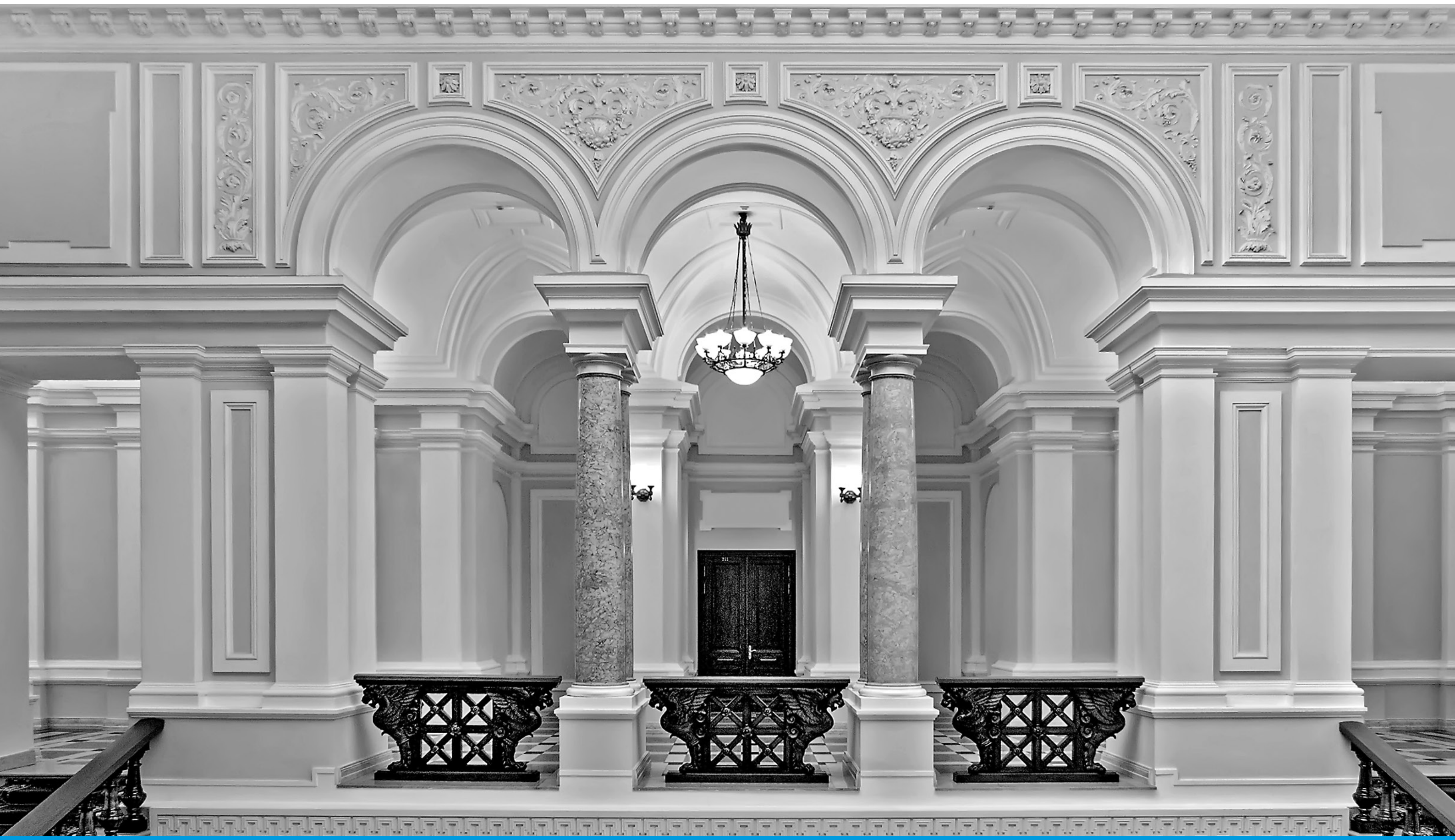
Bank of Russia

Central Bank of the Russian Federation



BANKING SUPERVISION REPORT 2014

Moscow

2015

BANKING SUPERVISION REPORT
2014

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FOREWORD

Dear readers,

The Bank of Russia has prepared the next edition of the Banking Supervision Report.

In 2014, the Russian banking sector showed successful overall development, despite the uneasy external and macroeconomic conditions. Corporations and banks experienced difficulties with external funding; under conditions of falling prices for oil and other commodities the economic growth slowed down; depreciation of emerging market currencies, including the ruble, triggered inflation growth.

In this situation, the Government of the Russian Federation and the Bank of Russia worked out a set of measures aimed at ensuring systemic stability of the banking sector and maintaining bank lending to key sectors of the economy. The Bank of Russia develops new approaches in the monetary sphere, implements measures aimed at maintaining financial infrastructure stability.

Amid sanctions against some banks, the resource base extended in 2014 primarily through internal funding sources: corporate funds and household savings.

Corporate lending dynamics was more intense compared to 2013 due to the necessity to replace external funding with loans from domestic banks.

Banks were more conservative in their risk assessment and created additional loan loss provisions. This contributed to lower profits of the banking sector in 2014 as compared with the previous year.

The Bank of Russia continued rehabilitation of the banking sector. As the financial markets regulator, it improved the competitive environment and took measures to eliminate the regulatory arbitrage in the financial markets. The Bank of Russia continued to implement measures to refine the banking sector from financially unstable organisations unable to ensure safety of depositors' funds, as well as from banks involved in dubious transactions. Given economic reasons, the Bank of Russia in cooperation with the state corporation Deposit Insurance Agency applied rehabilitation mechanisms to problem banks.

A wide range of readers show a great amount of interest in problems associated with banking sector stability. Hence, considerable attention in this Report is devoted to analysing global risks and assessing systemic stability of the banking sector, using, *inter alia*, stress-testing methods.

Given the specifics of the current economic situation the Bank of Russia introduces international recommendations to the banking regulation. In 2014, it began to introduce new approaches to assessing bank capital adequacy – Basel III – into the banking practices. Operation under the new requirements demonstrated the ability of the vast majority of banks to adequately respond to new regulatory standards even in a less favourable external environment. The Report provides detailed information on main lines of further improvement of the banking regulation in the framework of international approaches.

Elvira Nabiullina
Bank of Russia Governor

I. THE STATE OF THE RUSSIAN BANKING SECTOR

I.1. General Economic Conditions

I.1.1. Macroeconomics and External Global Risks

I.1.1.1. EXTERNAL GLOBAL RISKS

In 2014, the prospects of global economic growth deteriorated. According to the International Monetary Fund (IMF) estimates, the global GDP growth rate in 2014 was 3.4%, same as in 2013, which turned out worse than the projections at beginning of the year. Meanwhile, growth accelerated in the United States while in the euro area, Japan and large emerging markets (including China) macroeconomic indicators largely fell short of the expectations.

This contributed to differences in the stance of the monetary policy pursued by major central banks. The US Federal Reserve (Fed) exited the quantitative easing program, while the European Central Bank (ECB) announced a program of targeted longer-term refinancing operations (TLTRO[1]), the Bank of Japan adhered to its accommodative stance, and the People's Bank of China implemented a number of measures to ease its monetary policy.

In the euro area the demand for bank loans from companies and households persisted to be low; deflation risks exacerbated: in December 2014, for the first time since 2009, a decline in consumer prices by 0.2% in annual terms was recorded. And only in the US the quantitative easing program allowed to improve the situation in the economy. Following the recession of 2009 – (–2.8)%[2] of GDP growth – accommodative measures in the monetary policy contributed to the achievement of sustainable economic growth (from 1.6% to 2.5% a year) and the reduction of unemployment rate (from 9.3% to 5.6%) in the past five years.

Under conditions of different monetary policy stances, the US dollar appreciated both against most reserve currencies and emerging market currencies. In 2014, the US dollar index to the basket of the key currencies (DXY[3]) rose by 13%, while the index of the basket of emerging market currencies (the JP Morgan EM currency index) fell by 12%.

The second half of 2014 saw a considerable decline in oil prices (the price of Brent crude dropped by 49%). According to the estimates of international financial institutions, the decline in oil prices will generally have a positive impact on the global economy. However, the decline in oil prices may also have considerable negative impacts. During the reporting period, deflationary risks in the European countries, Japan and China aggravated, fiscal risks in oil exporting countries increased as well. Certain risks to the stability of global oil companies with high debt burden arose.

Generally, amid the above tendencies, debt risks are becoming increasingly important. Most countries of the euro area are still characterised by excessive levels of debt burden in the public sector, while the fiscal consolidation has been practically exhausted. Many emerging markets experienced a considerable increase in the debt burden of the private sector in recent years. Under conditions of expected US Federal Reserve rate hike, in 2015 emerging markets may face capital outflow, further depreciation of their national currencies and increasing cost of borrowing, which could result in corporate defaults.

I.1.1.2. MACROECONOMICS

In 2014, the Russian economy was seriously challenged by geopolitical problems amid the exhaustion of traditional sources of economic growth started in the previous years. The private capital outflow from Russia increased both due to the purchase of foreign cash by households and corporates, and external debt repay-

[1] Targeted longer-term refinancing operations – for refinancing of credit institutions.
[2] Hereinafter, for convenience, negative values in the text are given in brackets.
[3] The US dollar index (USDX, DXY) is an index that reflects the US dollar rate against the basket of six major currencies, including the euro (57.6%), the yen (13.6%), pound sterling (11.9%), Canadian dollar (9.1%), Swedish krona (4.2%) and Swiss franc (3.6%).

ment by the Russian private sector whose refinancing possibility was limited by the imposed sanctions.

In 2014, the international reserves of the Russian Federation contracted by 124.1 billion US dollars to 385.5 billion US dollars as of 1 January 2015. The adequacy of the international reserves of the Russian Federation, calculated in accordance with the international standards in terms of the number of months of import coverage of goods and services was 10.8 months (previous year – 13 months).

In early 2015, the external debt of the Russian Federation was estimated at 597.3 billion US dollars, in 2014 it contracted by 18% (the previous year it increased by 15%).

The GDP growth fell to 0.6% in 2014. Business activity reduced in almost all industries. Like in previous years, the annual growth rate of the gross value added (GVA) was mainly ensured by its increase in the sector of intermediary services (real estate transactions, financial services) and in manufacturing industries. The contribution of mining, construction, transport, production and distribution of electricity, gas and water to the GVA was small or negative.

A slowdown in the production growth in 2014 had a negative impact on financial performance of companies. In some industries it was aggravated by cost increases due to the tighter borrowing conditions in the domestic and foreign markets, limited possibilities to increase prices for finished products due to the low demand and tough tariff restrictions.

The structure of aggregate demand changed. The ruble depreciation and lower demand for imported goods in 2014 resulted in higher positive contribution of net exports to the GDP growth (up to 1.7 percentage points against 0.5 percentage points in 2013). At the same time, the positive contribution of final consumption of households to the GDP growth declined from 2.5 to 0.7 percentage points. Amid declining annual growth in real wages, the consumption level was maintained by households' contracting propensity to save. The share of households' savings in the disposable income fell from 11.1% to 7.9% during the year.

The contribution of the gross capital formation to the GDP in 2014, as in 2013, was negative due to the reduction in fixed capital investments and inventories. Economic uncertainty, geopolitical risks, rising cost of imported investment goods, lower net financial result of enterprises, and higher cost of credit resources resulted in 2.7% decline in fixed capital investments in 2014 as compared with the previous year.

In 2014, under conditions of weaker demand and contracting profits, companies improved their employment and wage strategies. Being unable to fully transfer the rising costs into the price of their products, companies chose to reduce labour remuneration, while maintaining the number of employees expecting growth recovery. The overall real wage growth slowed to 1.3% in 2014, the lowest value for the past five years. At the same time, the unemployment rate remained low (slightly over 5%, seasonally adjusted) in 2014. It was limited by long-term demographic factors that have shaped a downward trend in the labour supply.

In December 2014, the annual consumer price growth amounted to 11.4%.

The inflation rate increased primarily due to the direct and indirect impact of the ruble depreciation which resulted in higher prices for a wide range of goods and services accounting for a considerable share or imports or using imported raw materials and components for their production. Besides, the ruble depreciation spurred inflation expectations, resulting in a shift in consumer preferences in favour of consumption and a surge in prices of durable goods. Secondary effects of exchange rate dynamics were also manifested by higher domestic prices for goods, for which the ruble efficiency of exports has increased (grains, oilseeds), and their derivatives.

The total inflationary impact of the ruble depreciation was supplemented by specific factors in some markets of goods and services: a temporary ban on the imports, poor harvest of some crops, and a launch of a new funding mechanism for certain types of housing services. In December 2014, food prices were generally higher than in December of the previous year by 15.4%, non-food prices - by 8.1%, services - by 10.5%.

Factors constraining growth of costs and prices were weaker demand, low indexation of administered prices and services, reduction (at the end of 2014) in domestic producer prices in the mining sector that followed the fall in the global oil prices.

I.1.2. Financial Markets

I.1.2.1. BANK OF RUSSIA OPERATIONS TO REGULATE BANKING SECTOR LIQUIDITY

In 2014, amid increasing structural deficit of the banking sector liquidity, resulting from the dynamics of its formation factors, credit institutions' demand for the Bank of Russia refinancing operations continued to grow.

In 2014, the main factors of liquidity absorption from the banking sector were the Bank of Russia's interventions in the domestic foreign exchange market held in the framework of the Bank of Russia exchange rate policy and aimed at maintaining financial stability and increasing the volume of cash in circulation. Lower balances in general government accounts with the Bank of Russia (including other operations), on the contrary, contributed to liquidity inflow into the banking sector.

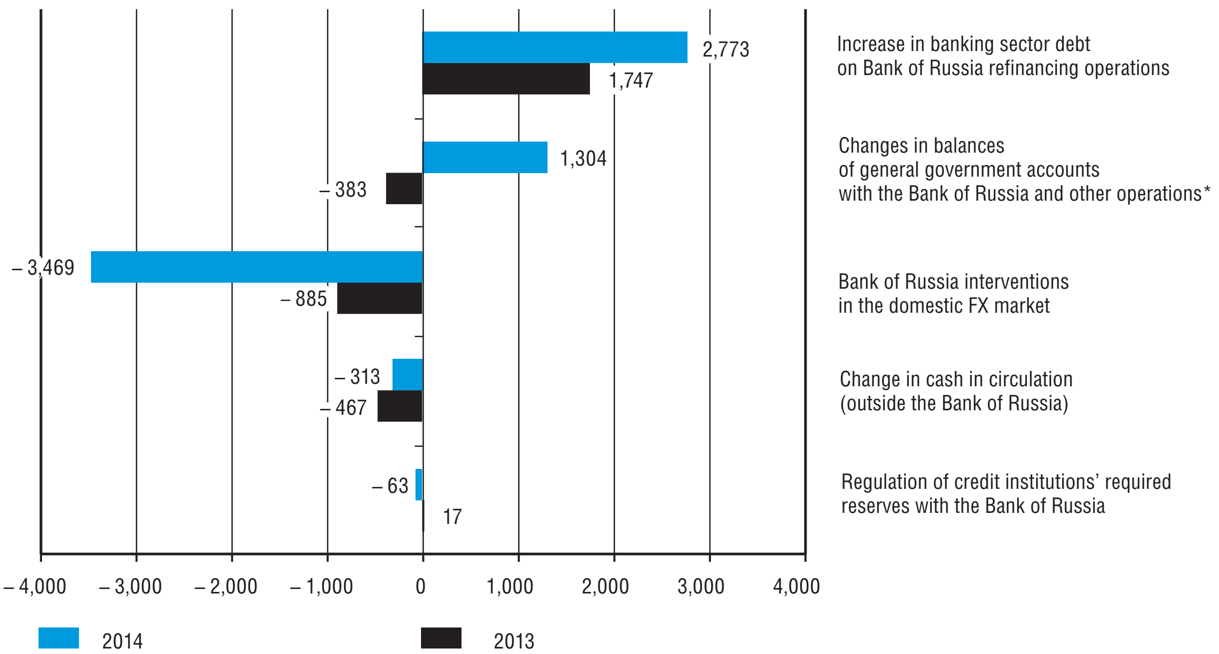
In 2014, repo transactions with the Bank of Russia continued to play an important role in the banking sector liquidity management. The average debt of credit institutions on these operations for the period under consideration increased by 0.7 trillion rubles as against 2013 and amounted to 2.7 trillion rubles, of which 2.6 trillion rubles – on auction-based repos. Starting February 2014, the Bank of Russia stopped its daily overnight repo auctions. To compensate for the significant excess in demand for liquidity over its supply the Bank of Russia held on certain days fine-tuning repo auctions for a term of 1 to 6 days. These transactions were most required in January, March and late December 2014.

Loans secured with non-marketable assets or guarantees were an important source of refinancing in the reporting period. In 2014, the Bank of Russia launched monthly auctions to provide 3-month loans secured with non-marketable assets at a floating interest rate, thus increasing the supply of funds to partially compensate for the structural liquidity shortage. Besides, in July 2014, an auction to provide 12-month loans secured with non-marketable assets at a floating interest rate was held. To bring down the impact of Bank of Russia refinancing operations, the volume of which increases as the structural liquidity shortage comes up, on the maturity of credit institutions' liabilities, the maximum term of funds provision under these auctions was increased from 12 to 18 months in November 2014. In December, to compensate for short-term liquidity needs, the Bank of Russia held an auction for a term of 3 weeks. As a result, the Bank of Russia's claims on auction-based operations secured with non-marketable assets increased by 1.8 trillion rubles in 2014 and as of 1 January 2015 amounted to 2.4 trillion rubles.

Credit institutions' average demand for loans secured with non-marketable assets or guarantees at a fixed interest rate remained at a stable level close to 500 billion rubles until the second week of December 2014. The insufficiency of marketable collateral in December 2014 resulted in an increase in credit institutions' debt on these operations to 2.1 trillion rubles by early 2015.

As of 1 January 2015, repos accounted for about 38% of credit institutions' total debt on Bank of Rus-

Chart 1.1. Liquidity factors and changes in banking sector debt on Bank of Russia refinancing operations, billions of rubles



** Excluding deposits of the Federal Treasury and OFZ transactions.*

Source: Bank of Russia.

Table 1.1. Changes in composition and parameters of Bank of Russia refinancing operations in 2014

Decisions on changes in the composition of operations:	
In rubles	
Refinancing in rubles. Cancellation of daily overnight repo auctions. Suspension of some instruments: – Lombard auctions for all terms; – 3-month and 12-month repo auctions; – Lombard loans for terms of over 1 day; – Standing deposit operations for terms of over 1 day; – Deposit auctions for terms of over 1 week. Fine-tuning operations are held in the form of repo auctions and deposit auctions for a term of 1 to 6 days, with respectively the minimum and maximum rate equal to the Bank of Russia key rate.	February
Auctions to provide 3-week loans secured with non-marketable assets. Lombard auction to provide 36-month loans.	December
In foreign currency	
Introduction of standing overnight USD/RUB sell/buy FX swap.	September
Introduction of 1-week and 28-day FX repo auctions in US dollars and euros.	October
Introduction of 12-month FX repo auctions in US dollars and euros.	November
Introduction of auctions to provide 28-day and 365-day FX loans secured with a pledge of claim on FX loans.	December
Decisions on changes in operation parameters:	
In rubles	
Unification of rates for some instruments: – On loans secured with non-marketable assets and guarantees, at fixed interest rates for terms from 2 to 365 days; – On loans secured with gold, at fixed interest rates for terms from 2 to 365 days.	February
Increase from 365 to 549 days in the maximum terms of providing funds under the following operations: loans secured with non-marketable assets or guarantees and loans secured with gold. Provision of loans secured with non-marketable assets or guarantees and loans secured with gold for up to 90 days at a fixed interest rate, for terms of 91 to 549 days at a floating interest rate linked to the Bank of Russia key rate (till 15 December 2014).	June
Termination of setting interest rates on suspended Bank of Russia operations except for standing 12-month repos.	July
Increase in terms of funds provision through auctions to provide loans secured with non-marketable assets, at a floating interest rate for terms from 12 to 18 months. Limiting the amount of ruble liquidity provided through FX swaps.	November
Termination of setting interest rates on 12-month standing repos. Provision of loans secured with non-marketable assets or guarantees and loans secured with gold, for terms from 2 to 549 days at a floating interest rate linked to the Bank of Russia key rate.	December
In foreign exchange	
Setting the minimum interest rates on FX repos for all terms (1 week, 28 days, 12 months) equal to LIBOR rates in respective currencies for comparable terms increased by 0.5 percentage points. Setting the minimum interest rate on auction-based FX loans secured with a pledge of claim on FX loans for terms of 28 and 365 days equal to LIBOR rates in respective currencies and for comparable terms increased by 0.75 percentage points.	December

Table 1.2. Changes in composition and parameters of Bank of Russia special refinancing instruments in 2014

Introducing a new mechanism of refinancing investment projects loans, through which credit institutions can raise funds from the Bank of Russia for up to 3 years inclusive, secured with a pledge of claim on loans granted to finance investment projects, selected in accordance with the rules approved by the Government of the Russian Federation	April
Supplementing the mechanism for providing Bank of Russia loans secured with a pledge of claim on investment project loans, with loans secured with a pledge of bonds placed for investment project funding and included in the Bank of Russia Lombard List	May
Introducing a new mechanism for credit institutions refinancing (pilot project) – Bank of Russia loans secured with mortgages issued under Military Mortgage programme for up to 3 years (1095 calendar days)	December

sia refinancing operations, and the share of loans secured with non-marketable assets or guarantees amounted to 60%. In the total debt of credit institutions on Bank of Russia auction-based refinancing operations, the share of repos was 53%, and the share of loans secured with non-marketable assets stood at 47% (for standing facilities – 4 and 90% respectively).

In 2014, credit institutions' demand for Bank of Russia deposits remained low. The average debt on these operations in the reporting year was 0.1 trillion rubles. In some periods when liquidity supply exceeded credit institutions' demand, the Bank of Russia held fine-tuning operations – deposit auctions for terms of 1 to 6 days. The volume of credit institutions' deposits with the Bank of Russia increased over the year by 0.3 trillion rubles and as of 1 January 2015 amounted to 0.8 trillion rubles due to the seasonal trends.

I.1.2.2. MONEY MARKET

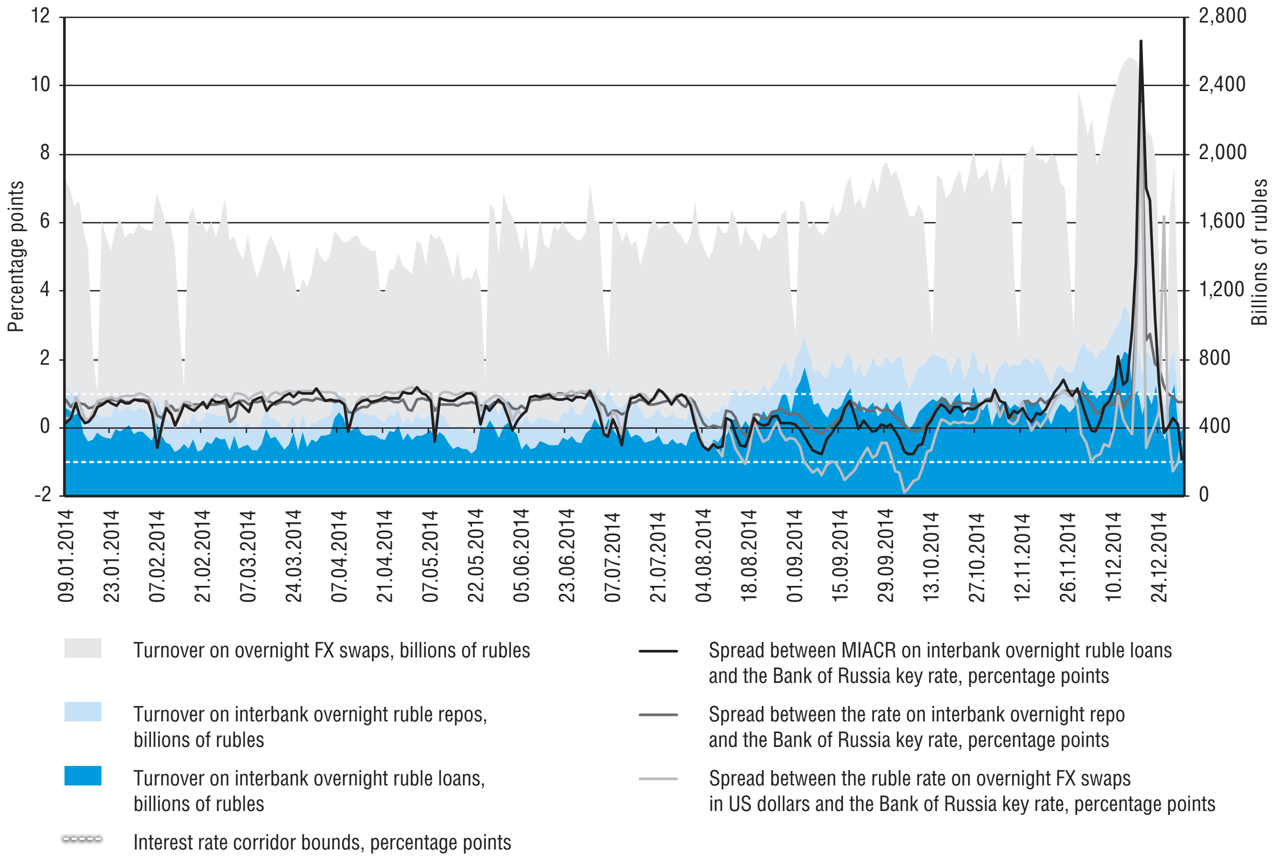
During most of January–July 2014, amid the persistent structural liquidity deficit, the MIACR rate on interbank overnight ruble loans (IBL) was in the upper range of the Bank of Russia interest rate corridor, deviating from the key rate by an average of 0.7 percentage points (see Chart 1.2).

