–
Loans	1,036.7	909.8	87.8
– in rubles	1,036.6	909.7	87.8
– in foreign currency	0.1	0.1	100.0
Other claims	0.0	0.0	–
– in rubles	0.0	0.0	–
– in foreign currency	0.0	0.0	–

Cont.

	1.01.2017	1.01.2018	1.01.2018 as a percentage of 1.01.2017
Liabilities to federal government	1,606.7	2,235.9	139.2
Deposits	1,606.7	2,235.9	139.2
– in rubles	1,114.5	1,846.6	165.7
– in foreign currency	492.2	389.3	79.1
Other liabilities	0.0	0.0	–
– in rubles	0.0	0.0	–
– in foreign currency	0.0	0.0	–
Liabilities to regional government and local self-government bodies	492.1	1,067.7	217.0
Deposits	492.1	1,067.7	217.0
– in rubles	492.0	1,067.6	217.0
– in foreign currency	0.1	0.1	100.0
Other liabilities	0.0	0.0	–
– in rubles	0.0	0.0	–
– in foreign currency	0.0	0.0	–
Claims on other sectors	50,944.4	54,863.6	107.7
– in rubles	41,366.6	46,719.7	112.9
– in foreign currency	9,577.8	8,143.8	85.0
Claims on other financial corporations	4,975.4	6,380.8	128.2
In rubles	3,303.9	5,500.3	166.5
– debt securities	662.4	1,016.1	153.4
– loans	1,704.7	3,335.8	195.7
– other claims	936.8	1,148.4	122.6
In foreign currency	1,671.5	880.6	52.7
– debt securities	99.5	143.9	144.6
– loans	1,201.1	484.5	40.3
– other claims	370.9	252.1	68.0
Claims on nonfinancial corporations	34,213.3	35,314.0	103.2
In rubles	26,524.2	28,217.8	106.4
– debt securities	1,275.5	1,268.1	99.4
– loans	23,499.8	24,538.0	104.4
– other claims	1,748.9	2,411.7	137.9
In foreign currency	7,689.1	7,096.2	92.3
– debt securities	11.9	0.5	4.2
– loans	7,564.3	6,939.1	91.7
– other claims	112.9	156.6	138.7
Claims on households	11,755.7	13,168.7	112.0
In rubles	11,538.5	13,001.7	112.7
– debt securities	0.0	0.0	–
– loans	11,538.5	13,001.7	112.7
– other claims	0.0	0.0	–
In foreign currency	217.3	167.0	76.9
– debt securities	0.0	0.0	–
– loans	217.3	167.0	76.9
– other claims	0.0	0.0	–

End

	1.01.2017	1.01.2018	1.01.2018 as a percentage of 1.01.2017
Liabilities to central bank	3,392.8	2,684.3	79.1
In rubles	2,700.4	2,682.8	99.3
– deposits, loans, of which	2,477.1	2,470.1	99.7
– repos	593.9	3.6	0.6
– debt securities	223.3	212.7	95.3
– other liabilities	0.0	0.0	–
In foreign currency	692.4	1.6	0.2
– deposits, loans, of which	692.4	1.6	0.2
– repos	690.4	0.0	0.0
– debt securities	0.0	0.0	–
– other liabilities	0.0	0.0	–
Deposits included in broad money	42,656.7	45,786.2	107.3
In rubles	30,659.4	33,950.6	110.7
Transferable deposits	9,897.9	11,021.6	111.4
Other financial corporations	532.3	627.3	117.8
Nonfinancial corporations	5,671.2	5,828.3	102.8
Households	3,694.4	4,565.9	123.6
Other deposits	20,761.4	22,929.0	110.4
Other financial corporations	1,365.8	1,314.9	96.3
Nonfinancial corporations	4,762.2	5,536.9	116.3
Households	14,633.5	16,077.3	109.9
In foreign currency	11,997.3	11,835.6	98.7
Transferable deposits	0.0	0.0	–
Other financial corporations	0.0	0.0	–
Nonfinancial corporations	0.0	0.0	–
Households	0.0	0.0	–
Other deposits	11,997.3	11,835.6	98.7
Other financial corporations	217.3	217.7	100.2
Nonfinancial corporations	6,262.0	6,490.7	103.7
Households	5,518.1	5,127.2	92.9
Debt securities included in broad money	488.0	389.7	79.9
Deposits excluded from broad money	842.8	1,430.9	169.8
Debt securities excluded from broad money	1,026.4	1,401.5	136.5
Shares and other equity	6,968.3	7,031.9	100.9
Other items (net)	8,532.2	10,396.4	121.8
Other liabilities	14,141.8	15,983.5	113.0
Other assets	4,944.0	4,863.0	98.4
Consolidating adjustment	–665.5	–724.2	108.8