In August-September 2014, a considerable increase in credit institutions' demand for US dollar liquidity resulted in a decline of ruble rates on overnight FX swaps to the lower bound of the Bank of Russia interest rate corridor. Under these circumstances, short-term interest rates on interbank ruble loans also decreased and stabilised at the level of the Bank of Russia key rate. Considerable sales of foreign currency by the Bank of Russia in the framework of exchange rate policy in October 2014 (about 30 billion US dollars) contributed to some improvement in the situation with dollar liquidity. Under these conditions, ruble rates on FX swaps increased and starting the second week of October 2014 the money market ruble rates were mainly in the upper range of the Bank of Russia interest rate corridor.

December 2014 saw an increase in the money market short-term rates due to a high uncertainty and falling confidence in the interbank market under conditions of the considerable ruble depreciation and the shortage of available market collateral with certain market participants. These factors resulted in repeated situations when money market rates exceeded the upper bound of the Bank of Russia interest rate corridor. In December, the average spread between the IBL rate and the Bank of Russia key rate was 2.0 percentage points.

Money market turnover grew significantly in the second half of 2014 due to the higher borrowings of certain major money market participants in the IBL segment

Chart 1.2. Spreads between interest rates and the Bank of Russia key rate and money market turnover



Source: Bank of Russia.

and the growth of FX swaps in ruble terms resulting from the depreciation of the Russian national currency. In August-December 2014, the average daily turnover of overnight ruble transactions in the money market (interbank loans, interbank repos and FX swaps) amounted to 1.8 trillion rubles against 1.5 trillion rubles in January–July 2014.

I.1.2.3. FOREIGN EXCHANGE MARKET

In 2014, currencies of emerging markets, including the Russian ruble, depreciated considerably against major world currencies. The depreciation of the Russian national currency was conditioned by high geopolitical risks, considerable decline in global oil prices and higher demand of credit institutions for FX liquidity, including for external debt servicing. In 2014, the official exchange rate of the US dollar against the ruble rose by 72% to 56.2376 rubles for one dollar as of 1 January 2015, the euro exchange rate against the ruble increased by 52% to 68.3681 rubles for one euro, the value of the dual-currency basket increased by 61% to 61.6963 rubles.

In 2014, volume of US dollar/ruble and euro/ruble trade at the cash segment of the foreign exchange market was relatively stable, averaging 7.5 billion US dollars per day.

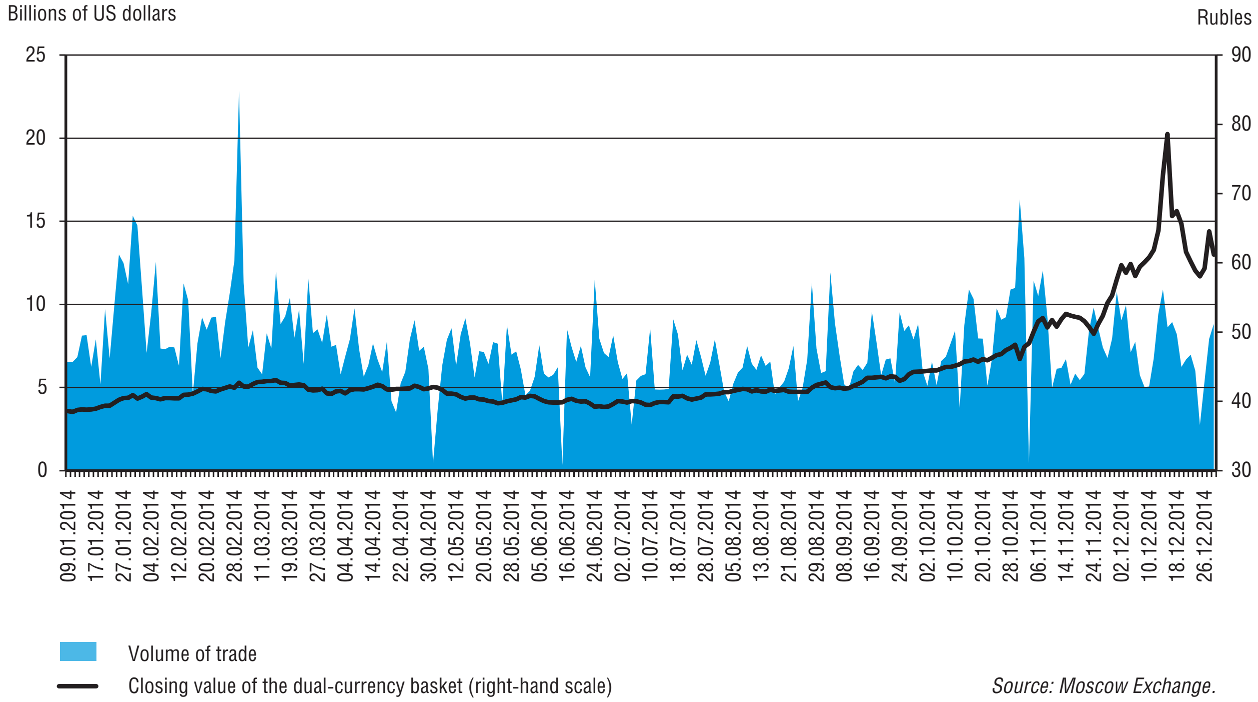
I.1.2.4. CORPORATE SECURITIES MARKET

In 2014, the situation in the corporate securities market was determined by higher geopolitical and economic risks, changes in investor sentiment and Bank of Russia decisions on interest and exchange rate policy.

Downgrade of the Russian sovereign credit rating and the ratings of some Russian companies and banks by the leading international rating agencies, imposition of sanctions against Russia, global oil price fall, ruble depreciation and higher money market rates resulted in considerably higher yields and volatility of Russian corporate securities.

In the domestic stock market the volatility indicators of the MICEX and RTS stock indices exceeded the longstanding highs. The RTS index (calculated on the basis of share prices denominated in US dollars) decreased by the end of 2014 by 45.2% year-on-year, approaching the lows of the most acute phase of the global financial and economic crisis of 2008–2009. The MICEX index (calculated on the basis of share prices denominated in rubles) fell less significantly, by 7.1%. The capitalisation of the Moscow Exchange stock market[1] decreased by 8.6% to 23.2 trillion rubles. The turnover of secondary trading in shares and depositary receipts on shares of Russian companies on the Moscow Exchange increased in 2014 by 18.6% year-on-year, to

Chart 1.3. Value of the dual-currency basket and the volume of US dollar and euro trade on the Moscow Exchange



Source: Moscow Exchange.

[1] Stock market capitalisation data in the Moscow Exchange Main Market sector.

10.1 trillion rubles. The share of bank equities in the total secondary trade turnover on the Moscow Exchange remained unchanged approximating 40%.

For most of the reporting year, the issuing activity in the domestic corporate bond market was low. Only in December 2014 the corporate bond issue increased significantly and reached the highest monthly value in the history of the Russian corporate bond market. In 2014, the Moscow Exchange placed 218 new corporate bond issues and additionally placed 17 issues with a total par value of 1,749 billion rubles, of which credit institutions accounted for about 25%.

In the reporting year, the portfolio of corporate bonds traded in the domestic market increased by 27.6% to 6.6 trillion rubles at par value[1] compared to 2013. Sectorwise, bank securities, which accounted for about 31% of the total volume, remained the largest segment of the portfolio.

In 2014, the secondary trading in corporate bonds on the Moscow Exchange decreased by 30.9% year-on-year, to 4.3 trillion rubles. The share of credit institution bonds exceeded 40%.

During the reporting period, the average yield of corporate bonds in the secondary market increased by 216 basis points to 10.4% per annum year-on-year.

Institutional aspects of securities market development. In 2014, the Russian financial market tended to reduce the number of both credit and non-bank institutions, licensed as professional securities market participants, and infrastructure organisations – their number decreased from 1,149 and 14 as of 1 January 2014 to 1,079 and 13 respectively as of 31 December 2014. These included a decrease in the number of broker licences by 82 to 803, dealer licences – by 70 to 817, trust manager licences – by 76 to 706, and depositary licences – by 36 to 579 during the period. The number of registrar licences increased by 2 to 39, and the number of clearing organisations reduced from 6 to 5 during the period. The number of trade organisers (exchanges) remained unchanged with 8 exchange operating by the end of this period. At the same time, about a half of professional securities market participants – dealers and brokers, and more than a third of trust managers held a banking licence.

During 2014, the Bank of Russia improved the financial market regulation, primarily increasing availability of brokerage services. In the regions where the list of financial services provided by banks was limited, client brokers will now be able to provide brokerage services. The Bank of Russia continued improving financial market instruments, in particular the possibilities of securitisation, which allows special purpose financial companies to acquire property rights of debtors and special purpose project finance companies to invest in long-term investment projects.

I.1.3. Banking Sector Macroeconomic Performance

The key macroeconomic indicators of the Russian banking sector (see Table 2 of the Statistical Appendix) are close to the benchmarks set by the Banking Sector Development Strategy of the Russian Federation for the period until 2015 (hereinafter, the Strategy), or exceed them. Measures to increase capitalisation of Russian banks taken by the Government of the Russian Federation and the Bank of Russia will help to achieve the target capital to GDP ratio of 14–15% set by the Strategy.

I.2. Institutional Aspects of Banking Sector Development

I.2.1. Quantitative Characteristics

The recent downward trend in the number of credit institutions continued in 2014: it decreased by 89 to 834 during the reporting year (Chart 1.4).

Large multi-branch banks continued to optimise their regional units in 2014. The total number of internal structural units of credit institutions decreased by 1,582 to 41,794 as of 1 January 2015 (43,376 as of 1 January 2014). The number of additional offices went down from 24,486 to 23,301, cash and credit offices – from 2,463 to 2,289, external cash desks – from 7,845 to 6,735. Meanwhile, the number of operation offices increased from 8,436 to 9,273, and mobile banking vehicles – from 146 to 196.

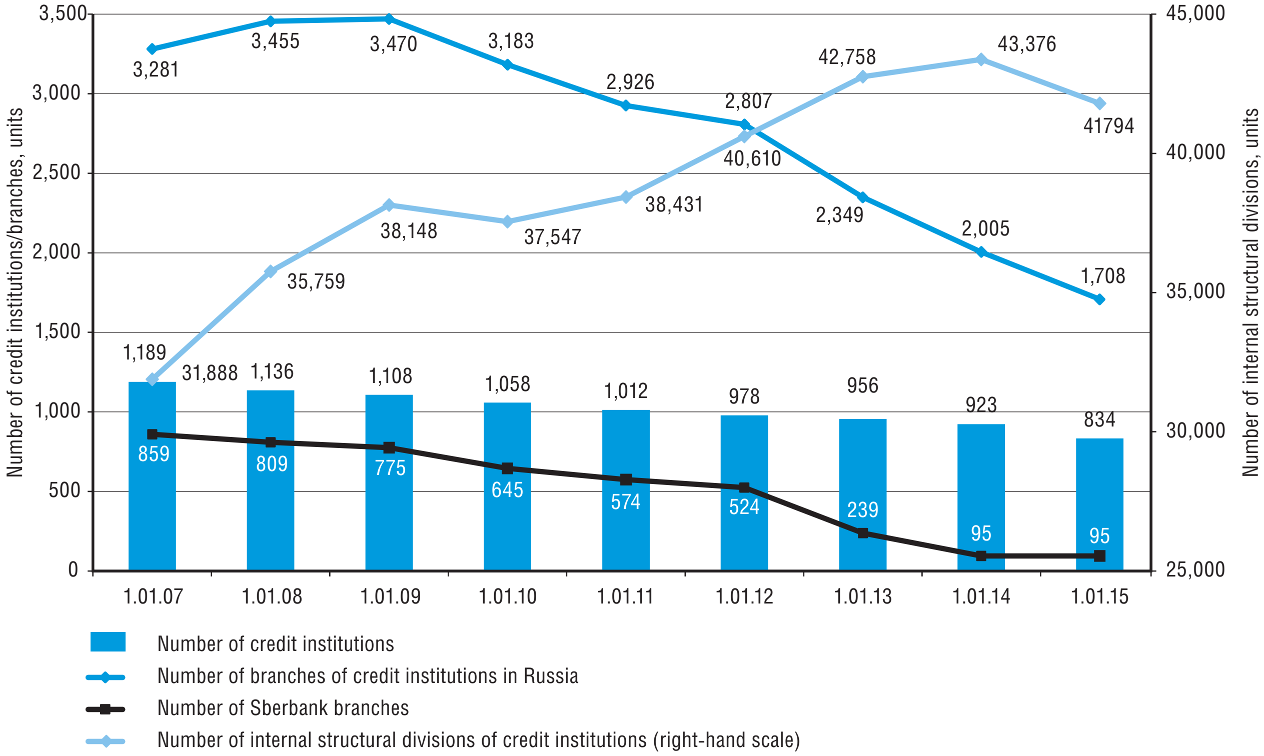
These structural changes resulted in a decrease in the number of internal structural divisions per 100,000 residents from 30.3 as of late 2013 to 28.6 as of late 2014.

I.2.2. Regional Banking

In 2014, most Russian regions registered a reduction in the number of operating credit institutions: the number of regional banks[2] fell from 425 to 375 due to

[1] Source: Cbonds.ru news agency.
[2] Regional banks are banks registered outside Moscow and the Moscow Region.

Chart 1.4. Number of credit institutions and their branches



the revocation or cancellation of banking licences (38), merger with other credit institutions (4), and the change of the credit institutions' registered address (10). Meanwhile, two credit institutions received banking licences. The asset growth rate of regional banks (4.2%) was several times lower than the asset growth rate in banking sector as a whole (35.2%). As a result, the share of regional banks in the banking sector total assets decreased significantly from 11.1% to 8.6% during the year. The capital growth of regional banks amounted to 2.8% (12.2% in the banking sector as a whole) in 2014. However, the decline in profits of these banks (by 20.6% over the year) was two times less than the decline in banking sector as a whole (40.7%).

The aggregate index of the density of banking services[1] in most regions remained at the level of early 2014. Banking services are still most accessible in the Central Federal District (especially in Moscow), followed by the North-Western Federal District (banking services are highly accessible in St. Petersburg). In 2014, the Urals Federal District registered a growth of this indicator.

The North Caucasian, Southern and the Siberian Federal Districts saw a reduction in the aggregate index of the density of banking services in regions in 2014. The lowest value of this indicator was recorded in the North Caucasian Federal District, including the Chechen Republic, as well as the Republics of Daghestan and Ingushetia (see Table 6.2 of the Statistical Appendix).

As of 1 January 2015, 2 credit institutions registered in the region, 18 branches and 510 internal structural divisions of credit institutions[2] operate in the Crimea Federal District. The institutional density of banking services[3] in the Crimea Federal District amounted to 0.88, which is higher than the value of the index in a number of Russian regions.

I.2.3. Banking Services Concentration

In 2014, banking concentration indicators continued to increase. The share of the top 200 credit institutions in banking sector total assets rose in the reporting year, amounting to 96.5% at the end of the year (94.9% in 2013). In 2014, the share of the five largest banks expanded from 52.7 to 53.6%.

The top 200 credit institutions accounted for 96.5% of banking sector total capital as of 1 January 2015 (93.4% as of 1 January 2014), with the five largest

[1] The methodology used to calculate the index is explained in Section IV of this Report.
[2] Including external cash desks.
[3] The methodology used to calculate the index is explained in Section IV of this Report. The calculation of the index takes into account the data on bank branches registered both in the Crimea Federal District and in other regions of the Russian Federation.

Chart 1.5. Number of credit institutions with capital in excess of 300 million rubles and one billion rubles

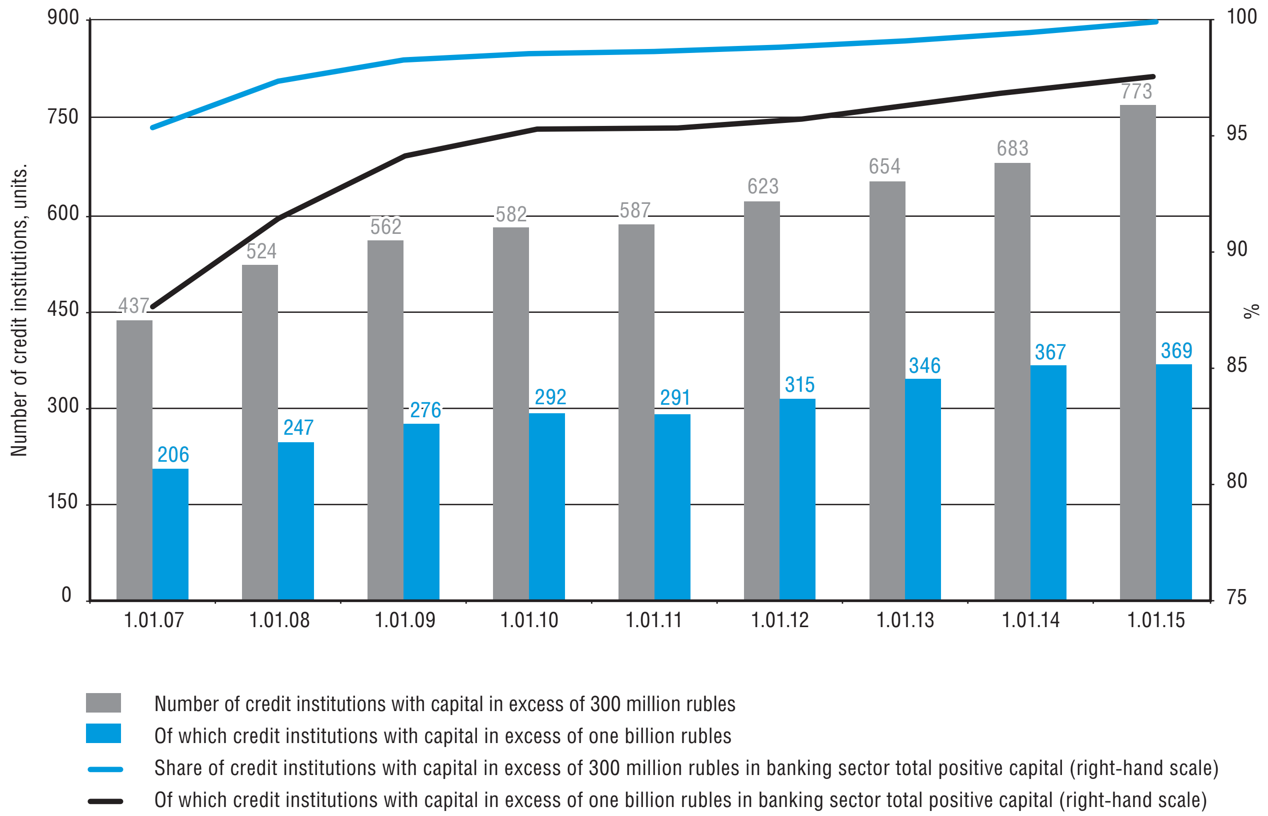


Table 1.3. Concentration in the retail deposit market

	1 January 2011	1 January 2012	1 January 2013	1 January 2014	1 January 2015
HHI for deposits, %	0.236	0.225	0.216	0.227	0.213
Sberbank share of total deposits, %	47.9	46.6	45.7	46.7	45.0
Share of top five banks in terms of deposits in total deposits, %	60.0	59.4	58.3	60.5	59.9

banks accounting for 51.6% (49.7% as of 1 January 2014).

The number of credit institutions with capital in excess of 300 million rubles[1] grew from 683 to 773 in 2014, and their share in the capital of Russian banks[2] is close to 100% (99.9%). Of these, the number of credit institutions with capital in excess of one billion rubles changed slightly during the year and amounted to 369 (these credit institutions accounted for 97.6% of the capital of Russian banks) (Chart 1.5).

Quantitative estimates of concentration that are commonly used internationally, in particular the Herfindahl – Hirschman Index (HHI), show that in 2014 the concentration in the main groups of assets and liabilities was at the average level with an upward trend (except for the deposit market). During the reporting year, the asset concentration index increased from 0.107 to 0.108, HHI capital concentration index – from 0.098 to 0.103, the concentration of loans to resident non-financial organisations – from 0.131 to 0.144. Based on these figures, we can conclude that the concentration of banking activities is moderate (Chart 1.6).

Concentration in the household deposit market remains historically high, but 2014 saw a downward trend in the HHI for these transactions (see Table 1.3 and Chart 1.6).

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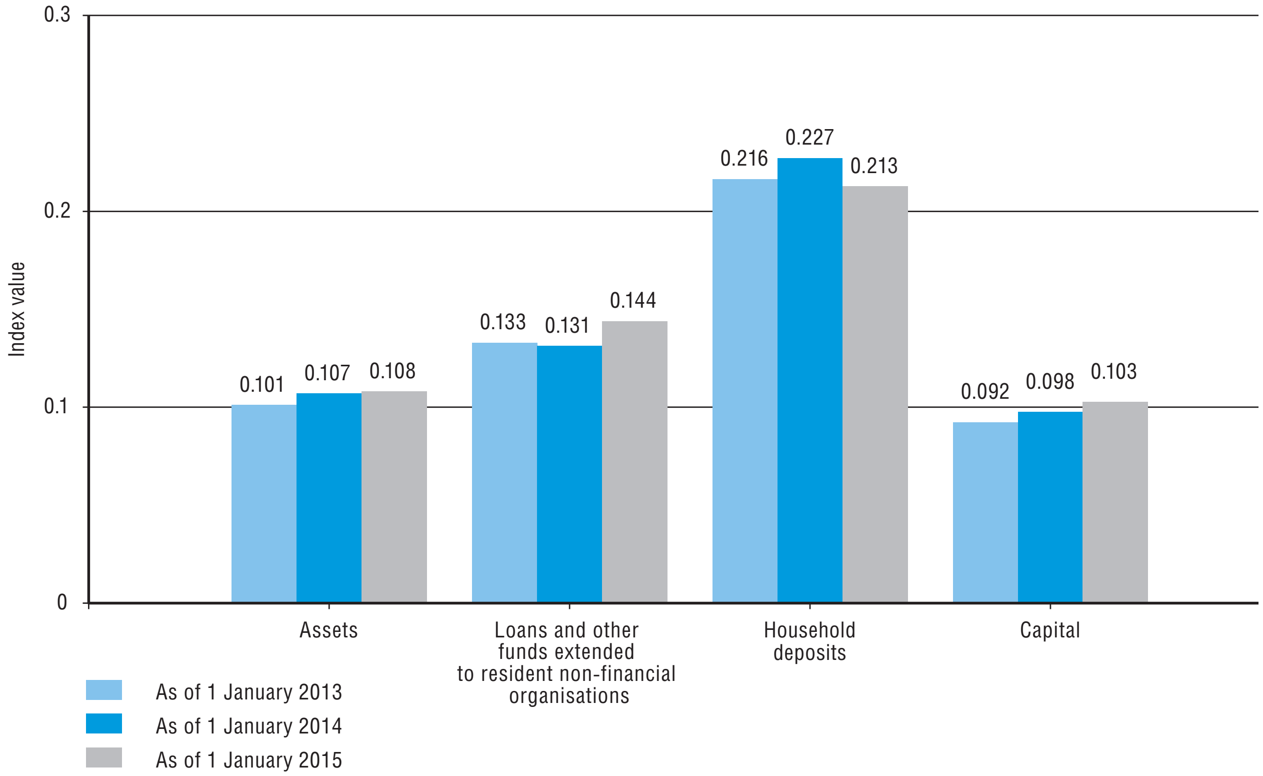
[1] In accordance with Federal Law No. 391-FZ, dated 3 December 2011, 'On Amending the Federal Law On Banks and Banking Activity' increasing the minimum capital to 300 million rubles for newly established banks from 1 January 2012, and for all credit institutions from 1 January 2015.

[2] Source: Cbonds.ru news agency.

Chart 1.6. Russian banking sector concentration indices (HHI values)



The Herfindahl-Hirschman Index is calculated as the sum of the squared unit weights of credit institutions in the total volume of the banking sector. The index shows a degree of index concentration, where values range from 0 to 1. A value of less than 0.10 indicates a low level of concentration, a value between 0.10 and 0.18 represents a medium level of concentration, and a value over 0.18 indicates a high level of concentration.

I.2.4. Interaction between Banking Sector and Non-Bank Financial Organisations

In 2014 we witnessed continued consolidation of the ***insurance market.*** The number of insurers decreased from 432 to 416 from the beginning of the year. In 2014, the value of the insurance market amounted to 988 billion rubles, an increase of 8.5%, which is 3.3 percentage points lower than the growth registered in 2013.

The recent development of the insurance market is characterised by its high dependence on the banking sector in terms of dynamics of insurance premiums, accompanying the acquisition of retail credit products. In 2014, the slowdown in lending to individuals had a considerable impact on such types of insurance as voluntary life insurance (premiums decreased from 45.8% to 16.2%), personal accident and illness insurance (from 25.0% to 0.9 %) and business and financial risk insurance (from 12.0% to 1.2%).

Boosting growth of premiums by 70.9% was observed in the segment of endowment and investment insurance products. Sales of classical insurance products through banking channels intensified: in particular, in the insurance of other property of individuals the share of premiums received through credit institutions increased from 23.4% to 28.0% year-on-year.

In 2014, the total value of premiums charged by insurers from credit institutions amounted to 61 billion rubles (66 billion rubles in 2013). Meanwhile, due to the structural changes, the share of remuneration to intermediary banks in the total insurance premiums declined from 7.3% to 6.2% as against 2013.

In their turn, banks traditionally interact with insurers within the risk management framework, including programmes of property insurance and personal insurance of employees. Besides, as amendments to the Federal Law No. 161-FZ, dated 27 June 2011, ‘On the National Payment System’ became effective on 30 December 2013, banks started to show more interest to insuring risks they encounter as money transfer operators.

In 2014, investments in the banking system remained for insurers a priority investment line. As of 1 October 2014, insurers’ investments in credit institutions accounted for 334 billion rubles, or 22.4% of their total assets, of which term deposits amounted to 259 billion rubles, investments in securities other than shares – 55 billion rubles, investments in shares – 20 billion rubles. Besides, funds placed in insurers' accounts with credit institutions amounted to 132 billion rubles, representing 8.9% of their total assets.

In 2014, the number of ***non-governmental pension funds*** (NPFs) remained unchanged (120). In the reporting year, the moratorium on the transfer of pension funds to the NPFs was extended. As of 1 October 2014, pension funds amounted to 1,120 billion rubles, registering a 2.4% increase over the first nine months only due to the investment income; pension reserves rose to 877 billion rubles, increasing by 5%.

Over the first nine months of 2014, the total volume of NPF investments in the banking system grew by 2.7% to 485 billion rubles, amounting to 24% of the value of pension savings and pension reserves. Meanwhile, the amount of cash in current accounts of banks decreased significantly (by 76%) due to the tighter requirements in 2014 to credit institutions with which pension savings can be placed.

In 2014, the ***collective investment market*** experienced a slight increase. The total number of unit investment funds (PIFs) increased by 43 from the beginning of the year and amounted to 1,534. This growth was facilitated by closed-end unit investment funds (ZPIFs), the number of which increased over the year by 10%, while open-end and interval unit investment funds showed a negative trend – (–12%) and (–2%) respectively.

The total net asset value (NAV) of unit investment funds increased over the year by 14% to 2,124 billion rubles.

In 2014, the value of bank deposits of unit investment funds reduced 1.3-fold to 73 billion rubles.

In 2014, the microfinance market, represented by ***microfinance organisations*** (MFOs)[1], increased in quantitative terms to 4,182 MFOs (8.6% growth year-on-year). One of the results of the commenced regulation of the MFO market by the mega-regulator was the introduction of prudential measures: requirements to create loan loss provisions, present data to credit history bureaus, regulate the effective interest rate, limit fines, etc.

According to the processed data of draft statements as of 31 December 2014, the total microloan portfolio grew over the year by 47.3% to 53.6 billion rubles (representing 0.7% of consumer loan portfolio of banks, less mortgage loans). According to the analysis of loan indebtedness in the microfinance market[2] as of the above-mentioned date, the annual growth rate of overdue debt of organisations that participated in the survey significantly surpassed the growth of microloan portfolio: 57.7% and 21.2% respectively.

I.3. Banking Operations

I.3.1. Dynamics and Structure of Borrowed Funds

During 2014, the resource base of banks was formed amid the actual closing of foreign markets and the slowdown of economic growth. Russian banks expanded the resource base mainly due to the corporate funds and borrowing from the Bank of Russia (Chart 1.7). High rates of the resource base nominal growth were largely determined by the exchange rate dynamics.

In 2014, the access to external funding for Russian banks was almost completely closed, which encouraged the banking sector to use domestic sources more intensively; whereas the structure of these sources changed significantly.

In the reporting period, the amount of funds in customer accounts increased by 25.4% (in 2013 – by 16.0%) to 43.8 trillion rubles; the share of these funds in the banking sector liabilities decreased over the year from 60.8% to 56.4%.

In 2014, household deposits[3] increased nominally by 9.4% (by 19.0% in the previous year) to 18.6 trillion rubles but with adjustment for currency revaluation showed a decrease of 2.5%. The share of foreign currency deposits increased over the year from 17.4% to 26.1% (adjusted for the exchange rate factor their share would go down to 17.1%). Household deposits accounted for 23.9% of the banking sector liabilities as of 1 January 2015 (29.5% in early 2014).

Interest rates on ruble household deposits with maturity more than one year increased from 7.3% p.a. in January 2014 to 11.7% p.a.in December.

Household deposits are an important source of funding for regional banks (Table 1.4).

[1] The microfinance market also includes credit consumer cooperatives, housing savings cooperatives, agricultural credit consumer cooperatives and pawnshops.
[2] Since 2014, the Bank of Russia conducts a quarterly survey of loan indebtedness in the microloan market by questioning major market participants. In 2014 Q3 the project involved 80 private and public MFOs, which accounted for about 46.5% of the market in terms of value of loan indebtedness (the total portfolio of participants amounted to 24 billion rubles).
[3] Including savings certificates.

Chart 1.7. Structure of banking sector liabilities, %

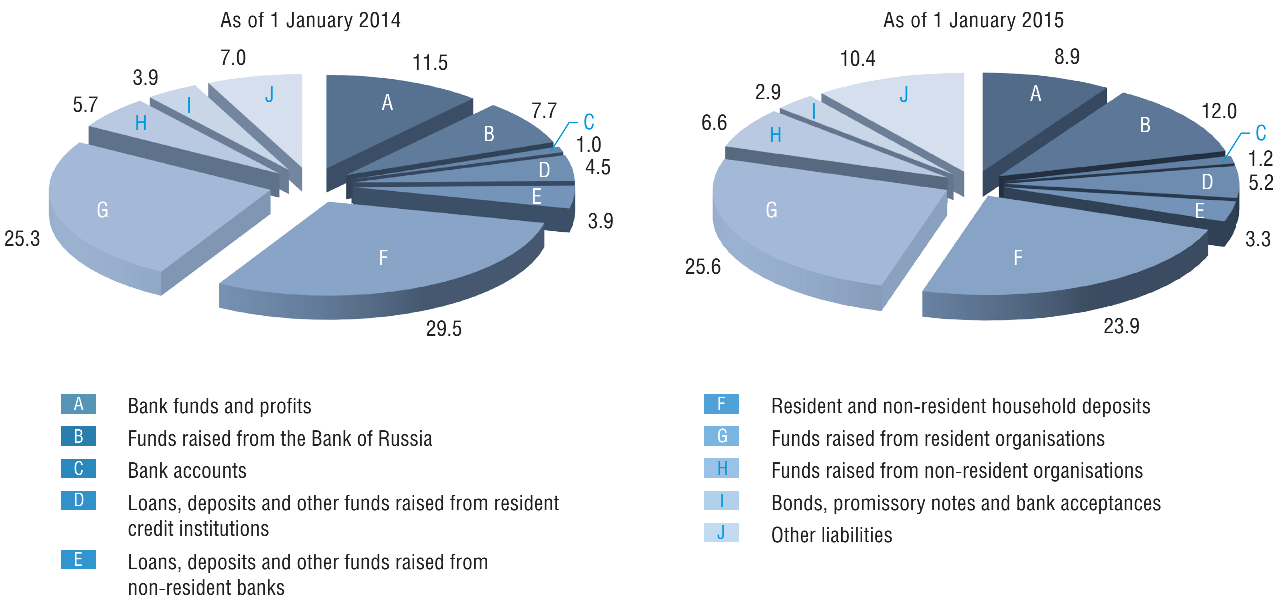


Table 1.4. Household and corporate deposits and other borrowed funds of legal entities (other than credit institutions) by group of banks[1]

Bank group	Share of household deposits				Share of corporate deposits and other borrowed funds of legal entities (other than credit institutions)			
	in banking sector total deposits, %		in liabilities of a respective bank group, %		in banking sector total deposits, %		in liabilities of a respective bank group, %	
	1 January 2014	1 January 2015	1 January 2014	1 January 2015	1 January 2014	1 January 2015	1 January 2014	1 January 2015
State-controlled banks[2]	60.8	60.4	30.9	24.7	58.6	62.2	19.1	23.3
Foreign-controlled banks[3]	6.7	6.6	18.9	16.0	10.9	9.2	19.7	20.4
Large private banks[4]	27.0	28.2	29.8	23.8	27.9	27.3	19.7	21.2
Small and medium-sized banks based in the Moscow Region[5]	2.4	2.3	30.4	33.3	1.4	0.8	11.4	10.0
Small and medium-sized regional banks[5]	3.1	2.5	42.2	42.9	1.2	0.6	10.1	9.3

[1] When analysing the banking sector stability, credit institutions are grouped into six clusters. Clustering makes it possible to evaluate the structure of various banking market segments and the probability of potential negative trends in these segments. Information on the change in the number of credit institutions related to different clusters depending on their market segments is given in Table 16 of the Statistical Appendix.
[2] State-controlled credit institutions are credit institutions directly or indirectly controlled by the Bank of Russia or the Russian Federation.
[3] Banks in which non-residents are the ultimate beneficiaries of more than 50% of the capital.
[4] Banks from among the top 200 banks in terms of assets (excluding those included in the groups indicated above).
[5] All other banks divided into groups by the geographical principle – small and medium-sized banks in Moscow and the Moscow Region and small and medium-sized banks in other regions. Non-bank credit organisations are included in a separate group.

In 2014, the number of banks where household deposits totalled over ten billion rubles decreased from 139 to 134 (Chart 1.8).

Total funds raised from organisations (other than credit institutions) increased in 2014 by 40.6% (in 2013 – by 13.7%) to 25.0 trillion rubles; their share in the banking sector liabilities increased from 31.0% to 32.2%. The active growth of these funds is caused primarily by an unprecedented – by 56.9% (in 2013 – only by 12.7%) – growth of deposits and other borrowed funds of legal entities (other than credit institutions), which increased to 17.0 trillion rubles; adjusted for exchange rate revaluation this funding source grew by 24.0%. The growth rate of the ruble funds raised from organisations amounted to 17.6%, in foreign currency – 10.2% (in US dollar terms).

Corporate funds in settlement and other accounts grew for the year by 14.1%; adjusted for revaluation –

by 2.0%. Their nominal amount as of 1 January 2015 was 7.4 trillion rubles (Chart 1.7).

The dynamics of interest rates on ruble deposits raised by credit institutions from non-financial organisations for more than one year in 2014 was irregular: March 2014 registered the lowest level of 7.7% p.a., and in December the interest rates rose to 13.5% p.a. (in January 2014, the rate was 8.0% p.a.).

In 2014, corporate deposits with maturities exceeding one year continued to increase: their value grew by 57.6% (in 2013 – by 20.8%), and their share in total corporate deposits rose from 52.9% to 53.1% over the year.

The amount of funds raised by credit institutions through issuing bonds increased in 2014 by 11.9% to 1.4 trillion rubles, but the share of this source in the banking sector liabilities decreased from 2.1% to 1.7%. As opposed to that, the volume of promissory notes issued by credit institutions and bank acceptances fell by 13.6% over the year and their share in the banking sector liabilities decreased from 1.7% to 1.1%.

Chart 1.8. Number of banks with household depositsexceeding 10 billion rubles

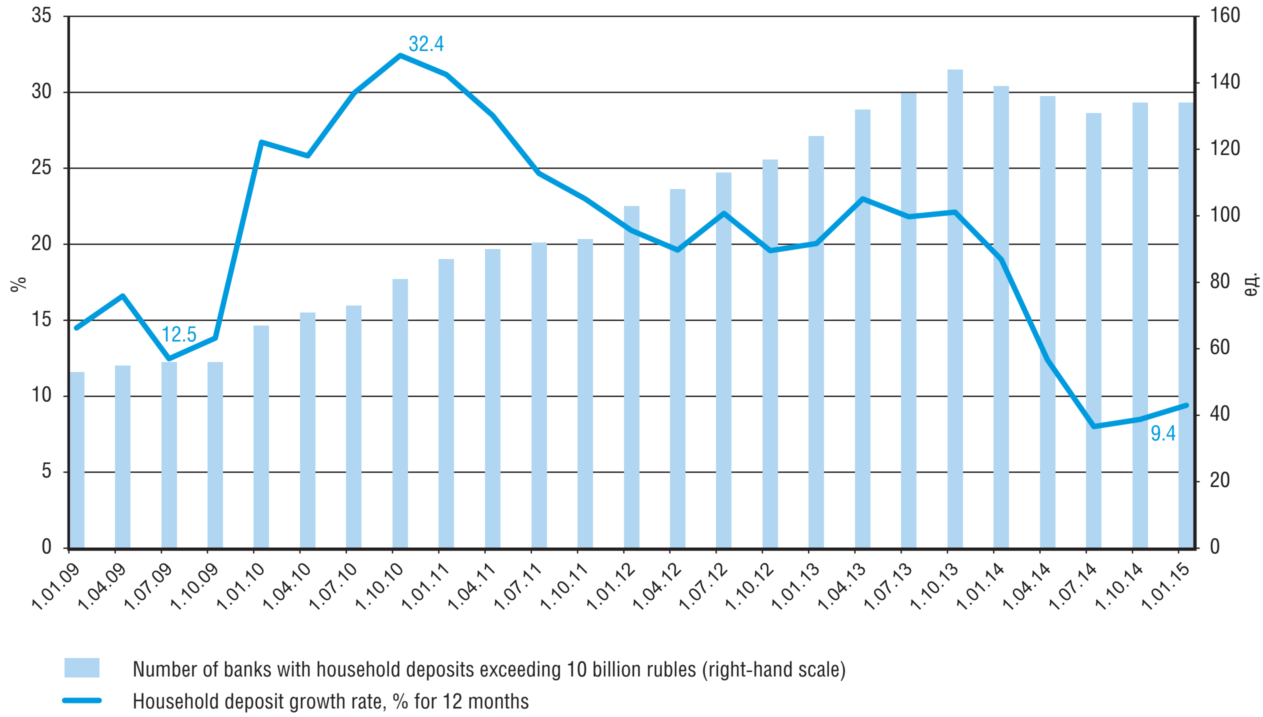
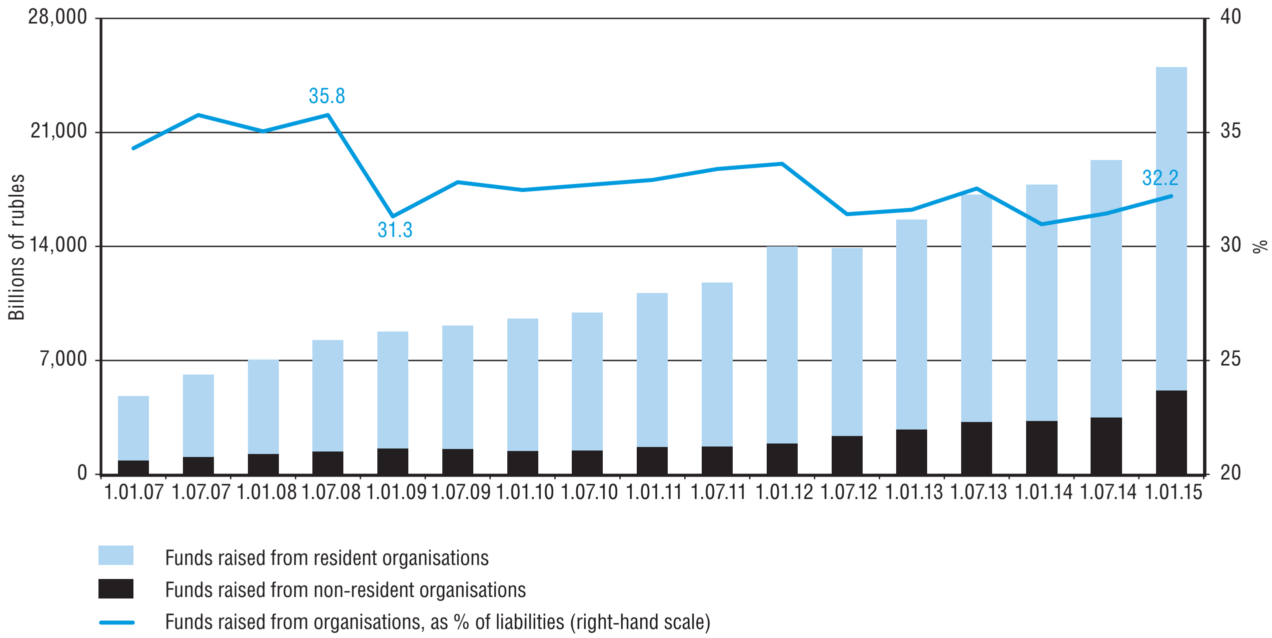
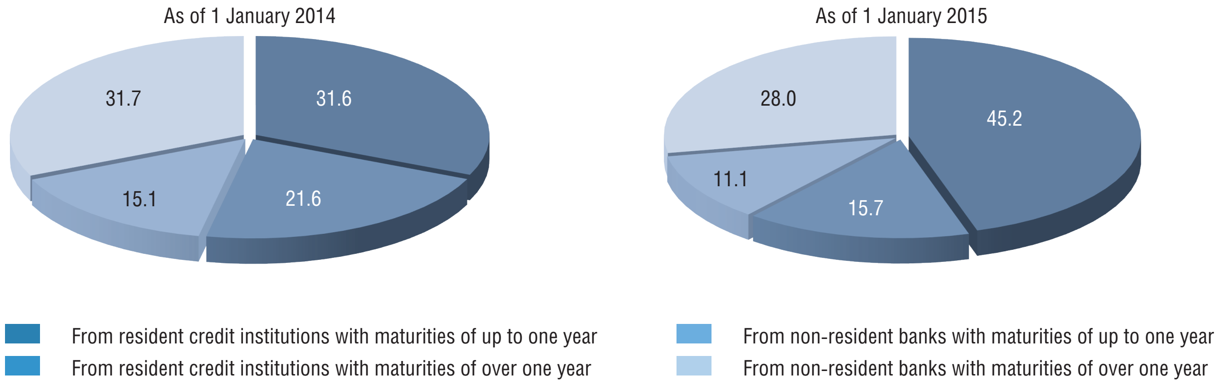


Chart 1.9. Raising funds from organisations (other than credit institutions)



The largest share of loans from non-resident banks in the total liabilities as of 1 January 2015 was registered in foreign-controlled banks (13.1%); in state-controlled banks the share of these loans was 2.7%, in large private banks – 1.5%. Small and medium-sized banks obtained virtually none of their resources from international markets.

Chart 1.10. Loans, deposits and other funds raised in interbank markets, by maturity, as % of total value



Amid slower growth of household deposits and restricted access to external funding, the value of borrowing from the Bank of Russia increased over the year more than twofold to 9.3 trillion rubles; deposits placed with banks by the Federal Treasury increased sixfold (to 0.6 trillion rubles). As a result, the share of funds raised from the Bank of Russia in banks' liabilities increased over the year from 7.7% to 12.0%, and of funds raised from the Federal Treasury – from 0.2% to 0.7%.

The value of interbank loans[1] soared in the reporting year by 37.2% (in 2013 – by 1.4%) to 6.6 trillion rubles, increasing their share in the banking sector liabilities from 8.4% to 8.5%. That said, the debt on loans raised from non-resident banks in 2014 went down by 14.6% (in 2013 – by 0.5%).

The bulk of borrowings of Russian credit institutions from non-resident banks had maturities of over one year, and from resident banks – of less than one year (Chart 1.10).

I.3.2. Dynamics and Structure of Assets

Despite slower economic growth in Russia, the banking sector developed quite intensively: over the year assets of credit institutions increased by 35.2% (adjusted for exchange rate dynamics – by 18.3%) to 77.7 trillion rubles (in 2013 – by 16.0%). As a result of faster growth of the bank assets relative to the GDP growth, the bank assets-to-GDP ratio rose from 86.8% to 108.7%.

In 2014, banks continued to build up their loan portfolios. Simultaneously, both the dynamics and the structure of loans changed considerably (Charts 1.11 and 1.12).

The total value of loans to the economy (non-financial organisations and households) rose over 2014 by 25.9% (in 2013 – by 17.1%) to 40.9 trillion rubles; these loans grew over the year by 12.9%, adjusted for foreign exchange revaluation. The share of these loans in the banking sector assets decreased from 56.5% to 52.6%. The ratio of the total loan portfolio to GDP increased significantly: from 49.0% to 57.2%.

As of 1 January 2015, state-controlled banks accounted for the major share (58.5%) of the banking sector total assets. The share of large private banks equalled 28.3%. The share of foreign-controlled banks in the banking sector total assets amounted to 9.8%. Small and medium-sized banks based in the Moscow Region as well as in other regions accounted for 3.1% of the banking sector total assets.

The value of loans and other funds provided by banks to non-financial organisations increased by 31.3% in the reporting period (in 2013 – by 12.7%); adjusted for the foreign exchange factor, the growth

[1] Loans, deposits and other borrowings in the interbank market.

Table 1.5. Loans disbursed to non-financial organisations in the banking sector total loan value, %

Bank group	As of 1 January 2014	As of 1 January 2015
State-controlled banks	62.9	64.2
Foreign-controlled banks	7.4	7.7
Large private banks	25.1	25.0
Small and medium-sized banks based in the Moscow Region	2.6	1.7
Small and medium-sized regional banks	2.0	1.4