Note. Certain indicators are updated as compared with those published in the Bank of Russia Annual Report for 2016.

Table 35

**Banking sector capital and profit  
(billions of rubles)**

	2017												2018
	1.01	1.02	1.03	1.04	1.05	1.06	1.07	1.08	1.09	1.10	1.11	1.12	1.01
Equity capital	9,387	9,396	9,410	9,479	9,611	9,649	9,614	9,779	9,782	9,332	9,375	9,147	9,397
– monthly growth, percent	1.6	0.1	0.1	0.7	1.4	0.4	–0.4	1.7	0.0	–4.6	0.5	–2.4	2.7
– 12-month growth, percent	4.2	3.5	3.5	5.9	7.7	7.6	7.4	8.4	7.8	2.6	2.5	–1.0	0.1
Capital adequacy N1.0, percent	13.1	13.1	13.3	13.4	13.3	13.3	12.9	13.1	12.9	11.8	11.8	11.6	12.1
Loss provisions – balance <sup>1</sup>	5,594	5,687	5,701	5,750	5,710	5,782	5,807	5,783	5,829	6,199	6,352	6,663	6,916
– growth from the start of the year	188	93	107	156	116	188	213	189	235	605	758	1,069	1,322
Current year profit	930	114	212	339	553	653	770	920	997	675	693	870	790
Return on assets <sup>2</sup> , percent	1.2	1.3	1.3	1.5	1.7	1.7	1.7	1.7	1.7	1.2	1.1	1.3	1.0
Return on equity <sup>2</sup> , percent	10.3	11.1	11.6	12.7	14.3	14.6	14.4	14.8	14.8	10.3	9.6	10.6	8.3

<sup>1</sup> The balance sheet statement does not correspond to the income statement due to the writing-off of a part of bad debt provisions.

<sup>2</sup> Over 12 months preceding the reporting date.

Table 36

## Measures taken against credit institutions in 2017

No.	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	601
2	Calling a meeting	443
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.)	59
<b>Punitive measures</b>		
4	Fines <sup>1</sup>	247
	of which:	
4.1	for non-compliance with reserve requirements	42
4.2	for breaches of federal laws and Bank of Russia rules and regulations issued in pursuance thereof and for non-reporting, under-reporting, or false reporting	233
5	Restrictions on individual banking operations conducted by credit institutions <sup>1</sup>	135
	of which:	
5.1	taking household funds on deposit	92
5.2	settlements on behalf of corporate entities relating to transfer of funds to budgets of the budget system of the Russian Federation	5
5.3	opening bank accounts to corporate entities and households	82
5.4	interest rate on bank deposit agreements concluded (prolongated) in the restriction period	8
6	Prohibiting credit institutions from conducting certain banking operations <sup>1</sup>	28
	of which:	
6.1	taking household funds on deposit	18
6.2	opening bank accounts to households, including unallocated metal accounts (demand and time accounts)	17
6.3	other	27
<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, 'On Insurance of Household Deposits in Russian Banks'	–
7	Prescriptive orders <sup>1</sup>	484
	of which:	
7.1	orders to comply with Bank of Russia required ratios	1
7.2	orders to replace persons whose positions are indicated in Article 60 of Federal Law No. 86-FZ	2
7.3	orders to replace persons holding positions indicated in Parts 4, 6 and 10 of Article 11.1 of Federal Law No. 395-1 made on the basis of Part 4 of Article 60 of Federal Law No. 86-FZ due to the failure to comply with fit and proper requirements set by the Russian Federation legislation	35
7.4	orders to reclassify receivables	342
7.5	orders to build up loan loss provisions	356
8	Prohibiting credit institutions from opening branches	41
9	Appointing provisional administrations to credit institutions without revoking their licences (including provisional administrations whose functions have been assigned to the DIA and the LLC Fund of Banking Sector Consolidation Asset Management Company)	12
10	Banking licence revocation	51

<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 actions and placed under several sub-clauses.