Chart 1.11. Dynamics of banking sector assets, %

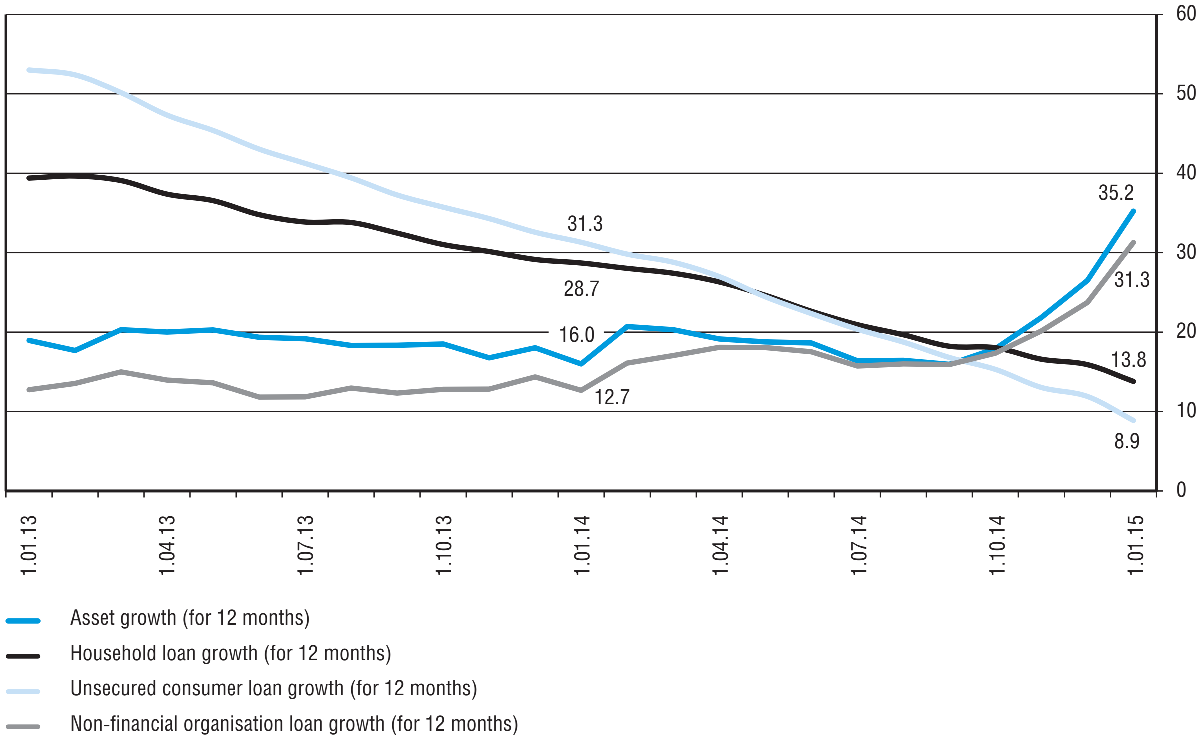
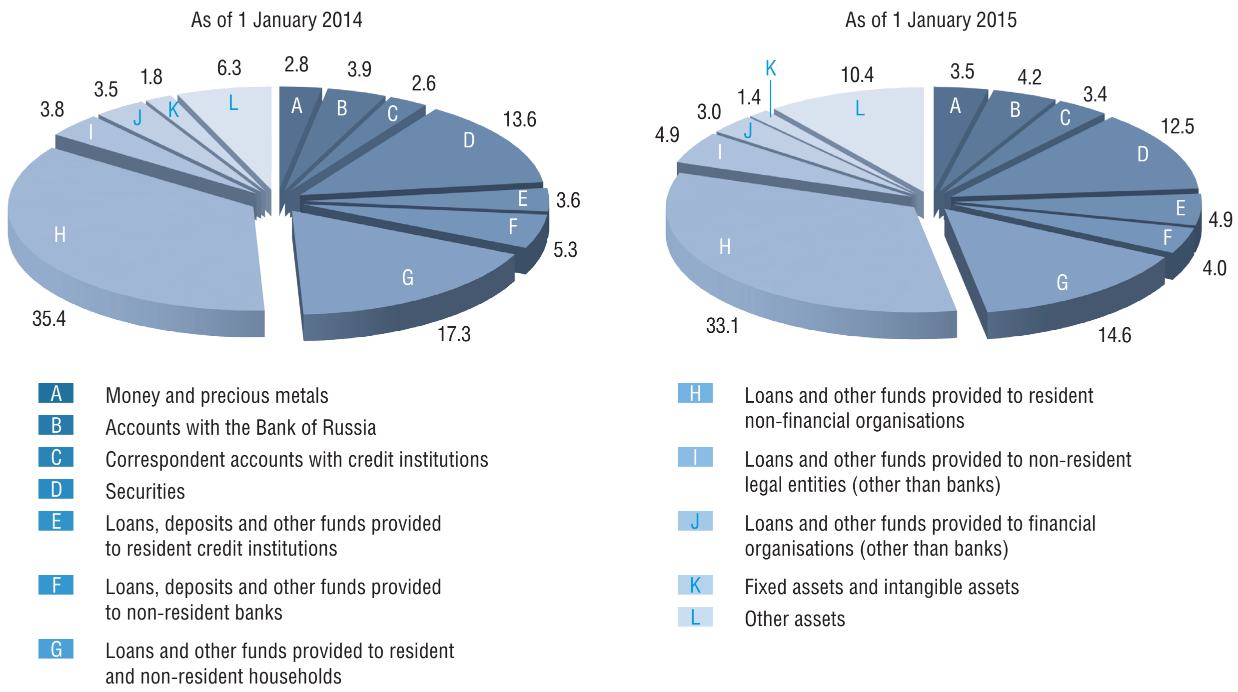
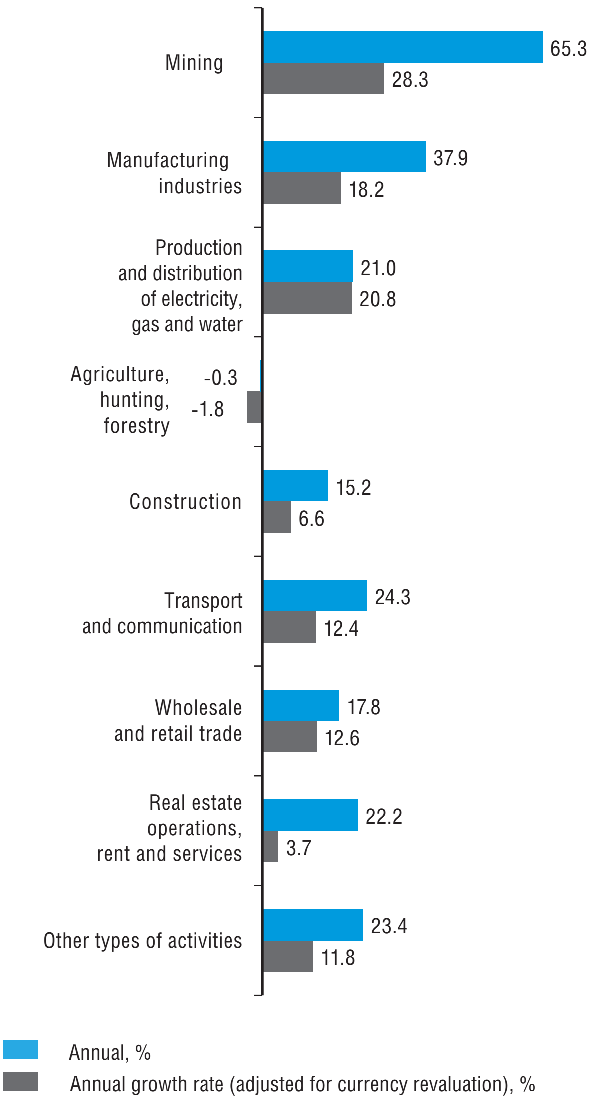


Chart 1.12. Banking sector asset structure, %



The most significant role in meeting businesses' demand for long-term loans (over one year) is played by state-controlled banks and large private banks. Their share in the total value of such loans in the entire banking sector exceeded 90% as of 1 January 2015.

Chart 1.13. Growth of outstanding debt on loans by type of economic activity as of 1 January 2015



was 13.0%. The corporate loan portfolio reached 29.5 trillion rubles, and as of 1 January 2015 its share in the banking sector assets amounted to 38.0% (in early 2014 – 39.2%). Despite the increased needs of companies to refinance their foreign debt, demand for loans at the year-end was held back by higher cost of borrowing.

In the total volume of corporate loans state-controlled banks accounted for more than half of the market (see Table 1.5).

The share of loans with maturities of over one year gradually increased from 70.6% to 73.6% of the corporate loan portfolio; the share of loans with maturities of over three years grew from 45.0% to 49.5% of the corporate loan portfolio.

Broken down by industry, the largest share of loans was still disbursed to manufacturing companies (22.2% of the corporate loan portfolio as of 1 January 2015), along with wholesale and retail trade (19.0% as of 1 January 2015) (Table 1.6).

Table 1.6. Outstanding debt on loans by type of economic activity

Type of economic activity	Outstanding debt on loans as of the reporting date, billions of rubles	
	as of 1 January 2014	as of 1 January 2015
Mining	949	1,569
of which – extraction of fuel and minerals	601	974
Manufacturing industries	4,231	5,835
Production and distribution of electricity, gas and water	779	942
Agriculture, hunting, forestry	1,326	1,322
Construction	1,729	1,992
Transport and communication	1,318	1,639
Wholesale and retail trade; repair of motor vehicles, motorcycles, household appliances and personal items	4,243	5,000
Real estate operations, rent and services	3,071	3,752
Other types of activities	3,267	4,032

In 2014, the most significant increase was registered in the outstanding debt of enterprises engaged in mining – by 65.3%, and manufacturing industry – by 37.9% (Chart 1.13).

Household lending increased over the year by 13.8% (in 2013 – by 28.7%) and as of 1 January 2015 the portfolio reached 11.3 trillion rubles; adjusted for exchange rate dynamics, the increase was 12.5%. During 2014, the growth rate of household loans predictably declined mainly due to the dramatic reduction in the unsecured consumer lending (as of 1 January 2015, the annual growth in this segment declined during the year nearly threefold and amounted to 8.9%). In early 2015, the outstanding debt on unsecured consumer loans amounted to 6.4 trillion rubles.

Improving structure of retail operations was reflected in the continuing growth of the share of mortgage lending: the total outstanding debt on these loans rose in 2014 by 32.9% (in 2013 – by 32.6%) to 3.5 trillion

As of 1 January 2015, the share of household loans in assets was more prominent in foreign-controlled banks – 23.0%, and regional small and medium-sized banks – 16.8%. These loans accounted for 14.3% of state-controlled bank assets, 12.4% of large private bank assets, and 12.1% of assets of small and medium-sized banks based in Moscow and the Moscow Region.

rubles. The number of housing mortgage loans (HML) issued in 2014 increased by 22.7% year-on-year, to more than 1 million of loans.

The number of foreign currency denominated HMLs extended over the reporting period went down by 60% to 750 loans. During 2014, the outstanding debt on HMLs denominated in foreign currency decreased in US dollar terms by $1 billion, or by 29.2%, and by early 2015 it amounted to $2.4 billion.

Consumer lending is one of the most competitive segments of the banking service market, where both public and private banks are widely represented (Table 1.7).

Table 1.7. Share of household loans in banking sector total loans (by bank group), %

Bank group	As of 1 January 2014	As of 1 January 2015
State-controlled banks	53.0	57.4
Foreign-controlled banks	17.2	15.5
Large private banks	26.1	24.1
Small and medium-sized banks based in the Moscow Region	1.5	1.4
Small and medium-sized regional banks	2.1	1.6

The main holders of debt obligations as of 1 January 2015 were state-controlled banks and large private banks, which accounted for 53.5% and 38.4% of debt securities purchased by the banking sector. These credit institutions accounted for the majority of funds obtained through Bank of Russia refinancing operations.

The share of household loans fell from 17.3% to 14.6% of the banking sector total assets and from 24.6% to 21.9% of the total loans.

Households still prefer to take ruble denominated loans, whose share in the total loans amounted to 97.3% as of 1 January 2015 (97.6% as of 1 January 2014).

Interest rates on bank loans were impacted by the rising cost of funding. The weighted average interest rates on ruble loans extended by banks to non-financial institutions with maturities of over one year, increased in 2014 from 10.6% to 12.9% (for loans with maturities of over three years – from 10.3% to 12.2%).

Interest rates on ruble household loans with maturities of over one year decreased over the reporting period from 18.3% in January to 17.4% in December 2014, but the decline was observed only in a part of consumer lending segments. Thus, during 2014 interest rates on mortgages remained relatively stable and were at an average level of 12.3%, and in December, amid general growth in interest rates in the economy, the rate on these loans rose to 13.2%.

The securities portfolio in balance sheets of credit institutions increased by 24.3% to 9.7 trillion rubles in 2014 (in 2013 – by 11.2%), whereas its share in assets reduced from 13.6% to 12.5%.

In 2014, credit institutions reported a dramatic rise in the negative revaluation of securities on the balance sheet[1]: from (–37) to (–433) billion rubles due to the negative dynamics of the securities market (the increase in absolute terms was 396 billion rubles). For comparison: during the crisis of 2008–2009 the maximum net negative revaluation was registered on 1 March 2009 and amounted to (–191) billion rubles, it should be noted that the securities portfolio at that date was 3.7-fold smaller than as of 1 January 2015.

Given the liquidity situation in the banking sector, the possibility of using securities as collateral for the Bank of Russia refinancing operations is an important factor for credit institutions. As in 2013, that was a driver for bank growing portfolios of debt instruments: their volume increased in 2014 by 24.2% (in 2013 – by 17.1%) to 7.7 trillion rubles, and more than a half of them were transferred without derecognition, which means their temporary assignment under a REPO transaction. The portfolio of interest in subsidiaries and dependent joint-stock companies in 2014 increased 2.3-fold, to 1.4 trillion rubles.

Investments in equity securities decreased in the reporting period by 38.2% (in 2013 – by 0.2%) to 489 billion rubles, and their share in late 2014 amounted to 5.0% of the securities portfolio (against 10.1% as of 1 January 2014).

[1] The difference between balances on balance sheet accounts to record positive and negative revaluation of securities.

Lending to small and medium-sized enterprises

In 2014, in contrast to higher growth rate of the portfolio of loans to non-financial organisations as compared to the year 2013, bank lending to ***small and medium-sized enterprises*** (hereinafter, SMEs) generally declined by 0.9% to 5.1 trillion rubles as of 1 January 2015 (over the previous year this figure increased by 14.8%). The quality of the portfolio slightly deteriorated. As of 1 January 2015, the overdue debt stood at 7.7% of the SME loan portfolio (compared to 7.1% as of 1 January 2014), that is higher than the overdue debt on the total portfolio of corporate loans.

According to the Bank of Russia surveys of bank lending terms for small and medium-sized enterprises, in 2014 Q3 SMEs' ***demand for new loans*** declined. Banks recorded a decrease in SMEs' demand for new loans for three successive quarters, which is a result of the deteriorating financial situation of this category of borrowers amid a general slowdown of production and increasing economic uncertainty. According to the statements, the average monthly volume of short-term (up to one year) loans (including extended loans) issued to SMEs remained unchanged in 2014 Q3 as compared to Q2, while the volume of loans with maturities of over one year decreased by 12%.

In the sector of lending to small and medium-sized enterprises, 55% of respondent banks reported a deterioration and 4% of banks – an improvement in lending terms in 2014 Q3. ***The availability of loans*** to SMEs decreased more than expected due to the lower economic growth and deterioration of borrowers' financial standing in many sectors of the economy. Broken down by industry, the group of the most vulnerable companies included car dealers, freight forwarders, trading companies, and importers of food products.

In 2014 Q3, 60% of banks reported a ***rise in the interest rates*** on loans to SMEs. According to the banks' statements, the average rate on ruble loans with maturities of over one year issued to this category of borrowers increased compared to the previous quarter by 0.6 percentage points and on loans with maturities of up to one year – by 0.3 percentage points. According to the available information, in Q4 the growth of rates accelerated.

Banks participating in the survey tightened their ***requirements to financial standing of borrowers*** – small and medium-sized enterprises and their collateral (reported by 34% of banks). Only single banks eased their requirements, others left them unchanged. In particular, due to the legislative extension of the grounds for the termination of pledge, banks tightened their collateral requirements for loans to SMEs for the purchase of real estate. For small and medium-sized companies requirements to the debt burden were increased.

In Q3, ***a reduction in the range of loan products*** for SMEs was reported by 21%, twice as many banks as in the previous quarter. However, some banks reported the introduction of loan restructuring programmes to prevent the accumulation of overdue debt by borrowers with poor financial standing. Some banks raised additional fees, and reduced the maximum amount and maturity of loans for SMEs. The tightening of non-price lending terms for this category of borrowers reflects a decline in banks' risk appetite under conditions of higher probability of default in the SME segment.

A significant role in the development of SME lending belongs to MSP-Bank. The weighted average interest rate on loans offered by partner banks of MSP-Bank was 12.7% p.a. in 2014. The outstanding debt of small and medium-sized enterprises to 129 banks under the current support agreement (i.e. SME lending by partner banks of MSP-Bank out of funds of the MSP-Bank) amounted to 77.4 billion rubles as of 1 January 2015.

In the reporting year, banks' investments in promissory notes continued to decline; in 2014 they decreased by 20.5% to 218 billion rubles (in 2013 – by 31.3%). In this connection, the share of notes in the securities portfolio fell from 3.5% to 2.2%. In the portfolio of discounted promissory notes, the volume of Russian bank notes accounted for 155 billion rubles, or 71.1% of the portfolio. The share of discounted promissory notes of other Russian entities rose over the year from 17.8% to 27.3%.

The geopolitical situation impacted the dynamics of interbank lending: its growth was ensured mainly by operations in the domestic market. The volume of claims on interbank loans increased in the reporting year by 34.4% (in 2013 – by 21.3%) to 6.9 trillion rubles, whereas their share in the banking sector assets

In 2013, the tendency continued towards the reallocation of equity securities[1] in the portfolio: the share of state-controlled banks in the total banks' investments in equity securities decreased from 45.0% to 38.0%, whereas large private banks built up their share in this portfolio from 47.8% to 57.9%.

remained unchanged at 8.9%. Loans placed with resident banks rose by 80.9% in 2014, yet the share of such loans in assets increased from 3.6% to 4.9%. The volume of loans placed with non-resident banks grew by only 2.4% while their share in banking sector assets contracted from 5.3% to 4.0%.

I.4. Financial Performance of Credit Institutions

Financial performance of banking sector

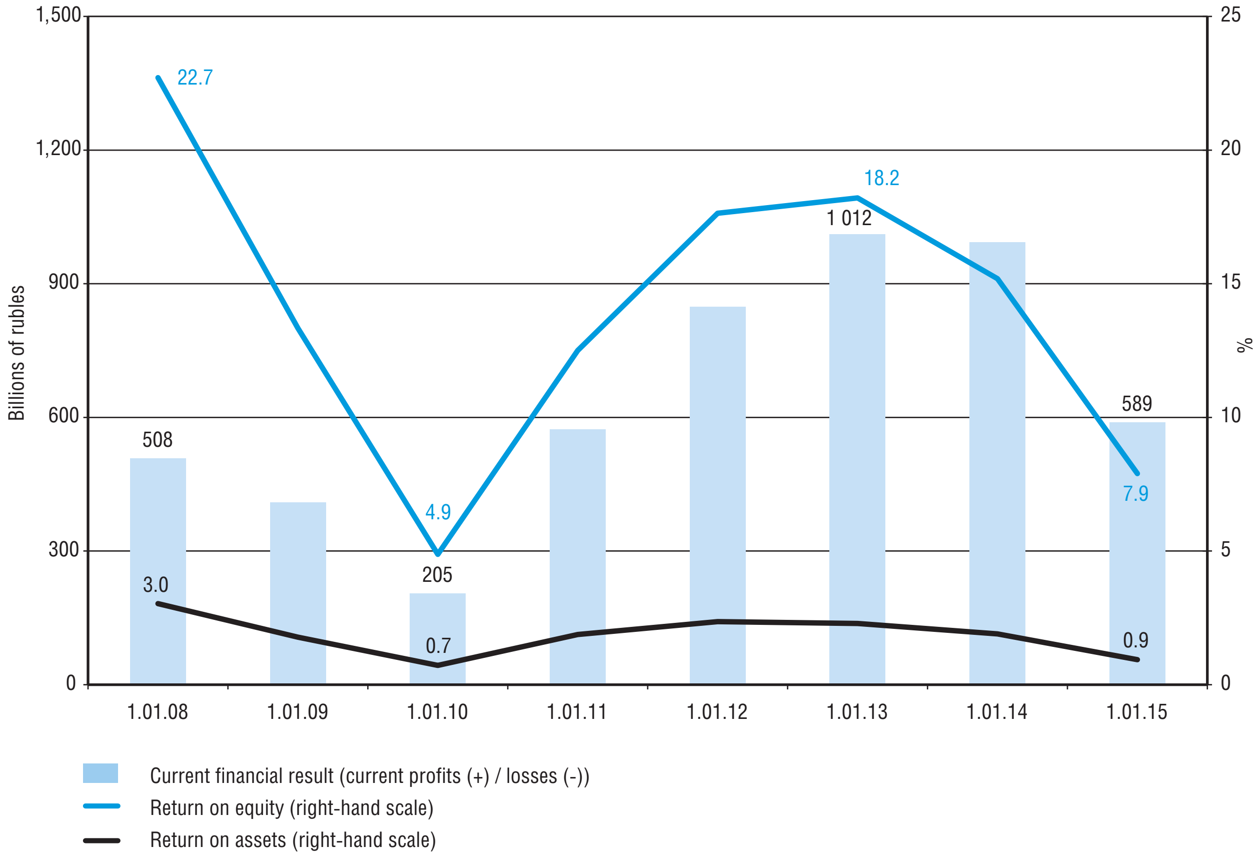
In 2014, bank profits totalled 589 billion rubles (in 2013 – 994 billion rubles) (Chart 1.14).

In the reporting period, the share of profitable credit institutions decreased from 90.5% to 84.9%, while the share of loss-making credit institutions increased from 9.5% to 15.1% (their number rose from 88 to 126). Losses of unprofitable credit institutions in the reporting year amounted to 264 billion rubles (in 2013 – 19 billion rubles.) The bulk of losses referred to banks, which were subject to bankruptcy prevention measures: in 2014, these banks generated a loss of 193 billion rubles.

The distribution of certain groups of banks by their contribution to the financial performance of the banking sector as a whole corresponds to their contribution to the total assets: state-controlled banks contributed the most – 72.5%; the share of large private banks decreased from 21.1% to 3.8% due to a significant (2.6-fold) increase in loss provisions and losses from securities transactions.

In 2014, credit institutions' return on assets amounted to 0.9%, return on equity – 7.9% (in 2013 – 1.9% and 15.2% respectively). During the year, the return on assets increased in 391 banks, or 46.9% of the total

Chart 1.14. Banking sector financial performance



[1] Excluding shares of subsidiaries and affiliated joint-stock companies.

	Capital multiplier (financial leverage)		Profit margin		Return-on-assets ratio		Return on equity
	$\frac{\text{Assets*}}{\text{Equity*}}$	×	$\frac{\text{Financial result}}{\text{Gross net income**}}$	×	$\frac{\text{Gross net income**}}{\text{Assets*}}$	=	$\frac{\text{Financial result}}{\text{Equity*}}$
2013	8.0085		0.3005		0.0631		0.1519
2014	8.4280		0.1469		0.0638		0.0790

* *Average for the period.*
** *Gross net income is a sum of net interest income, net income from securities trading and revaluation, net income from foreign exchange transactions, including revaluation, net commission income and other net income (before loss provisions net of recovered ones and the maintenance costs of a credit institution are deducted).*

Table 1.8. Profitability ratios by group of banks

	Return on assets, %		Return on equity,%	
	2013	2014	2013	2014
State-controlled banks	2.0	1.2	17.2	10.2
Foreign-controlled banks	2.2	1.6	15.1	11.1
Large private banks	1.6	0.1	12.9	1.2
Small and medium-sized banks based in the Moscow Region	1.9	1.1	10.2	6.2
Small and medium-sized regional banks	1.6	1.6	10.2	9.6

number of credit institutions; 379 banks, or 45.4% improved their return on equity.

Analysis of factors triggering reduction in return on equity proved that resulted from a decrease in the profit margin in 2014.

In 2014, the profitability decreased in all groups of banks, but most significantly – in large private banks (Table 1.8).

Bank financial performance structure

The drop of profit in 2014 was mainly driven by the creation of additional loss provisions. The structure of financial performance drivers in the reporting period is shown in Chart 1.15.

Net interest income remained the most considerable item in financial result formation for all groups of banks; its share of the structure of profit drivers was 60.8% (in 2013 – 67.3%). The net interest income went up in 2014 by 308 billion rubles or by 13.8% (in 2013 – by 21.6%). The growth of this indicator in the reporting year was determined primarily by an increase in net interest income from transactions with households (48.6% of net interest income drivers) and transactions with entities other than credit institutions (37.3%). Net interest income from interbank lending operations declined.

Net commission income was considerable as well: in 2014, it increased by 71 billion rubles or by 10.8% (in 2013 – by 15.7%). The share of net commission income in the structure of profit drivers decreased from 19.8% to 17.4%.

Small and medium-sized regional banks accounted for the highest share of net commission income (26.6%) in the structure of profit drivers. For other groups of banks this indicator ranged between 15-20%.

Due to the negative revaluation of securities recorded in the statement of financial performance and net losses from transactions with these instruments in 2014, all groups of banks generated net loss from securities trading in the amount of 155 billion rubles. Its share in the structure of profit reducing factors was 4.3% (0.2% in 2013). The largest share of net loss from operations with securities in the structure of profit reducing factors was reported by large private banks.

The share of net income from foreign exchange transactions (primarily from revaluation) in the structure of profit drivers of the banking sector increased threefold over the year: from 3.4% to 10.3%.

The share of income from foreign exchange transactions in the financial result formation increased the most in state-controlled banks (from 0.5% to 8.1%) and in foreign-controlled banks (from 9.7% to 18.6%).

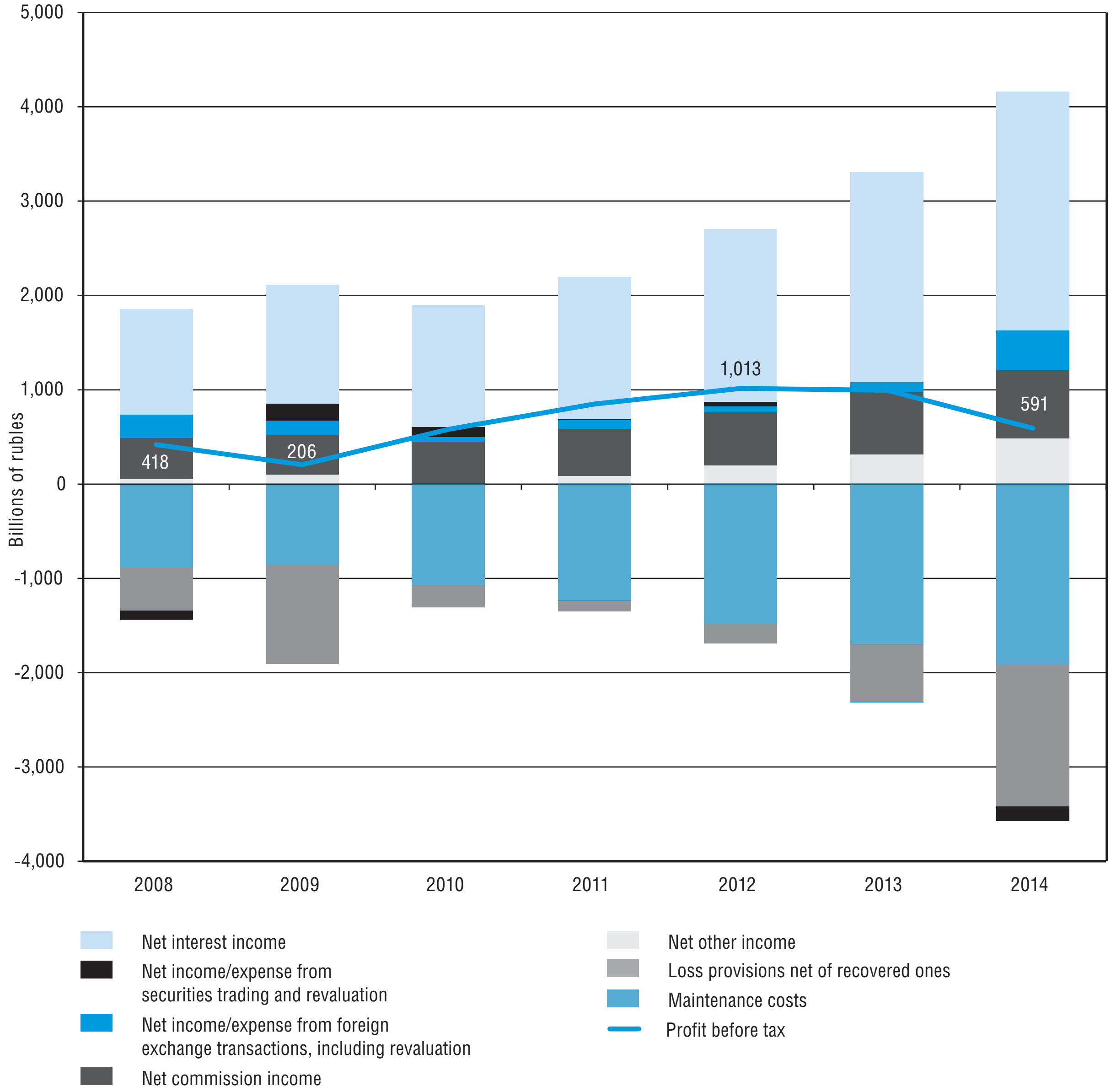
In 2014, the share of net other income in the structure of bank profit drivers increased significantly from 9.6% to 11.4%; this was mainly propelled by higher volume of financial derivative transactions. The share of net other income rose most significantly over the reporting period in large private banks – from 10.0% to 17.9%. In state-controlled banks, foreign-controlled banks, and small and medium-sized regional banks the share of these profits in the structure of profit drivers decreased.

The maintenance costs of credit institutions increased by 12.6% in 2014, which was more than three-fold less than the growth of bank business (assets). The ratio of maintenance costs of credit institutions to total net income[1] declined over the year both in the banking sector (from 51.3% to 45.9%) and in most groups of banks. Only in small and medium-sized regional banks it went up from 64.4% to 65.1% – which is the highest value of this indicator among groups of banks.

The value of net loss provision (net of recovered ones) increased almost 2.5-fold in 2014, by 892 billion rubles, having amounted to 42.1% in the structure of profit reducing factors as against 26.5% in 2013.

Loan loss provisions increased in all groups of banks, except for small and medium-sized regional

Chart 1.15. Banking sector profit drivers



[1] The cost/income ratio serves as one of the most widely accepted indicators of bank performance.

banks. The share of provisions in the structure of profit reducing factors rose most significantly in large private banks (from 29.3% to 47.5%) and state-controlled banks (from 24.7% to 42.4%). Small and medium-sized regional banks registered reduction both in the value of provisions (net of recovered ones) from 17 to 15 billion rubles, and in their share in the structure of profit reducing factors from 20.0% to 19.4%. Meanwhile, if we exclude credit institutions with revoked licences from the calculation, the value of additionally formed net provisions for the group of small and medium-sized regional banks exceeded 1 billion rubles, or 9.0% of the value of created provisions (net of recovered ones) as of 1 January 2015.

In 2014, income taxes amounted to 75 billion rubles. Starting 1 April 2014, when calculating bank income tax, its value is adjusted for deferred income tax (deferred tax assets/deferred tax liabilities). According to the statement of financial performance, as of 1 January 2015, such adjustment resulted in the overall reduction of the income tax in the banking sector in the amount of 107 billion rubles, increase in the income tax – 24 billion rubles. As a result, net effect of deferred tax assets and liabilities on net tax expenses of the banking sector equalled 83 billion rubles. Should these adjustments not be applied, the aggregate income tax in 2014 would have amounted to 158 billion rubles.

II. BANKING SECTOR RISKS

II.1. Credit Risk

II.1.1. Loan Portfolio Quality

During 2014, the share of overdue loans in the total value of extended loans increased from 3.5% to 3.8%, primarily due to the higher share of overdue loans to households. While loans and other placed funds grew by 28.2%, overdue loans increased by 41.5% to 2 trillion rubles as of 1 January 2015.

In 2014, the share of overdue loans in the total value of extended loans increased in loan portfolios of all groups of banks. Large private banks as well as medium and small-sized regional banks had the largest shares of overdue loans (4.6%) and (4.5%) respectively.

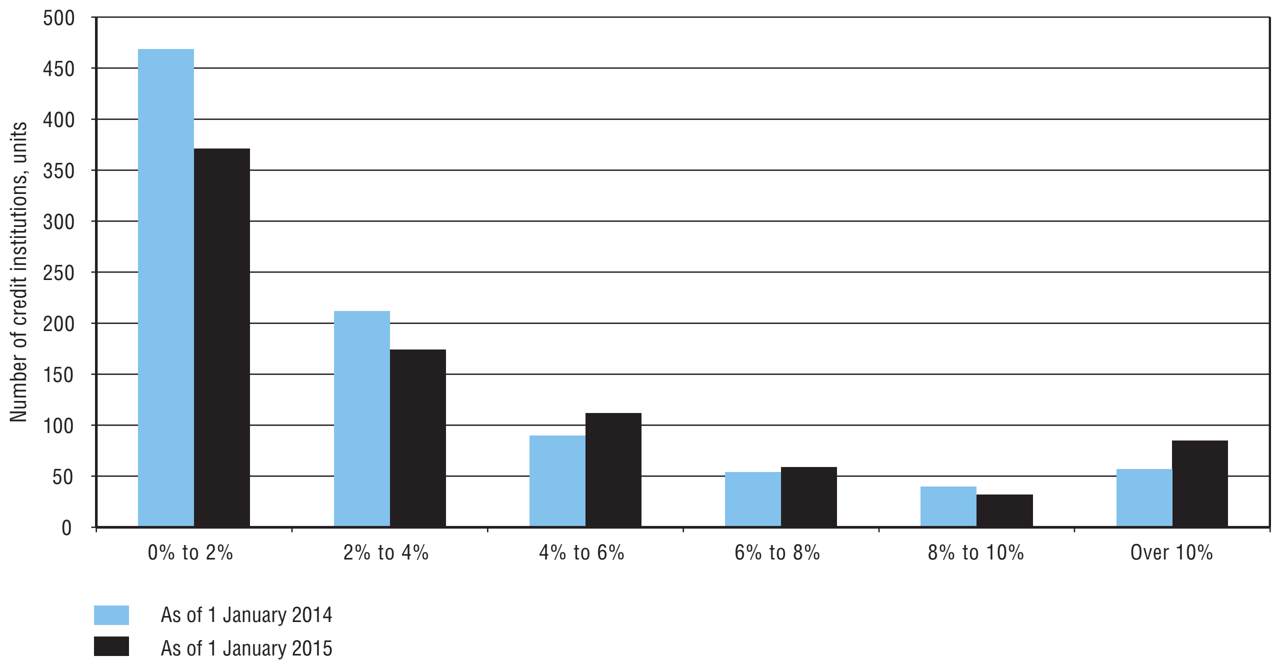
As of late 2014, 109 credit institutions had no overdue loans, of which 37 were not involved in lending (mostly non-bank credit institutions). In most credit institutions which had overdue loans, their share did not exceed 4.0% of their portfolios, while the number of such institutions reduced in 2014 from 540 to 436, and their share in the banking sector assets decreased from 75.5% to 68.8%. In 85 credit institutions, accounting for 7.4% of the banking sector assets, the share of overdue loans exceeded 10% (Chart 2.1).

The credit risk exposure of Russian banks was largely determined by the quality of corporate loan portfolios. Those accounted for 57% of total loans issued as of 1 January 2015. During the reporting period overdue debt from corporate loans increased by 33.9% while the value of loans issued rose by 31.3%; the share of overdue loans remained practically unchanged over the year and made 4.2%. For ruble-denominated loans, this figure increase from 4.9% as of 1 January 2014 to 5.4% as of 1 January 2015, and for loans denominated in foreign currency, it went down from 1.9% to 1.7% respectively.

With regard to the business areas of borrowers, construction, agriculture, hunting and forestry sector, wholesale and retail trade, and manufacturing accounted for the largest share of overdue loans in 2014 (Chart 2.2).

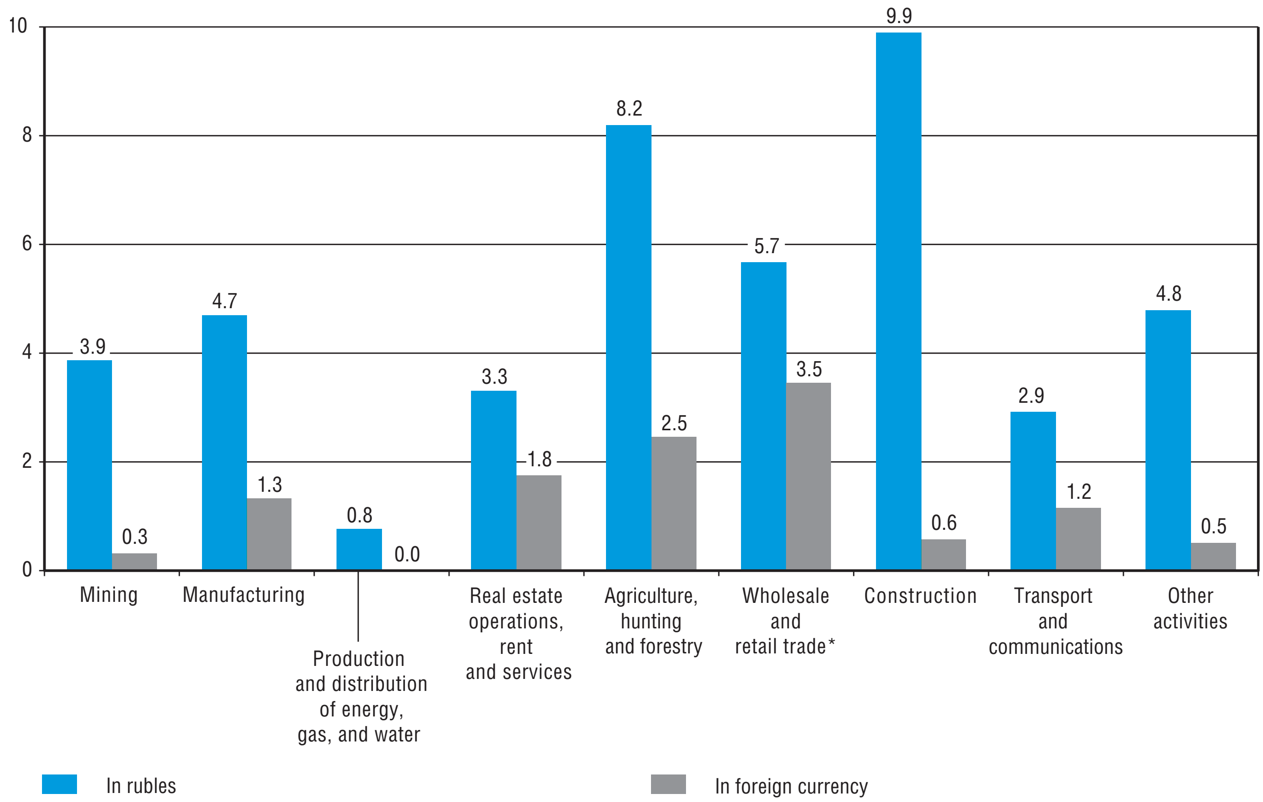
The value of restructured large corporate loans[1] increased by 44.1% to 2.8 trillion rubles over the year

Chart 2.1. Credit institutions by share of overdue loans in their loan portfolios



[1] According to Form 0409117 'Large Loan Data' reports filed by credit institutions with data on a reporter's 30 largest loans extended to legal entities other than credit institutions, including individual unincorporated entrepreneurs.

Chart 2.2. Overdue loans as % of bank loan portfolios by borrower activity as of 1 January 2015



* *Wholesale and retail trade, and repairs of cars, motorcycles, household appliances and personal goods.*

(restructured loans accounted for 26.2% of the total large loan portfolio as of late 2014). Loans restructured through extending the principal repayment period (rollover loans) accounted for 60.4% of total restructured loans as of 1 January 2015 (64.4% as of 1 January 2014). The share of restructured loans overdue for more than 90 days increased from 2.9% to 3.5% of total restructured large loans during the reporting year.

A considerably slower growth of the retail portfolio, together with a high growth rate of overdue household loans (51.6% in 2014 against 40.7% in 2013) resulted in on increase in the share of overdue loans in that portfolio from 4.4% to 5.9% in 2014. The share of overdue ruble loans to households grew from 4.2% as of 1 January 2014 to 5.6% as of 1 January 2015, and the share of overdue loans denominated in foreign currency – from 14.0% to 15.04% respectively. In absolute terms, overdue household loans totalled 668 billion rubles as of 1 January 2015, whereas for the corporate loan portfolio overdue household loans totalled 1,251 billion rubles (Chart 2.3).

The quality of bank loan portfolios in 2014 was confirmed by prudential reporting. As of 1 January 2015, the share of Quality Category I and Quality Category II loans stood at 86.4% (87.1% as of early 2014). The share of Quality Category IV and Quality Category V loans (so-called ‘bad’ loans) grew from 6.0% to 6.7% over the year (see Chart 2.4).

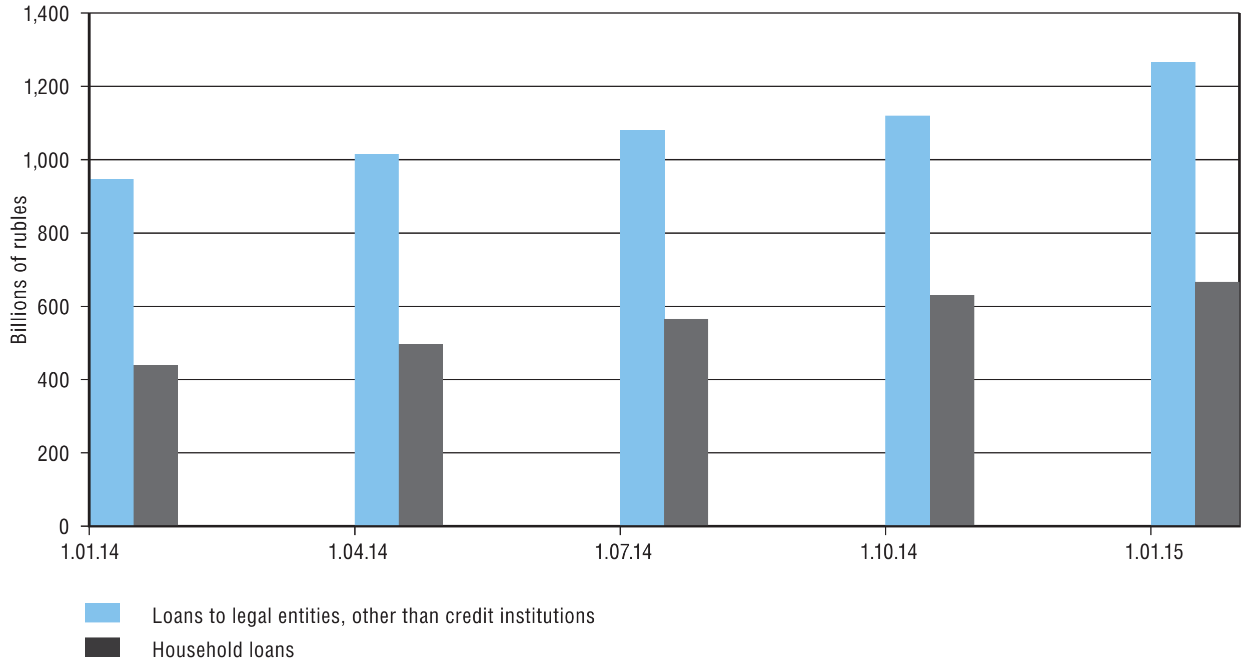
In 2014, standard loans (Quality Category I) accounted for more than a half of the portfolios in 118 banks, and the share of these banks in the banking sector total assets equalled 53.1% (171 banks and 26.7% respectively, as of 1 January 2014).

The share of Quality Category IV and Quality Category V loans to legal entities (other than credit institutions) grew from 6.5% to 7.2% in 2014, while the share of household loans in those categories rose from 7.5% to 9.9% (Chart 2.5).

As of 1 January 2015, the share of ‘bad’ loans in the cumulative portfolios of various groups of credit institutions ranged from 5.4% for state-controlled banks to 9.7% for small and medium-sized banks based in Moscow and the Moscow Region.

Credit institutions undergoing bankruptcy prevention measures as of 1 January 2015 showed ratios different from the banking sector averages. As of 1 January 2015, the share of ‘bad’ loans in these 15 banks reached 20.0%, the share of overdue loans to

Chart 2.3. Overdue debt in banks' loan portfolios



Risks on household loans grouped into homogeneous loan portfolios

Effective Bank of Russia regulations provide for creating portfolio-based provisions by credit institutions. As of 1 January 2015, 94.0% of household loans (borrowings) and other claims were grouped into homogenous loan portfolios (93.8% as of 1 January 2014).

Annual growth rates of the most risky segment – unsecured consumer loans[1] – fell during the year more than threefold: from 31.3% to 8.9%. As of late 2014, the value of unsecured consumer loans reached 6.4 trillion rubles.

The share of loans overdue for more than 90 days in the total value of household loans grouped into homogeneous loan portfolios, increased from 5.8% to 7.9%, including overdue unsecured consumer loans which rose from 8.0% to 11.9%. At the same time, the share of overdue car loans increased only from 4.9% to 6.6%, while the share of overdue mortgage loans stood unchanged at 1.2%.

Ten banks specialising in consumer lending typically have a larger share of bad loans in their portfolios of unsecured consumer loans: the average for that group totalled 21.7% as of 1 January 2015.

non-financial organisations amounted to 23.8%, and the share of overdue loans to households – 8.8%. Excluding banks undergoing bankruptcy prevention measures, the share of overdue loans to non-financial organisations would have equalled 3.4% as of 1 January 2015, the share of overdue loans to households – 5.8%, and the share of 'bad' loans in total loans – 6.0%.

In 2014, credit institutions maintained their loan loss provisions at a level that almost completely covered Quality Category IV and Quality Category V loans[2] (96.7% as of 01 January 2015, 99.0% as of 01 January 2014). As of 01 January 2015, the formed loan loss provisions amounted to 6.5% of the total outstanding loans (with reserves for 'bad' loans accounting for 71.7% of the total value); the previous year, these figures equalled 5.9 and 71.1% respectively.

Loan loss provisions for 'bad' corporate loans declined from 67.4% to 67.2% and provisions for household loans increased from 78.7% to 80.8% (Chart 2.6).

[1] Other consumer loans are used in the reporting Form 0409115 'Information on the Quality of Bank Assets' (Section 3. Data on the Portfolios of Homogenous Claims and Loans Issued to Individuals).

[2] Collateral and the value of estimated provisions for problem loans are taken into account when provisions for Quality Category IV loans are created; they range from 51% to 100% of the principal debt depending on the loan impairment. Collateral and the value of estimated provisions are taken into account when provisions for Quality Category V loans are created; they amount to 100% of the principal debt.

Chart 2.4. Quality of the banking sector loan portfolio, %

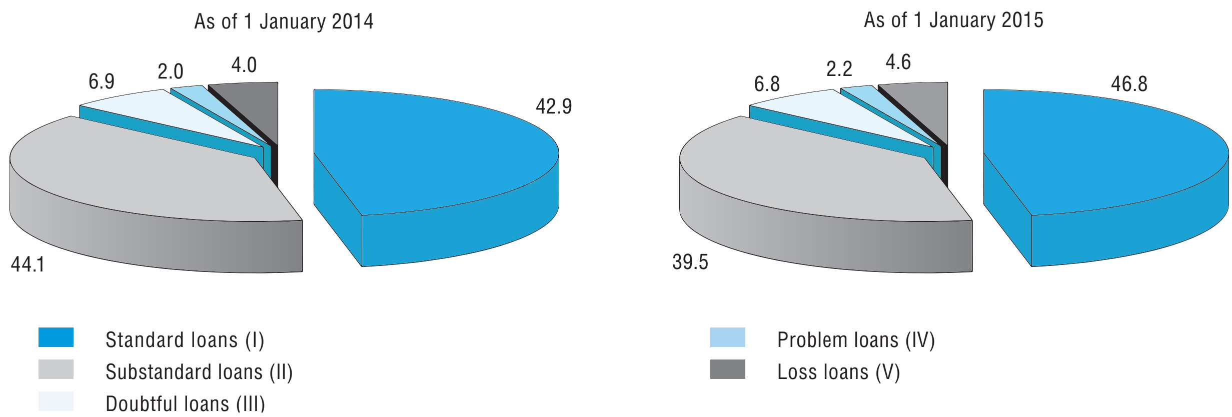
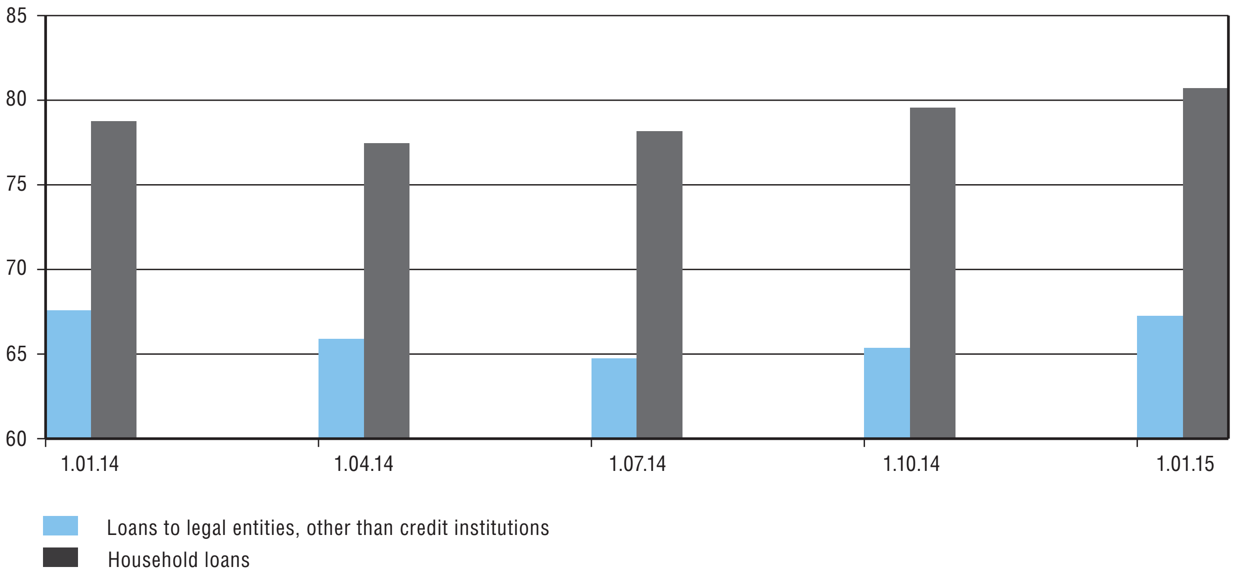


Chart 2.5. Share of 'bad' loans in the total loan value, %

Chart 2.6. Loan loss provisions for 'bad' loans as % of total value of these loans



II.1.2. Credit Risk Concentration. Shareholder and Insider Credit Risks

In 2014, the large loan exposure[1] of the banking sector grew by 34.9% to 19.5 trillion rubles. The share of large loans in the banking sector assets remained unchanged over the year and stood at 25.1%.

During the reporting year, 122 credit institutions violated the required maximum exposure per borrower or group of related borrowers (N6) ratio (69 credit institutions in 2013), and 14 credit institutions violated the required large credit exposure (N7) ratio (6 credit institutions in 2013).

As of 1 January 2015, the maximum value of loans, guarantees and sureties provided by a credit institution (banking group) to its members (shareholders) (N9.1) ratio was calculated by 306 credit institutions, or 36.7% of the total operating credit institutions (338 credit institutions, or 36.6% as of 1 January 2014). The ratio was breached by six credit institutions (three credit institutions in 2013). There were a total of 84 violations as compared with 144 violations a year earlier. 16 credit institutions (nine credit institutions in 2013) failed to meet the total insider risk (N10.1) ratio requirements.

II.1.3. Financial Standing of Enterprises

The financial standing of non-financial enterprises[2] over the first nine months of 2014 was generally evaluated as satisfactory, although it deteriorated year-on-year due to a less favourable economic environment and business climate in the reporting year.

Factors supporting satisfactory financial standing of non-financial enterprises were the continuing high level of self-financing, low debt burden, sufficient investment resources, and satisfactory level of secured liabilities, solvency and profitability.

Improvement of the financial standing of enterprises was hampered by the following factors: decrease in profit before tax and net profit (despite the increase in revenues and profits from sales), slower asset growth, increase in the share of companies with a high debt burden and enterprises experiencing investment resource deficit, growing number and increasing share of enterprises that have lost their capital.