As of 1 January 2018, there were no credit institutions with regard to which the restriction on settlements on behalf of corporate entities relating to transfer of funds to budgets of the budget system of the Russian Federation was in effect.

As of 1 January 2018, there were no credit institutions with a backlog of non-executed settlement documents on payments to budgets of all levels.

Table 37

**State corporation Deposit Insurance Agency's debt to the Bank of Russia  
(millions of rubles)**

	1.01.2017	1.01.2018
<b>Bank of Russia loans, total</b>	<b>1,616,834</b>	<b>2,050,519</b>
of which:		
– extended for the purpose of taking measures to prevent bankruptcy of credit institutions	1,067,834	1,229,519
– extended for the purpose of ensuring the financial stability of the deposit insurance system and financing the payment of indemnities in respect of deposits	549,000	821,000

Table 38

**Protection of bank depositors**

	1.01.2017	1.01.2018
Number of banks participating in the deposit insurance system	808	781
of which:		
– operating banks	519	472
– under liquidation	289	309
Number of banks included in the deposit insurance system	2	3
Number of banks excluded from the deposit insurance system	36	30
Insured events	88	41
of which the moratorium on meeting creditor claims imposed	5	4

Table 39

**Outcomes of Bank of Russia activity to counter abuses on Russian organised trading  
(in absolute terms, units)**

Indicator	2016	2017
Number of inspections with respect to possible misuse of insider information and market manipulation, total	72	72
of which:	x	x
– held in the reporting year	46	20
Number of disclosures with regard to violations of the Russian Federation legislation on countering the misuse of insider information and market manipulation, total	12	12
of which:	x	x
– as a result of market manipulation	12	10
– as a result of misuse of insider information	0	2
Measures taken as a result of inspections with respect to possible misuse of insider information and market manipulation	x	x
of which:		
– number of licences of financial market participants cancelled	3	2
– number of certificates of financial market experts cancelled	28	14
– number of orders to eliminate violations of the Russian Federation legislation and take measures to prevent future violations	48	40
– number of instances of blocking accounts of persons involved in market manipulation	0	4
Number of instances the materials of which have been submitted to law enforcement agencies	3	6
Number of financial instruments analysed with respect to possible organised market manipulation	550	254

Table 40

**Outcomes of Bank of Russia activity to counter organisations being financial pyramid schemes**

Indicator	2015	2016	2017
Number of organisations being financial pyramid schemes exposed by the Bank of Russia, units	200	180	137
Amount of damage inflicted by financial pyramid schemes (according to law enforcement agencies), billions of rubles	5.5	1.7	0.8

Table 41

**Outcomes of Bank of Russia activity to exchange information, including confidential one, with foreign financial market regulators under IOSCO MMoU**

	2016	2017
Number of Bank of Russia requests to provide information and documents	71	48
Number of requests to provide information and documents answered by foreign regulators	49	39
Number of foreign regulators' requests to render assistance	21	30
of which:		
– with regard to business reputation of owners, managers and employees of organisations, financial market participants	15	17

Table 42

## Structure of Bank of Russia banknotes in circulation

Denomination, rubles	Total in circulation, millions of rubles		Percent of 1.01.2017	Share, percent	
	as of 1.01.2017	as of 1.01.2018		as of 1.01.2017	as of 1.01.2018
5 000	6,308,252.1	7,035,734.8	111.5	72.4	74.5
2 000	–	27,653.1	–	–	0.3
1 000	1,936,199.2	1,929,607.0	99.7	22.2	20.4
500	311,777.9	300,389.6	96.4	3.6	3.2
200	–	1,318.6	–	–	0.0
100	122,725.4	124,350.5	101.3	1.4	1.3
50	29,753.0	28,779.8	96.7	0.4	0.3
10	4,342.7	4,049.3	93.2	0.0	0.0
5	35.6	35.6	100.0	0.0	0.0
<b>Total balance sheet number of banknotes</b>	<b>8,713,085.9</b>	<b>9,451,918.3</b>	<b>108.5</b>	<b>100.0</b>	<b>100.0</b>

Table 43

Structure of Bank of Russia coins in circulation<sup>1</sup>

Denomination	Total in circulation, millions of rubles		Percent of 1.01.2017	Share, percent	
	as of 1.01.2017	as of 1.01.2018		as of 1.01.2017	as of 1.01.2018
1 kopeck	72.8	72.8	100.0	0.1	0.1
5 kopecks	288.5	288.5	100.0	0.3	0.3
10 kopecks	2,541.2	2,543.5	100.1	2.9	2.7
50 kopecks	3,645.7	3,649.8	100.1	4.1	3.8
1 ruble	7,424.9	7,828.7	105.4	8.3	8.2
2 rubles	6,552.0	6,844.3	104.5	7.4	7.1
5 rubles	12,718.1	13,265.3	104.3	14.3	13.9
10 rubles	53,669.6	58,407.6	108.8	60.4	61.0
25 rubles	2,000.0	2,824.3	141.2	2.2	2.9
<b>Total balance sheet number of coins</b>	<b>88,912.8</b>	<b>95,724.8</b>	<b>107.7</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> Excluding coins made of precious metals.

Table 44

## National payment system key indicators

	1.01.2017	1.01.2018
<b>National payment system participants<sup>1</sup></b>		
Number of money transfer operators	625	563
of which:		
– Bank of Russia	1	1
– Vnesheconombank	1	1
– credit institutions	623	561
Number of payment system operators	35	32
of which:		
– Bank of Russia	1	1
– credit institutions	18	15
– organisations other than credit institutions	16	16
Number of operators of payment infrastructure services	47	45
of which:		
– operating centres	31	29
– payment clearing centres	31	29
– settlement centres	29	27
Number of e-money operators	99	93
FSUE Russian Post	1	1
<b>Memo item<sup>1</sup></b>		
Number of Bank of Russia establishments	239	194
Number of branches of credit institutions	1,098	890
Number of internal divisions of credit institutions (branches)		
of which:		
– additional offices	19,776	20,263
– mobile cash offices of credit institutions (branches)	4,995	3,033
– credit and cash offices	1,943	1,972
– operations offices	7,230	7,743
Number of post offices of FSUE Russian Post <sup>2</sup>	42,068	42,269
of which:		
– rendering payment services	37,915	38,117
Number of payment systems operating in the Russian Federation	35	32
of which:		
– Bank of Russia payment system	1	1
– Mir payment system	1	1
– payment systems registered by the Bank of Russia	33	30
of which:		
– nationally important	18	16
– systemically important	2	2
– socially important	6	4

Cont.