Chart 2.7. Distribution of aggregates by assets of enterprises, %

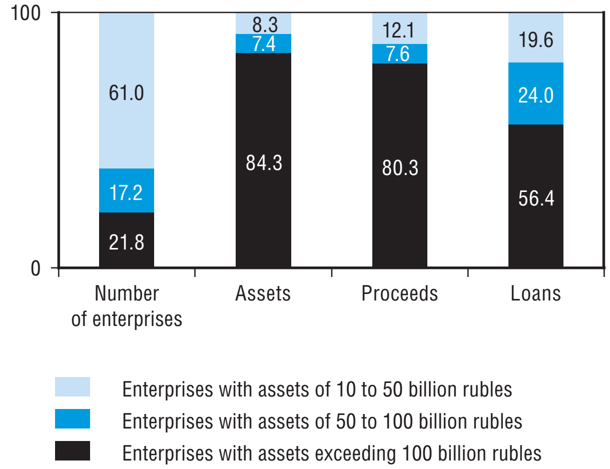
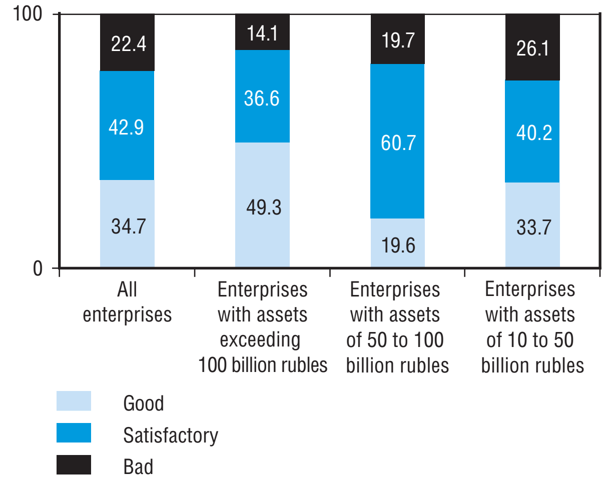


Chart 2.8. Distribution of enterprises by category of financial standing, %



Over the first nine months of 2014, assets of enterprises increased by 7.9% to 55.0 trillion rubles as of the end of the period. Asset growth was markedly lower year-on-year. The share of enterprises whose assets have contracted remains significant – 18.5%.

As of 30 September 2014, the self-financing of enterprises decreased slightly compared to 30 September 2013, but remained relatively high.

Low debt burden (less than one ruble of liabilities per one ruble of capital) was typical of 35.4% of enterprises as of 30 September 2014. As the share of enterprises with low debt burden shrank, the share of enterprises with moderate (from one to two rubles) and high

[1] In compliance with Article 65 of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)', when an amount of loans, guarantees and sureties are associated with one customer and total over 5% of bank's capital, they constitute a large credit exposure.

[2] The analysis covered information on 326 enterprises with assets of more than 10 billion rubles as of 30 September 2014 (hereinafter, the enterprises). This group of enterprises includes enterprises of all major economic sectors from 64 Russian regions.

debt burden increased. The share of enterprises with a debt burden of more than five rubles per one ruble of capital increased the most.

The number of enterprises that have lost their capital increased both in absolute (from 9 to 15 enterprises) and in relative terms (from 2.8% to 4.6%) as compared to 30 September 2013. The excess of liabilities over assets of these enterprises increased almost 1.5-fold. The share of debt on bank loans in the total liabilities of enterprises that had lost their capital increased 2.3-fold reaching 23.6%.

In January – September 2014, 95.1% of enterprises used borrowed funds to finance their activities. The total debt on borrowed funds increased by 11.8% over the first nine months of 2014 and as of 30 September 2014 amounted to 14.8 trillion rubles, of which 10.5 trillion rubles (71.2%) was long-term debt[1] on borrowings. Net debt (borrowings less cash) increased from the beginning of the reporting period by 12.6% to 13.2 trillion rubles as of 30 September 2014. However, the share of borrowings in the liabilities of enterprises decreased from 63.5% as of 30 September 2013 to 61.3% as of 30 September 2014 as a result of a faster growth in accounts payable.

As much as 52.6% of enterprises had debts on bank loans. The importance of bank loans for the formation of liabilities decreased significantly compared to the level observed as of 30 September 2013. Nevertheless, the share of bank loans in borrowings and liabilities remain substantial – 47.4 and 31.4% respectively.

The sales dynamics was positive, with 10.2% higher sales for the first nine months of 2014 year-on-year. In production activities of the considered enterprises the availability of orders in 2014 Q3 increased slightly and amounted to 12.9 months year-on-year. The capacity utilisation rose and amounted to 74.8% in 2014 Q3.

The investment activity of enterprises was moderate: over the first nine months of 2014, fixed assets increased by 2.1%, long-term investments – by 12.4%. Most enterprises – 68.7% of the total – carried out their investment activities amid sufficient investment resources.

However, in general enterprises registered lower investment resource deficit both in absolute (11.4%) and relative terms (from 10.7% to 6.9% with regard to investment assets) compared with the figure for the first nine months of 2013.

Irrespective of the financial performance, 51.8% of enterprises registered an increase in the value of funds resulting from the excess of cash receipts over their use over the first nine months of 2014. The share of enterprises experiencing cash deficit rose to 48.2% year-on-year, while the relative value of the deficit declined.

Despite higher revenue and sales profit, enterprises' profit before tax reduced by 9.2% year-on-year due to the growth in other expenses and amounted to 2.3 trillion rubles. Net profit fell by 12.6% to 1.8 trillion rubles year-on-year.

Over the first nine months of 2014, 72.1% of enterprises were profitable. The profitability decreased slightly (to 5.6%[2]). However, the number of loss-making enterprises generally declined.

Table 2.1. Certain indicators of enterprises holding bank loans

Financial standing category	Total*	Good	Satisfactory	Bad
Share of bank loans in borrowed funds, %				
first nine months of 2014	47.4	31.6	64.9	55.9
2013	67.3	64.5	77.2	56.9
first nine months of 2013	59.4	57.4	62.7	59.4
Share of bank loans in liabilities, %				
first nine months of 2014	31.4	21.8	42.7	31.7
2013	43.7	43.2	48.4	31.3
first nine months of 2013	39.1	40.1	39.3	33.6

** The table shows the distribution of enterprises that provided a financial questionnaire and indicated the existence of debts on bank loans.*

[1] Long-term debt is liabilities maturing in more than 12 months from the balance sheet date; short-term debt is liabilities maturing in less than 12 months from the balance sheet date.
[2] The indicator has been calculated for profitable enterprises.

Table 2.2. Production activity of enterprises, %

Financial standing category	Total	Good	Satisfactory	Bad
Sales dynamics, %				
first nine months of 2014	110.2	107.4	114.1	108.9
2013	108.4	111.8	101.7	101.6
first nine months of 2013	107.0	105.5	109.7	105.8
Production capacity utilisation, %				
2014 Q3	74.8	80.8	72.9	70.8
2013, average for the quarter	75.7	81.6	73.4	71.4
2013 Q3	74.3	79.1	71.0	70.7
Order availability in production, months				
2014 Q3	12.9	10.5	13.4	13.3
2013, average for the quarter	12.0	10.7	14.1	9.5
2013 Q3	12.2	11.8	15.5	9.0

II.2. Market Risk

II.2.1. General Characteristics of Market Risk

In 2014, the assessment of the market risk in the banking sector[1] for the capital adequacy calculation decreased by 11.8% to 2,735 billion rubles as of 1 January 2015.

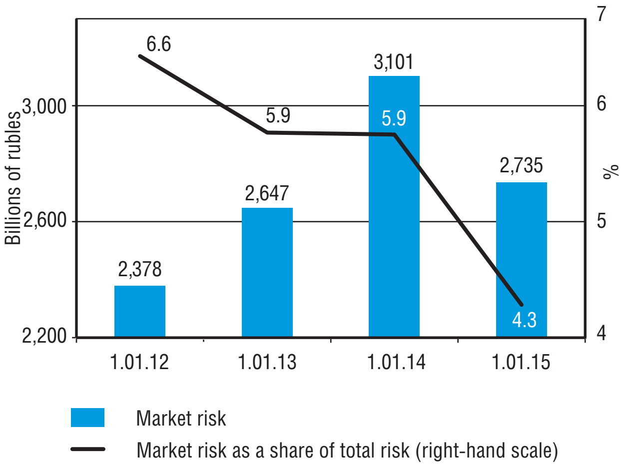
During 2014, the number of credit institutions calculating their exposure to market risk declined from 655 to 598, while their share in the banking sector assets grew[2] slightly from 97.5% to 97.8%. In 2014, the share of market risk in the total value of the banking sector risks[3] contracted from 5.9% as of 1 January 2014 to 4.3% as of 1 January 2015 (Chart 2.9). The ratio of market risk to the capital of banks that calculated market risk decreased by 9.6 percentage points to 36.0% as of 1 January 2015.

Interest rate risk accounted for the largest share of the total market risk (79.5% as of 1 January 2015 against 82.9% as of 1 January 2014). The share of stock market risk in the market risk structure increased over 2014 from 7.3% to 10.3%. The share of foreign exchange risk increased over 2014 from 9.8% to 10.2%.

Over 2014, the share of foreign exchange component of banking sector assets and liabilities rose from 22.1% to 30.0% for assets and from 21.2% to 29.0% for liabilities of credit institutions (Chart 2.10). Foreign exchange assets in US dollar terms grew by 6.7% in 2014 (liabilities increased by 7.4%), while ruble-denominated assets increased by 21.6% (liabilities went up by 21.9%).

In the reporting year, total foreign currency denominated balance sheet and off-balance sheet[4] assets and

Chart 2.9. Market risk and its share of banking sector total risk



[1] Market risk is calculated in accordance with Bank of Russia Regulation No. 387-P, dated 28 September 2012, 'On the Procedure for Calculating Market Risk by Credit Institutions'.
[2] Due to a change in the composition of banks.
[3] Risk-weighted assets used to calculate the capital adequacy ratio of the banking sector, in accordance with Bank of Russia Instruction No. 139-I, dated 3 December 2012, 'On Banks' Required Ratios'.
[4] Under Section D of the Bank Chart of Accounts.

liabilities increased (Table 2.3). The total difference between foreign currency assets and liabilities on balance sheet and off-balance sheet operations increased from 466 billion rubles as of 1 January 2014 to 1,275 billion rubles as of 1 January 2015.

Futures positions[1] – short position in US dollars and long position in euros – increased in 2014 (Table 2.4).

II.2.2. Assessment of Banking Sector Vulnerability to Interest Rate Risk

Banking sector vulnerability to interest rate risk was assessed in terms of the total debt securities trading portfolio[2]. It was assumed that given an upward shift in the yield curve of debt instruments which banks held

Chart 2.10. FX assets and liabilities in banking sector total assets and liabilities

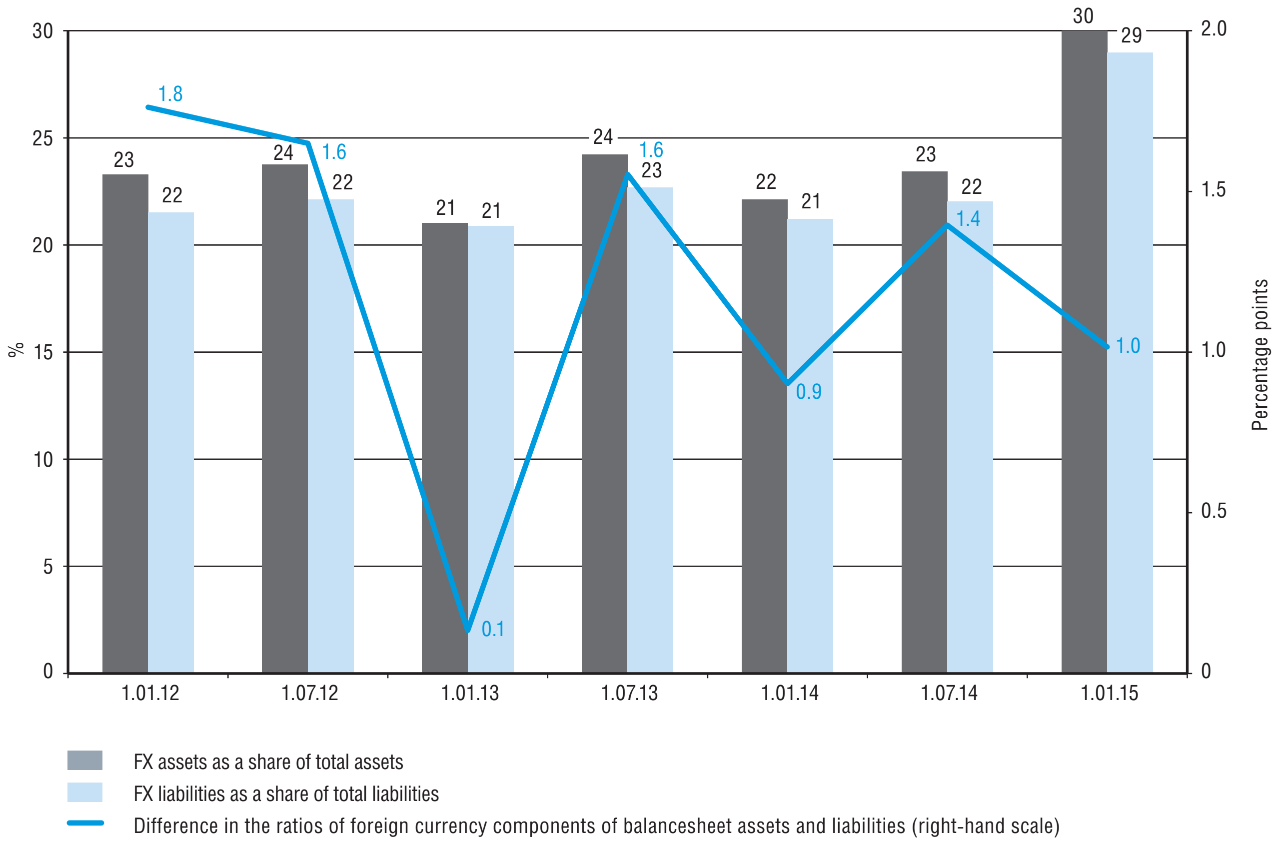


Table 2.3. FX assets and liabilities of the banking sector in balance sheet and off-balance sheet position

	1 January 2014		1 January 2015		Growth in 2014	
	billions of US dollars	billions of rubles	billions of US dollars	billions of rubles	billions of US dollars	billions of rubles
Balance sheet positions						
Assets	388.1	12,703	414.0	23,292	25.9	10,588
Liabilities	372.3	12,185	400.0	22,503	27.7	10,317
Net balance sheet position	15.8	518	14.0	789	–1.8	271
Off-balance sheet positions						
Assets	214.2	7,011	322.2	18,124	107.9	11,113
Liabilities	215.8	7,063	313.5	17,638	97.7	10,575
Net off-balance sheet position	–1.6	–52	8.6	486	10.2	538

[1] For all credit institutions that present Form 0409634, 'Statement on Open Currency Positions', in ruble terms, at the Bank of Russia official rate for the respective dates.

[2] Hereinafter, trading portfolio means investments in debt and equity securities at fair value and held for sale.

Table 2.4. Net FX forward position

	Foreign currency	Net FX forward position, billions of currency units	Ruble equivalent of net FX forward position, billions of rubles
1 January 2014	US dollar	–13.8	–451
	Euro	3.0	135
1 January 2015	US dollar	–19.0	–1,070
	Euro	5.1	348

Table 2.5. Characteristics of banks sampled for analysis of vulnerability to interest rate risk

	Number of banks in the sample	Share of banking sector assets, %	Share of banking sector capital, %
1 January 2014	463	95.4	93.6
1 January 2015	393	95.5	92.2

in their portfolios[1], the debt securities trading portfolio would depreciate in value.

Considerable decline in duration of corporate bond portfolios in 2014 resulted in reduction in the assessment of potential impact of the interest rate on the value of bank investments in corporate debt securities. As a result, the sensitivity of credit institutions, calculating their exposure to the interest rate risk in 2014 decreased: as of early 2015, potential losses of these banks could reach 6.3% of capital (14.2% as of 1 January 2014).

II.2.3. Assessment of Banking Sector Vulnerability to Stock Market Risk

The assessment of Russian banking sector vulnerability to stock market risk is defined as potential negative consequences of a fall in stock indices. As an initial factor, a 50% drop in stock indices was considered (Table 2.6).

Generally as of early 2015, potential losses of credit institutions investing in equity securities would have accounted for 3.5% of capital in the event of a 50% drop in stock market indices (6.3% as of 1 January 2014). In 2014, amid higher geopolitical and economic tension and, consequently, changes in investor sentiment, some risks associated with negative stock market dynamics already materialised.

Table 2.6. Characteristics of banks analysed for sensitivity to stock market risk

	Number of banks in the sample	Share of banking sector assets, %	Share of banking sector capital, %
1 January 2014	418	92.0	89.4
1 January 2015	335	90.4	88.9

II.2.4. Assessment of Banking Sector Vulnerability to Foreign Exchange Risk

For the analysis of banking sector vulnerability to foreign exchange risk, a 20% ***reduction*** in the nominal exchange rate of the ruble against the US dollar and the euro was picked as a source event. To determine the impact of foreign exchange risk on the financial standing of the banking sector, statements filed by credit institutions that calculated their foreign exchange risk and held short open positions in US dollars and euros were analysed. In 2014, the number of banks with short currency position in at least one of the two currencies decreased, but their significance in the assets and capital of the banking sector increased (Table 2.7).

According to the analysis, should the scenario materialise the loss as of 1 January 2015 would have been 0.5% of the capital (0.7% a year earlier) in the whole sample of banks considered. Thus, the banking sector vulnerability to the ruble depreciation by 20% against the US dollar and the euro during the year has decreased slightly which can be interpreted primarily as a result of the materialisation of the exchange rate risk in late 2014.

Table 2.7. Characteristics of banks analysed for their sensitivity to foreign exchange risk (potential ruble depreciation)

	Number of banks		Share of banking sector assets, %		Share of banking sector capital, %	
	1 January 2014	1 January 2015	1 January 2014	1 January 2015	1 January 2014	1 January 2015
Credit institutions with short positions in US dollars and (or) in euros	245	214	61.4	67.7	60.3	65.0

[1] Potential (stress) increase in the yields of federal government debt obligations by 350 basis points, and of Russian corporate bonds by 1,000 basis points.

II.3. Liquidity Risk

II.3.1. General Characteristics of Liquidity Risk

The ratio of the average values of the most liquid assets[1] to the average value of total assets of the banking sector increased from 7.6% in 2013 to 7.7% in 2014. Funds in deposit and correspondent accounts with the Bank of Russia accounted for more than 30% of the most liquid assets. The amount of these funds traditionally grows at the beginning of the year (Chart 2.11).

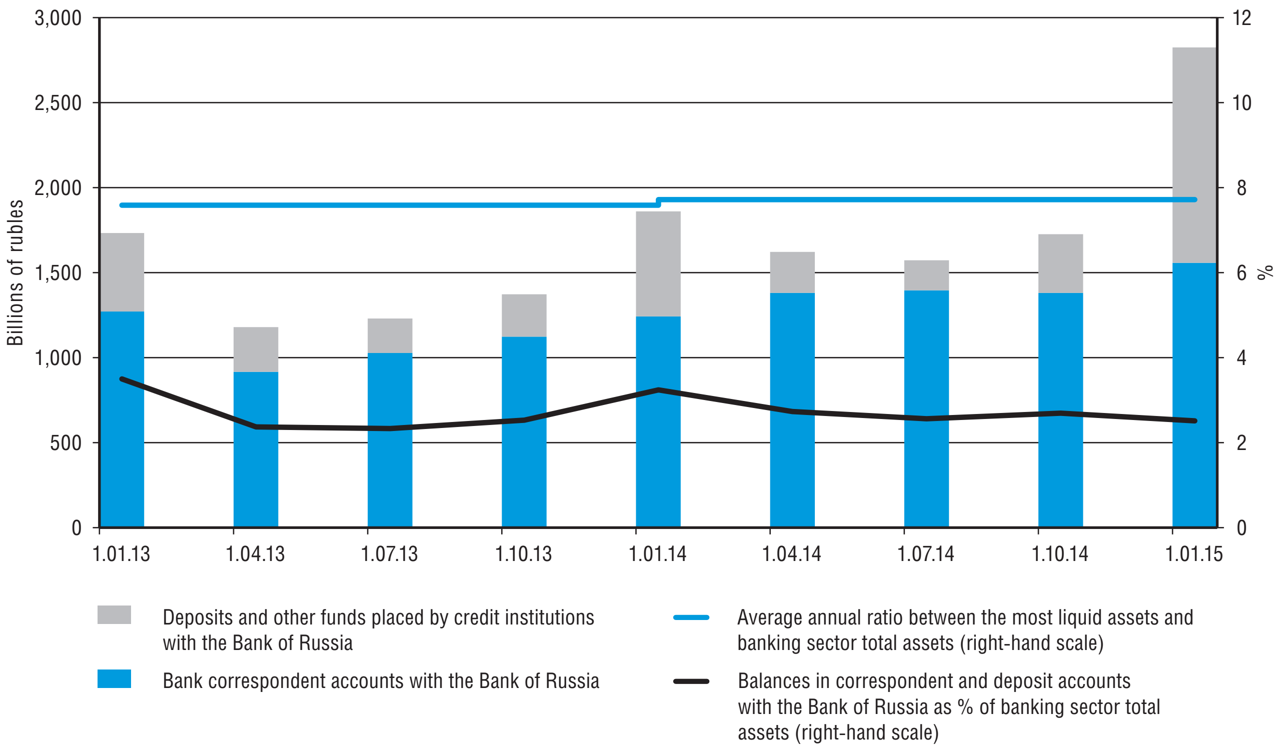
In the second half of 2014, as geopolitical tensions persisted and the Russian economy slowed the situation with the banking sector liquidity tended to aggravate. This trend was especially clear in October–December of the reporting year amid unstable exchange rate dynamics and depreciation expectations. But already late in December 2014, when the Government of the Russian Federation and the Bank of Russia took a number of important measures (increase in the Bank of Russia key rate, increase in the maximum compensation under the Deposit Insurance System, and provision of FX liquidity to banks) the liquidity of banks started to normalise.

II.3.2. Compliance with Required Liquidity Ratios

Due to the outpacing growth of highly liquid assets against short-term liabilities of credit institutions, the average value of the instant liquidity (N2) ratio of the banking sector declined from 63.2% to 58.3% in 2014 year-on-year (the standard level equals 15.0%). The average annual actual current liquidity (N3) ratio decreased from 84.8% in 2013 to 77.3% in 2014 (Chart 2.12), which is also substantially above the minimum permissible ratio of 50%.

The long-term liquidity ratio grew from 85.5% in 2013 to 91.2% in 2014. The average annual value of long-term (over one year) loans in 2014 increased by 27.2% year-on-year, while the average value of liabilities of the banking sector with maturities of more than one year increased by 21.6%, and the average capital growth rate was 14.0%[2]. The current dynamics allows financial institutions to maintain a sufficiently balanced

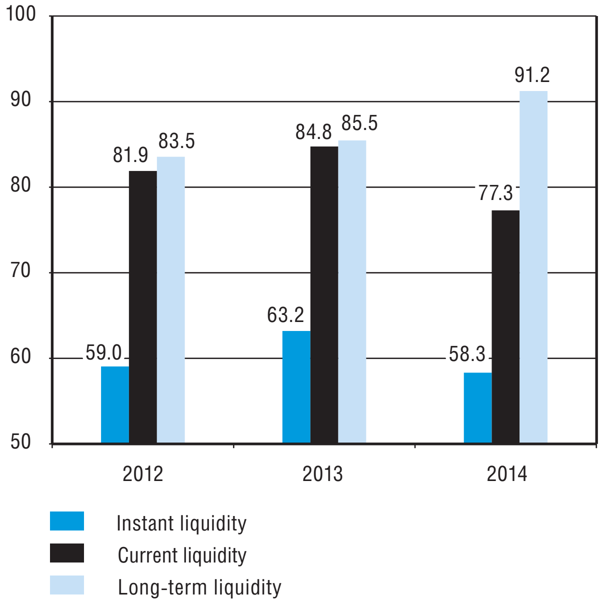
Chart 2.11. Balances of bank correspondent and deposit accounts with the Bank of Russia*



**According to bank balance sheets.*

[1] Cash, precious metals, correspondent account balances, and balances in correspondent and deposit accounts with the Bank of Russia.
[2] The analysis is based on the components of the long-term liquidity (N4) ratio, including chronological averages for long-term loans, banking sector liabilities with maturities of over one year, and capital, in accordance with Bank of Russia Instruction No. 139-I.

Chart 2.12. Banking sector liquidity ratios (annual chronological averages), %



structure of long-term assets and liabilities, and taking into account the maximum value of long-term liquidity (120%), credit institutions have the opportunity to build up a long-term credit to the economy.

During 2014, only single credit institutions failed to comply with required liquidity ratios. As of 1 January 2015, out of credit institutions operating in 2014 ten banks breached the instant liquidity (N2) ratio on certain dates (7 credit institutions in 2013) and 14 credit institutions violated the current liquidity (N3) ratio (15 credit institutions in 2013). In 2014, there were 7 cases of breaching the long-term liquidity ratio (N4), in 2013 – 2 cases.

II.3.3. Structure of Bank Assets and Liabilities by Maturity

The share of assets with maturity of over one year in the total assets (assigned to Quality Category I[1]) decreased from 39.5% to 39.0% in 2014. The share of liabilities with maturity of over one year in the total liabilities also declined from 24.7% to 24.3%.

The liquid coverage deficit rose[2] from 8.6% as of 1 January 2014 to 10.7% as of 1 January 2015.

II.3.4. Bank Dependence on Interbank Market and Interest Rate Dynamics

In 2014, a general upward trend in the value of interbank loans was accompanied by rather high volatility of this indicator: the MIACR on overnight ruble loans ranged between 4.9% and 28.3% p.a. After the interest rate leapt in March 2014, its value remained within 6.8-9.0% p.a. This indicator grew considerably in 2014 Q4: in December the MIACR rate reached 28.3% p.a. (Chart 2.13).

In the reporting year, the dependence of credit institutions on the interbank market increased slightly from (–0.7%) as of 1 January 2014 to (–0.5%) as of 1 January 2015. The largest share of the banking sector total assets (94.7% as of 1 January 2015) belonged to a group of credit institutions with the IMDR no higher than 8% (Chart 2.14).

II.3.5. Bank Debt to Non-Residents

By the end of 2014, the total debt of the Russian banking sector to non-residents[3] amounted to 8.1 trillion rubles, a 37.7% increase over the year (adjusted for foreign currency revaluation – 12.2% decline). Russian bank claims to non-residents grew by 39.9% to 10.6 trillion rubles (adjusted for foreign currency revaluation – fell by 9.7%). Thus, the value of net claims to non-residents[4] increased from 1.7 trillion rubles as of 1 January 2014 to 2.5 trillion rubles as of 1 January 2015 (unadjusted for foreign currency revaluation – remained practically unchanged).

The analysis of banks ranked by the level of debt to non-residents showed that the average ratio of funds raised from non-residents to banking sector liabilities stood at 10.6% as of 1 January 2015. That level was exceeded by 136 credit institutions, 52 of which were foreign-controlled banks (Chart 2.16).

As of 1 January 2015, 162 credit institutions raised loans from non-resident banks. They accounted for 90.2% of the banking sector total assets (178 credit institutions accounting for 89.9% of the banking sector total assets as of 1 January 2014). As of 1 January 2015, 177 credit institutions extended loans to non-resident banks, with their share in the banking sector total assets equal-

[1] Pursuant to Bank of Russia Regulation No. 254-P, dated 26 March 2004, 'On the Procedure for Making Loss Provisions by Credit Institutions for Loans, Loan and Similar Debts' and Bank of Russia Regulation No. 283-P, dated 20 March 2006, 'On the Procedure for Making Loan Loss Provisions by Credit Institutions'.
[2] The liquid coverage deficit (LCD) is calculated as the ratio of the excess of demand liabilities and liabilities with maturities of up to 30 days over the value of (liquid) assets with similar maturities to the total value of these liabilities.
[3] Including correspondent accounts and other accounts of non-resident credit institutions, loans received, deposits, funds in the accounts of other non-resident corporate entities and households.
[4] The balance of debt to non-residents and funds deposited with them, including correspondent accounts with credit institutions, loans, deposits and other fund placements.

The interbank market dependence ratio (IMDR) of credit institutions is calculated as the percentage ratio of the difference between interbank loans (deposits) raised and placed to funds raised (net of accrued interest). The higher is the ratio, the more a credit institution is dependent on the interbank market. The methodology for calculating the IMDR generally complies with the methodology for calculating the PL5 ratio established by Bank of Russia Ordinance No. 2005-U, dated 30 April 2008, 'On Assessing Banks' Economic Situation' (hereinafter, Bank of Russia Ordinance No. 2005-U), which defines the threshold values of the IMDR at 8%, 18% and 27%.

Chart 2.13. Ruble interbank credit rate (MIACR), % p.a.

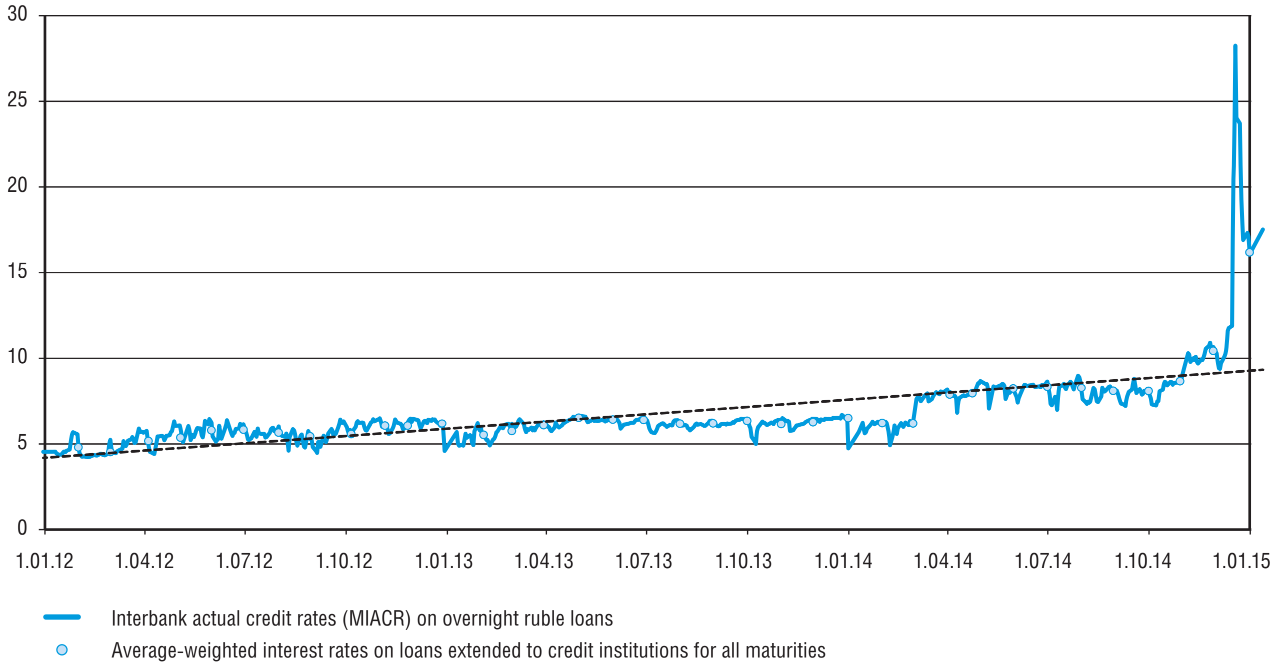
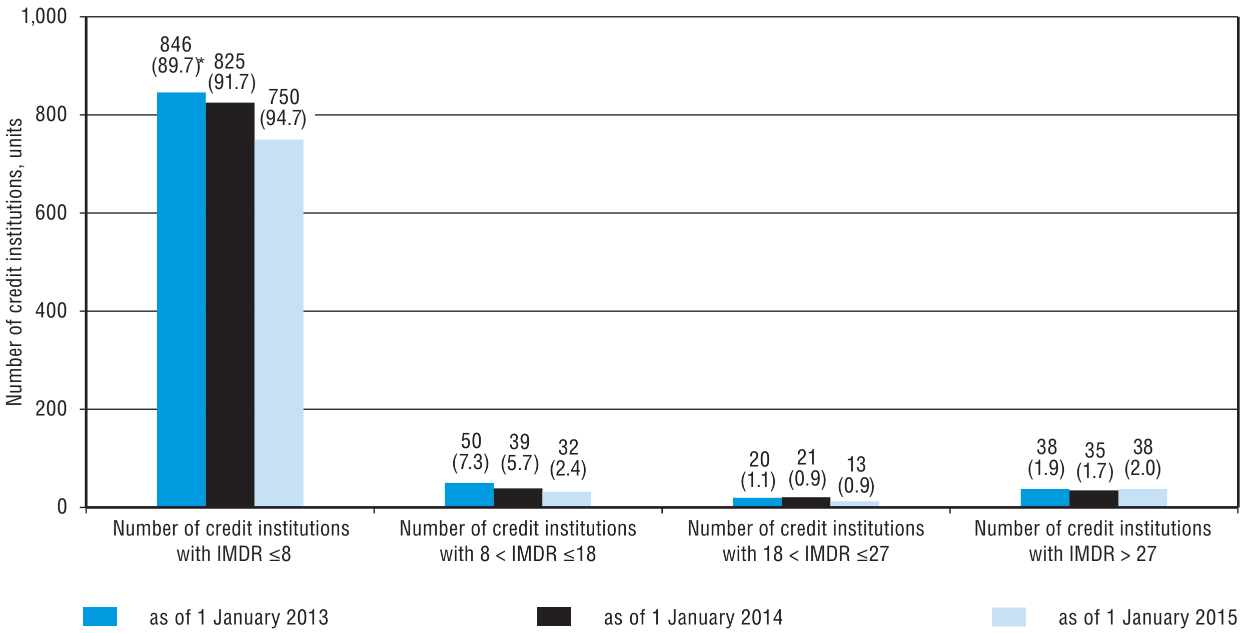


Chart 2.14. Credit institutions ranked in terms of interbank market dependence ratio



* *Figures in brackets denote % share of credit institutions in banking sector assets.*

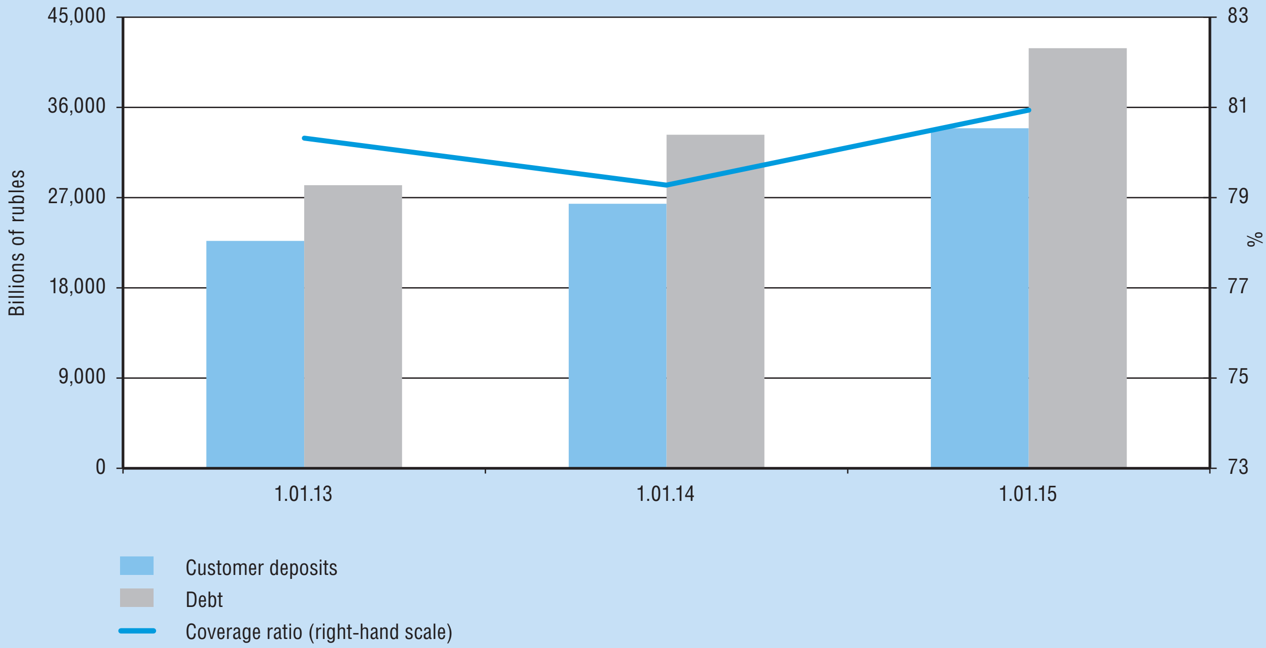
Customer deposits to loans (coverage ratio)

The coverage ratio is calculated as the ratio of customer deposits to customer loans. Higher coverage ratio indicates an improved balance between loans to customers and their funding sources for similar maturity. The international practice applies the loan-to-deposit ratio for analytical purposes.

As of 1 January 2015, customer deposits[1], as the most stable source of a credit institution's resource base, covered 80.9% of loans issued[2] which was higher than the coverage ratio of 79.3% as of 1 January 2014 (Chart 2.15). The deposit growth (28.6%) exceeded the growth rate of loans to customers (25.9%).

The coverage ratio calculated by a medium and long-term component (maturity exceeding one year)[3] decreased slightly, from 62.6% as of 1 January 2014 to 58.1% as of 1 January 2015. The growth rate of loans with maturities exceeding one year was lower than the growth rate of deposits with similar maturity (29.1% against 20.0%).

Chart 2.15. Banking sector debt to borrowing ratio



In 2014, the number of credit institutions with coverage ratios below the banking sector average went down. As of 1 January 2015, 149 credit institutions had a coverage ratio that was half of the banking sector average. They accounted for 2.8% of the banking sector total assets. For comparison: as of 1 January 2014, 178 credit institutions had a coverage ratio that was half of the banking sector average, their share in total assets equalled 3.0%. As of 1 January 2015, coverage ratios that were a quarter or less of the banking sector average were registered in 90 credit institutions, which accounted for a 1.9% share of total assets (104 credit institutions with a 1.4% share as of 1 January 2014).

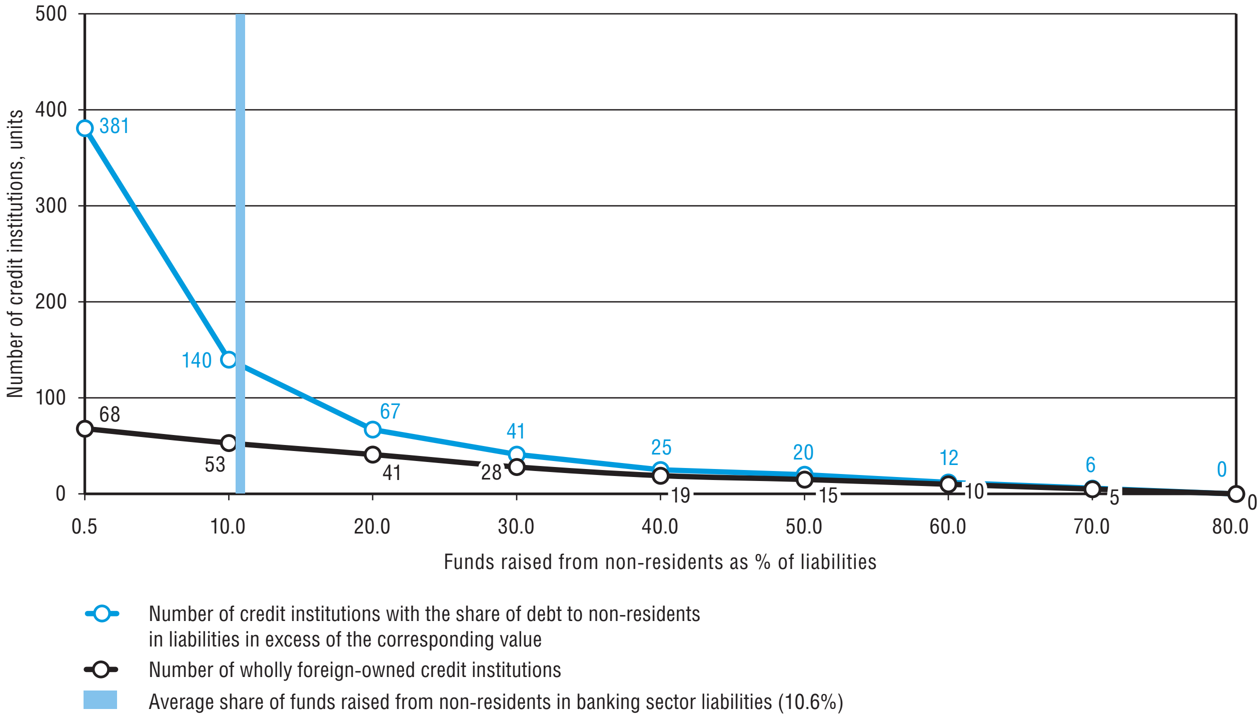
ling 90.1% (204 credit institutions accounting for 90.3% of the banking sector total assets as of 1 January 2014).

On all of the reporting dates in 2014, Russian banks were net lenders in the interbank lending market.

Interbank transactions with non-residents were concentrated in Russia's largest credit institutions as usually. One half of interbank loans raised from abroad were obtained by four credit institutions, three of which were

[1] Customer deposits include those taken by credit institutions from households corporates (other than resident banks and financial institutions), as well as other funds raised from resident and non-resident creditors, excluding current and settlement account balances.
[2] Debts include loans extended by credit institutions to households corporates (other than resident banks and financial institutions), as well as other funds extended to resident and non-resident debtors.
[3] Calculated as the ratio of customer deposits with maturities over one year to extended loans with the same maturity. Higher ratio shows an improved balance between medium- and long-term loans and their funding sources with similar maturity.

Chart 2.16. Banking sector debt to non-residents as of 1 January 2015



among Russia's top 20 banks in terms of assets. Two credit institutions were responsible for granting half of the total value of interbank loans to non-residents; these three ranked among the top 20 largest in terms of assets.

II.4. Capital Adequacy

On the impact of some regulatory developments on the capital value and adequacy

Starting 2014, credit institutions apply Bank of Russia Regulation No. 395-P, dated 28 December 2012, 'On the Methodology for Measuring Bank Capital (Basel III)' (hereinafter, Bank of Russia Regulation No. 395-P) to calculate their capital adequacy for regulatory purposes. For this reason, starting with statements as of 1 February 2014, the previously employed N1 capital adequacy ratio was replaced by N1.0 capital adequacy ratio (minimum requirement is set at 10%), N1.1 common equity Tier 1 capital adequacy ratio (5%), and N1.2 Tier I capital adequacy ratio (5.5%, from 1 January 2015 – 6.0%). The operational risk ratio was also raised from 10 to 12.5. As of 1 February 2014, the introduction of the regulatory changes brought down the value of the bank capital adequacy ratio by approximately 0.2 percentage points.

During the year, some regulatory changes were implemented. They had multidirectional impact on the ultimate value of capital adequacy. Those included new components added to the total risk value (denominator of N1.0, N1.1 and N1.2 ratios), such as the risk of changes in the credit claim value due to the deteriorating credit quality of the counterparty (in October 2014) and the borrowing bank's claims to return securities transferred under reverse transactions together with securities previously received on a repayable basis without the initial recognition (in November 2014).

The measures introduced in December 2014 to stabilise the financial situation in the banking sector[1] reduced the total risk value, stabilised the financial result and maintained the capital adequacy.

At the end of the reporting period, the regulatory capital of the banking sector, calculated in accordance with the new methodology, exceeded the capital calculated in accordance with the previous methodology by 9% (mainly due to the lower capital deductions primarily related to accounting the investments in subsidiaries).

The combined impact of the above-mentioned regulatory factors on the increase in the capital adequacy is estimated at 1.5 percentage points as of 1 January 2015.

Further regulatory capital requirements should restrain the capital growth as some subordinated instruments and preference shares of credit institutions are

[1] For details, see Section III.1.3 'Banking Regulation'.

subject to annual discounting (gradual derecognition of the subordinated instrument) until derecognition from 1 January 2022. At the same time, 'new' deductions applied to the capital components are gradually introduced along with gradual exclusion of 'old' deductions. Some regulatory factors have temporary effect, e.g., the easing of accounting of transactions denominated in foreign currencies is valid until 1 July 2015.

II.4.1. Banking Sector Capital Dynamics and Structure

In 2014, the capital of operating credit institutions increased by 12.2% (in 2013 – 15.6%) and reached 7,928 billion rubles as of 1 January 2015 (Chart 2.17). The intensive growth of bank capital, which outpaced the growth of the nominal gross domestic product, resulted in an increase in the ratio of the banking sector capital to GDP from 10.7% to 11.2% over the year.

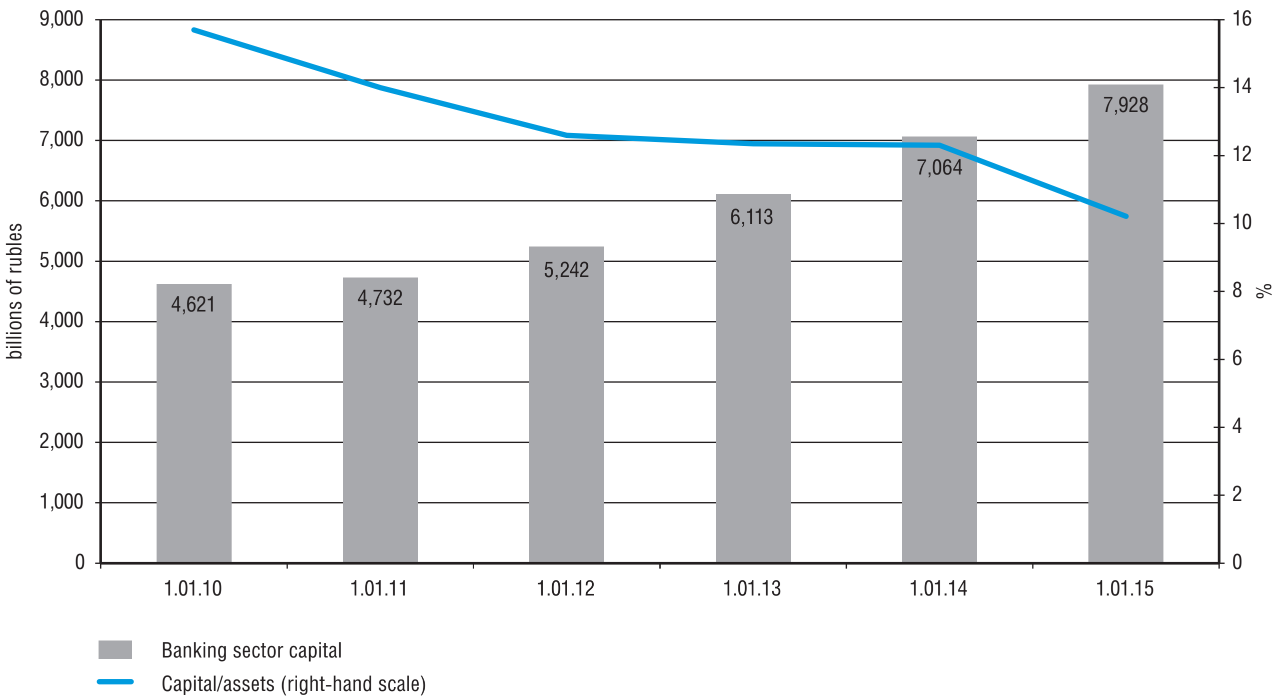
The absolute growth of the banking sector capital totalled 864 billion rubles in 2014 against 951 billion rubles in 2013.

The structure of capital growth drivers changed slightly in 2014 year-on-year (Chart 2.18, Table 17 of the Statistical Appendix). The main capital sources were the authorised capital and share premiums: their growth totalled 455 billion rubles or 36.4% of growth drivers (246 billion rubles or 23.4% in 2013). Profits and funds created from them (growth of 384 billion rubles or 30.7% of the total capital growth drivers) were second most important drivers. Subordinated loans grew by 295 billion rubles or 23.6% of the total capital growth drivers.

In 2014, capital growth factors differed significantly by group of banks. The authorised capital and share premiums were the main growth driver in the group of state-controlled banks (47% of growth drivers) and non-bank credit institutions (92%). The main capital growth drivers for small and medium-sized banks based in Moscow and the Moscow Region were profits and funds (69%). Subordinated loans were the main capital growth driver for foreign-controlled banks (51%), large private banks (43%) and small and medium-sized regional banks (47%). It is noteworthy that for small and medium-sized regional banks the second most important capital growth driver (27%) was lower capital deductions, related to investments in shares of financial credit institutions, subsidiaries and affiliates; the provision of subordinated loans to financial institutions; capital sources formed by investors (shareholders, participants, etc.) from inappropriate assets.