	1.01.2017	1.01.2018
<b>Money transfer operators – credit institutions</b>		
Number of payments effected by credit institution customers being credit institutions, million	99.1	144.2
Number of payments effected by credit institution customers other than credit institutions <sup>3</sup> , million	20,254.7	26,794.9
of which, by payment instrument:		
– credit transfers <sup>4</sup>	2,543.2	2,479.1
– direct debits <sup>5</sup>	92.5	105.0
– payment cards <sup>6</sup>	14,413.5	20,676.1
– electronic means of payment to transfer e-money <sup>7</sup>	1,427.2	2,031.4
– other payment instruments <sup>8</sup>	1,778.3	1,503.3
Volume of payments effected by credit institution customers being credit institutions, trillions of rubles	600.3	677.5
Volume of payments effected by credit institution customers other than credit institutions <sup>3</sup> , trillions of rubles	622.6	667.7
of which, by payment instrument:		
– credit transfers <sup>4</sup>	583.4	617.3
– direct debits <sup>5</sup>	2.6	2.2
– payment cards <sup>6</sup>	23.9	36.1
– electronic means of payment to transfer e-money <sup>7</sup>	1.0	1.3
– other payment instruments <sup>8</sup>	11.7	10.8
Number of payment cards issued by Russian credit institutions <sup>1</sup> , million	254.8	271.0
Number of payment card operations in Russia and abroad <sup>9</sup> , million	17,871.9	24,003.8
of which:		
– cash withdrawals	3,458.4	3,327.7
– cashless operations	14,413.5	20,676.1
of which payments of goods and services	13,011.3	17,935.3
Volume of payment card operations in Russia and abroad <sup>9</sup> , trillions of rubles	51.3	63.4
of which:		
– cash withdrawals	27.4	27.3
– cashless operations	23.9	36.1
of which payments of goods and services	12.4	16.3
Share of payments of goods and services using payment cards and e-money in the total turnover of retail trade, public catering and services	31.8	39.6
<b>E-money transfer operators</b>		
Number of electronic means of payment to transfer e-money used since start of year, million	315.5	366.1
Number of operations using electronic means of payment to transfer e-money, million	1,432.9	2,040.7
Volume of operations using electronic means of payment to transfer e-money, billions of rubles	998.9	1,351.0
<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 operations effected by FSUE Russian Post as a bank payment agent, million	661.3	538.0
Volume of money orders and household payments accepted by FSUE Russian Post as a payment agent and operations effected by FSUE Russian Post as a bank payment agent, billions of rubles	561.6	530.8

End

	1.01.2017	1.01.2018
<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	24.7	24.4
of which:		
– payment agents	21.3	21.0
– bank payment agents	3.4	3.4
Volume of operations effected through payment agents and bank payment agents, billions of rubles	1,698.6	1,682.8
of which:		
– payment agents	1,291.8	1,065.6
– bank payment agents	406.8	617.2

<sup>1</sup> As of end of year.

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

<sup>3</sup> Including payments 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> Excluding operations to withdraw cash.

<sup>7</sup> Excluding operations to transfer e-money balance 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.

Note. Certain indicators are updated as compared with those published in the Bank of Russia Annual Report for 2016.

Table 45

## Bank of Russia payment system

	2016	2017
Number of remittances effected, million	1,435.9	1,529.2
of which:		
– by credit institutions	1,205.0	1,274.5
– by branches of credit institutions	230.4	254.2
– by customers other than credit institutions	0.5	0.5
including via settlement systems:		
– via the intraregional settlement system	839.9	847.9
– via the interregional settlement system	592.6	676.7
– via the BESP settlement system	3.4	4.6
– settlements effected on paper using letters of advice	0.002	0.00001
Volume of remittances effected, trillions of rubles	1,340.0	1,440.9
of which:		
– by credit institutions (branches)	1,087.2	1,170.2
– by customers other than credit institutions	141.8	160.4
– by Bank of Russia divisions	111.0	110.3
including via settlement systems:		
– via the intraregional settlement system	645.2	184.9
– via the interregional settlement system	134.7	99.7
– via the BESP settlement system	560.1	1,156.3
– settlements effected on paper using letters of advice	0.003	0.00000001

Table 46

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 1.01.2017	as of 1.01.2018	change over 2017	as of 1.01.2017	as of 1.01.2018	change over 2017
<b>Total</b>	<b>1.4</b>	<b>1.2</b>	<b>-0.2</b>	<b>51.5</b>	<b>50.2</b>	<b>-1.3</b>
Federal Treasury	0.2	0.2	0.0	48.6	47.6	-1.0
Regional and local budget management bodies	0.6	0.5	-0.1	2.0	1.9	-0.1
State-owned institutions financed from budgets of all levels	0.1	0.1	0.0	0.2	0.1	-0.1
Government and other extra-budgetary funds	0.01	0.01	0.0	0.02	0.02	0.0
Election commissions (referendum commissions)	0.1	0.2	0.1	0.2	0.3	0.1
Other organisations	0.4	0.2	-0.2	0.5	0.3	-0.2

Note. Certain indicators are updated as compared with those published in the Bank of Russia Annual Report for 2016.

Approved by the Bank of Russia Board of Directors on 27 April 2018

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