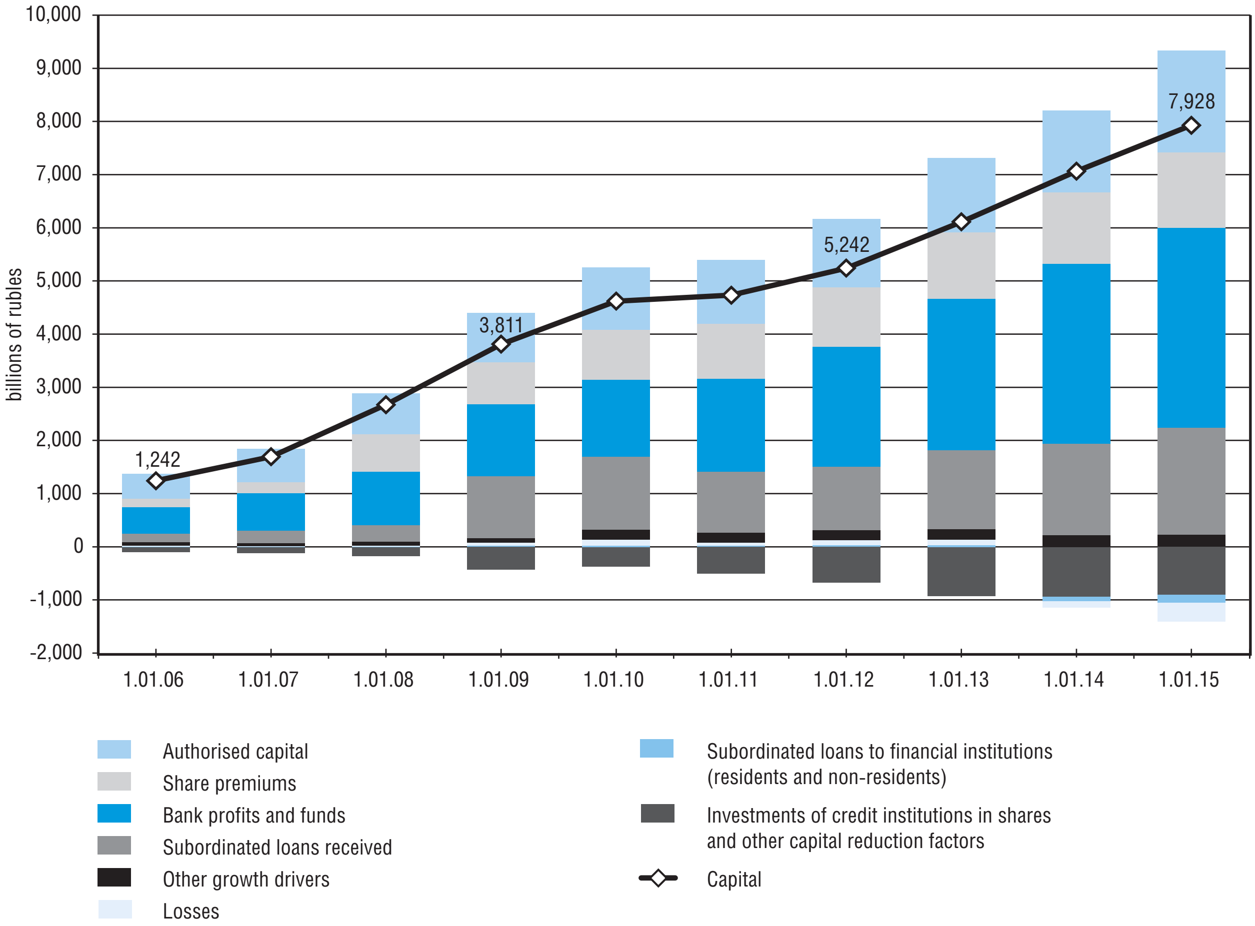
The common equity increased by 17.2% to 5,638 trillion rubles in 2014[1]. The common equity adequacy increased from 8.8% to 8.9% in 2014. In 2014[1], the share of common equity in the capital increased by

Chart 2.17. Banking sector capital



[1] In accordance with requirements of Bank of Russia Regulation No. 395-P the ratio shall be calculated starting with the data as of 1 February 2014.

Chart 2.18. Banking sector total capital structure



3.1 percentage points to 71.1% as of 1 January 2015, showing better quality of capital sources.

In 2014, the core capital increased by 20.1% to 5,718 trillion rubles, and its share in the capital increased over 2014 by 4.7 percentage points and amounted to 72.1% as of 1 January 2015. In 20141, the core capital adequacy increased from 8.8% to 9.0%.

Amid capital growth in the banking sector as a whole, 170 credit institutions reported its reduction by a total of 280 billion rubles (in 2013, capital decrease of 45 billion rubles was observed in 145 credit institutions).

II.4.2. Risk-Weighted Assets

In 2014, risk-weighted assets increased by 20.9% (in 2013 – 17.5%). The credit risk-weighted assets made the largest share of risk-weighted assets (87.4%). Meanwhile, the share of operational risk increased over the year from 6.8% to 8.3%, while the share of market risk reduced from 5.9% to 4.3% (due to the materialisation of market risks in the financial markets in 2014).

The ratio of credit risk-weighted assets of banks to total balance-sheet assets fell from 79.8% to 71.4% in 2014 (Chart 2.19). In the structure of credit risk-weighted assets the greatest weight (64%) belongs to the credit risks on assets recorded in balance sheet accounts, which include five groups of assets with different risk factors. A substantial share of the credit risk total value is made by higher risk transactions (17%) and credit risk of contingent credit liabilities (9%).

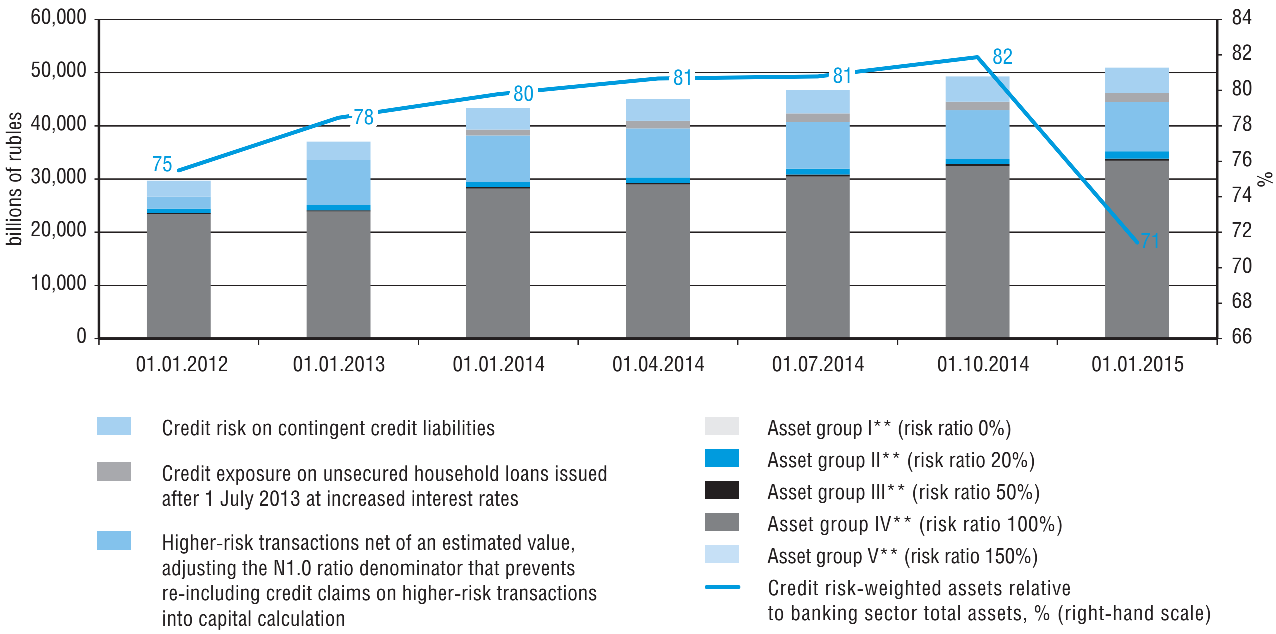
During 2013, the amount of higher-risk transactions increased by 6.7% to 9,287 billion rubles as of 1 January 2015. The share of these transactions in credit risk-weighted assets fell by 1.9 percentage points to 20.9%.

II.4.3. Bank Capital Adequacy

Over the year the capital adequacy ratio decreased in the banking sector as a whole from 13.5% to 12.5%. The decline was conditioned by the outpacing growth of risk-weighted assets. The top five banks in terms of assets saw their N1.0 capital adequacy[1] slide from 12.1%

[1] Starting 1 February 2014, for regulatory purposes capital adequacy is evaluated by aggregate capital adequacy ratio N1.0 (equivalent to the N1 ratio), common equity N1.1 and core capital N1.2.

Chart 2.19. Credit risk-weighted balance sheet assets of credit institutions*



* *Indices are calculated by credit institutions in accordance with Bank of Russia Instruction No. 139-I 'On Banks' Required Ratios'.*

** *Assets, net of loss provisions and loan loss provisions.*

Table 2.8. Capital adequacy by group of credit institutions ranked by the value of assets, %

Credit institutions ranked by the value of assets (in descending order)	Capital adequacy (N1.0), % (minimum – 10%)		Core capital adequacy (N1.2), % (minimum – 5.5% until 1 January 2015, from 1 January 2015 – 6.0%)		Common equity adequacy (N1.1), % (minimum – 5%)	
	1 February 2014	1 January 2015	1 February 2014	1 January 2015	1 February 2014	1 January 2015
Top 5	12.1	11.9	7.9	8.7	7.8	8.6
6th to 20th	12.3	12.1	8.4	8.5	8.4	8.3
21st to 50th	12.8	11.1	8.9	7.0	8.8	6.7
51st to 200th	15.2	19.6	11.5	11.7	11.4	11.4
201st down	18.6	15.0	14.7	15.1	14.6	14.9
Banking sector	**12.9**	**12.5**	**8.8**	**9.0**	**8.8**	**8.9**

to 11.9% in 2014 (see Table 2.8). The N1.2 core capital adequacy ratio in these banks grew from 7.9% to 8.7%, with the N1.1 common equity adequacy also increasing from 7.8% to 8.6%.

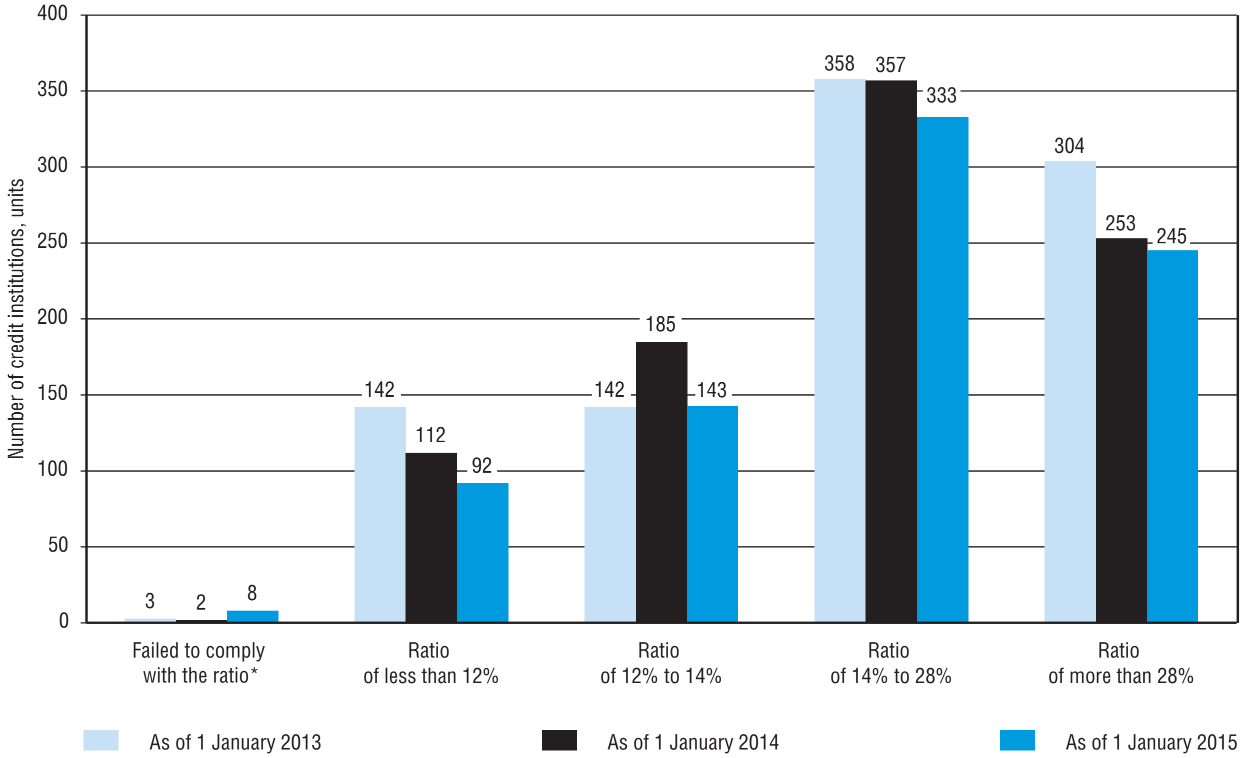
During 2014, the ranking of credit institutions by capital adequacy ratio (the share of the banking sector total assets) changed. As of 1 January 2015, the largest share (47% of the banking sector assets) was made by banks with capital adequacy ratio ranging from 10% to 12%, from 12% to 14% a year earlier (64.7% of the banking sector assets).

The number of banks with the capital adequacy ratio below 12% fell over the year from 112 to 92. Their share of the banking sector total assets increased by 28.3 percentage points (from 18.8% to 47.0%).

As of 1 January 2015, capital adequacy ratios of 143 credit institutions (185 as of 1 January 2014) ranged between 12% and 14%. Their share of the banking sector total assets decreased in 2014 by 25.4 percentage points (from 64.7% to 39.4%).

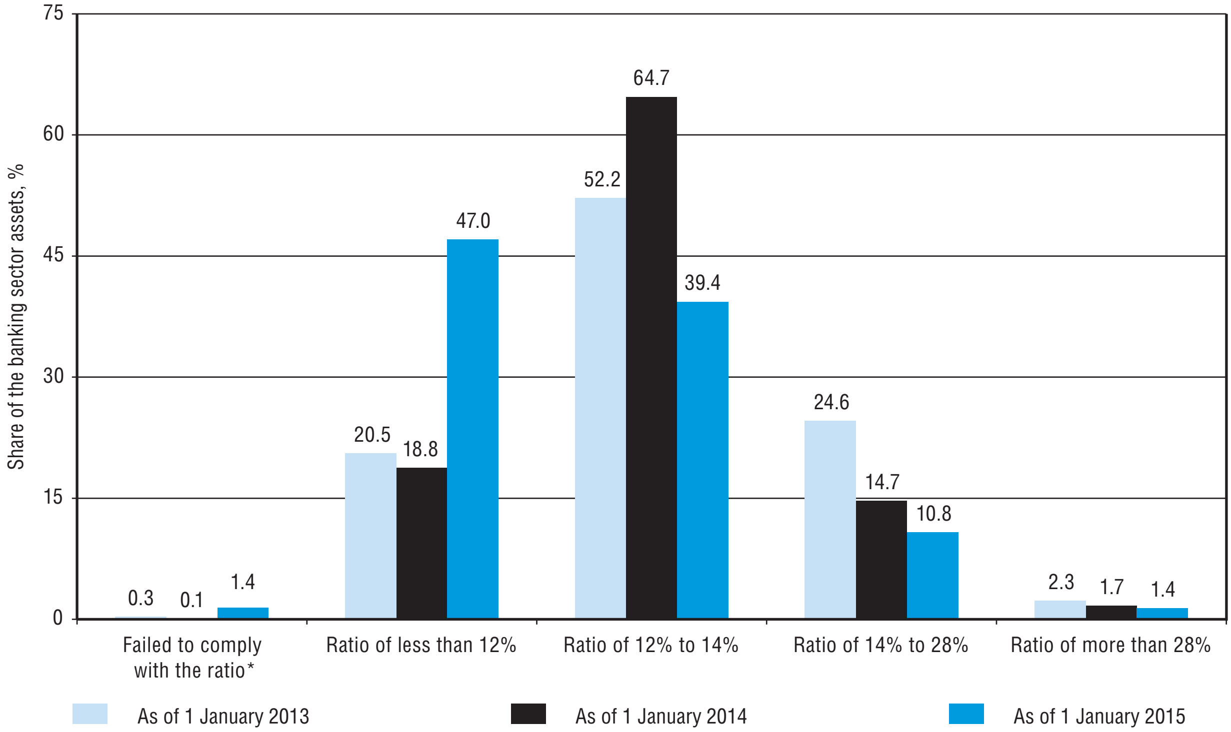
The capital adequacy ratio of more than 14% was maintained by 578 credit institutions (610 credit institutions as of 1 January 2014). The share of credit institutions with capital adequacy ratios ranging from 14% to 28% fell from 14.7% to 10.8% of the bank-

Chart 2.20. Credit institutions grouped by capital adequacy ratio (by number of banks)



** Credit institutions managed by the DIA.*

Chart 2.21. Credit institutions grouped by capital adequacy ratio (by share of the banking sector total assets)



** Credit institutions managed by the DIA.*

ing sector total assets during 2014 (Chart 2.20 and Chart 2.21).

During 2014, the capital adequacy ratio (N1.0) was breached by 28 credit institutions (15 credit institutions in 2013), of which 11 credit institutions had their licences revoked, and one bank was reorganised.

During 2014, the core capital adequacy ratio (N1.2) was breached by 29 credit institutions and the common equity adequacy ratio (N.1.1) – by 30 credit institutions.

II.5. Bank Management Quality

During 2014, the management quality in credit institutions was assessed in accordance with Bank of Russia Ordinance No. 2005-U, dated 30 April 2008, 'On Assessing Banks' Economic Situation', in terms of the risk management system (PU4), internal controls (PU5), strategic risk management (PU6) and employee incentive risk management (PU7).

As seen in Charts 2.22-2.25, the quality of risk management, internal controls, strategic management and employee incentive risk management remained satisfactory in the banking sector as a whole over 2014.

The share of credit institutions where the quality of employee incentive risk management was rated as doubtful is expected to diminish due to the effectiveness from 1 January 2015 of Bank of Russia Instruction No. 154-I, dated 17 June 2014, 'On the Procedure for Assessing Credit Institution Remuneration System and Issuing Orders to the Credit Institution to Correct Deficiencies in the Remuneration System'. The adoption of this regulatory document completed the introduction of principles and standards of remuneration recommended by the Financial Stability Board in 2009 in the Russian banking legislation.

Chart 2.22. Results of risk management system assessment (PU4)

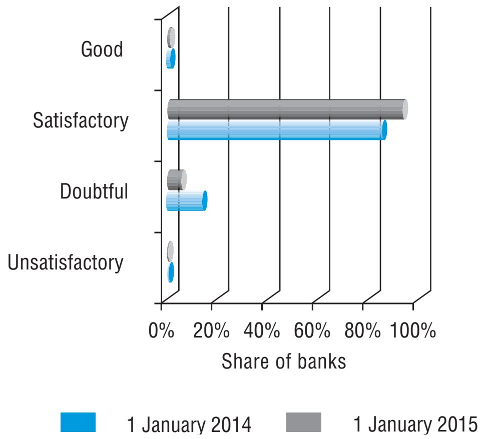


Chart 2.23. Results of internal control assessment (PU5)

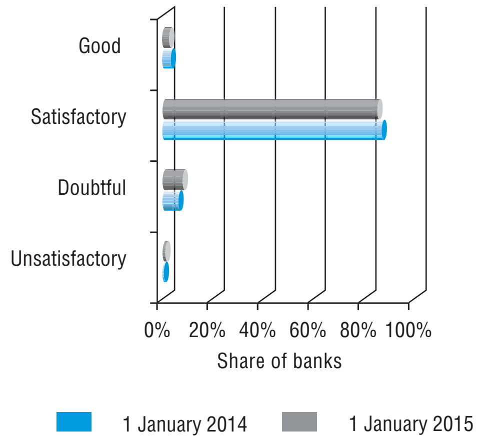


Chart 2.24. Results of strategic risk management assessment (PU6)

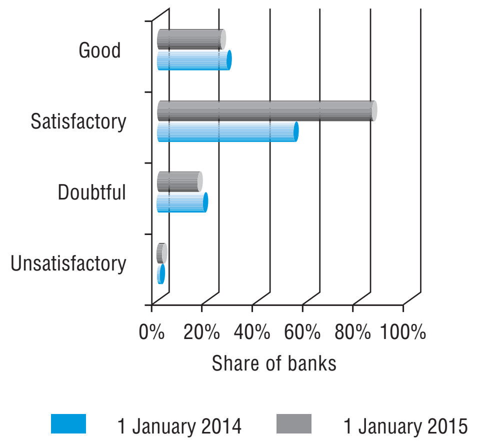
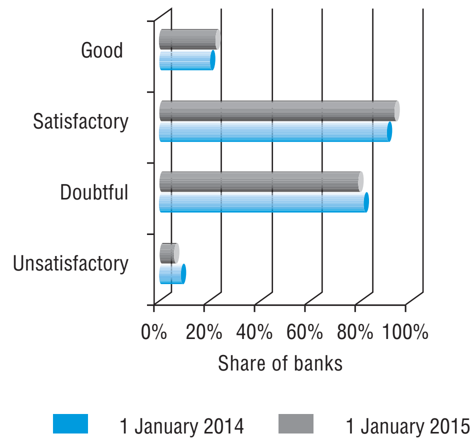


Chart 2.25. Results of employee incentive risk management assessment (PU7)



II.6. Banking Sector Stress Testing

In 2014, the Bank of Russia continued assessing banking sector stability through stress testing methods. The use of this instrument helped evaluate changes in the banking risk structure, identify credit institutions exposed to particular risks, and estimate the potentially necessary additional capitalisation if the assumed stress scenarios materialise.

The Bank of Russia applies key stress-testing methods developed in the international banking practices, such as a sensitivity analysis and a scenario analysis. The simultaneous use of both methods ensures the comprehensive analysis of potential risks for both individual credit institutions and the banking sector as a whole.

To assess the systemic soundness of the banking sector, the Bank of Russia performed a macro-model-based stress test as of 1 January 2015. The assessment was performed for all operating banks[1] based on a rather tight macro-scenario, with parameters that were calculated based on the estimates of the possible impact of negative global economic developments on the Russian economy. The scenario assumes a drop in oil prices to $40 per barrel and a reduction of GDP by 7.0%. These developments under the scenario are accompanied by rising interest rates in the Russian financial market and a decline in stock indices. For key parameters, see Table 2.9.

Bank losses were assessed in relation to three main risks: credit risk, market risk, and liquidity risk.

A conservative estimate of credit risk on extended loans assumed additional loan loss provisions (LLPs) for a portfolio of these loans based on provision amounts which were calculated to include 100% of the portfolio value.

Besides, the conservative approach to credit risk assessment suggests that in times of crisis the quality of not only the existing loan portfolio, but also of the newly issued loans deteriorates (i.e. the macro-model generates a share of 'bad' loans after the stress and after that the balance model calculates the amount of 'bad' loans based on this share, taking into account the value of the loan portfolio and the bank's risk appetite in times of stress).

Macro-model-based stress testing

When conducting stress testing based on the scenario analysis method the Bank of Russia uses a macroeconomic model, which is a system of regression equations describing the impact of the macroeconomic environment (macro-parameters), including such indicators as GDP, ruble exchange rate against foreign currencies, inflation, real disposable income of households and fixed capital investments on changes in the banking sector indicators, including corporate account balances, household and corporate deposits, cost (revaluation) of securities, loans to households and corporates, movements in the share of 'bad' loans[2] in total loans.

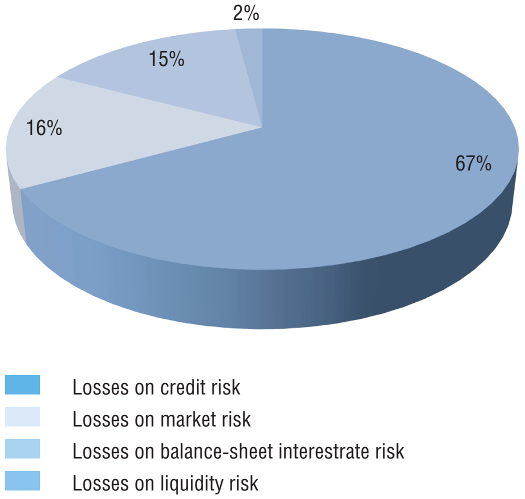
Taking into account the impact of macro-factors on key banking indicators for each bank during the projected period (quarterly for one year horizon), calculations are made on the basis of a simulated balance model that reflects the possible behaviour of a bank during the assumed stress conditions and assesses its financial performance. This financial result generated over the forecast period helps to adjust the amount of potential losses. The result of the simulation is an estimate of the bank total loss due to all types of risks under stress, as well as a possible capital deficit[3].

Table 2.9. Changes in scenario options on one year horizon

Indicator	Stress scenario	Memo item: 2014, actual 2014
Oil price, US dollars per barrel	40	98
GDP growth rate, %	–7.0	0.6
CPI, %	16.0	11.4
Growth rate of fixed capital investments, %	–13.8	–6.3
Growth rate of real disposable income of households, %	–7.7	–0.8
Dual-currency basket growth rate, %	31.5	61.4

[1] Except for banks undergoing a rehabilitation procedure and having the capital adequacy ratio below the regulatory minimum prior to the stress.
[2] 'Bad' loans mean quality categories IV-V loans classified in accordance with Bank of Russia Regulation No. 254-P, dated 26 March 2004, 'On the Procedure for Making Loss Provisions by Credit Institutions for Loans, Loan and Similar Debts'.
[3] Capital deficit means funds credit institutions need to comply with all three capital adequacy ratios.

Chart 2.26. Bank loss distribution by risk



It should be noted that the stress test calculation took account of the recapitalisation of banks as part of measures to maintain financial stability planned for 2015, including the condition that these banks ensure growth in lending to priority sectors of at least 1% per month during the period under review. The stress test also took into account additional provisioning on Ukrainian assets of some large banks.

The analysed stress scenario assumes not only an outflow of clients' funds from the banking system, but also a redistribution of resources among banks in accordance with the following scheme (Table 2.10).

Resulting from the macro-model calculation, if the stress scenario materialises, the nominal value of household deposits could grow by 4.1% and in real terms it could go down by 4.0%.

The distribution of losses is presented in Chart 2.26. Taking into account the income received by banks in stress conditions, if the scenario under consideration materialises, the banking sector could come up with financial result ranging from zero to a loss of 0.3 trillion rubles.

Most losses (67%) are related to the credit risk and additional loan provisions. The average share of 'bad' loans in the loan portfolio[1] could grow from 7.9% to 17.7%. The loss from additional provisions for extended loans accounted for 8.6% of total losses.

Losses from market risk materialisation are second in importance (16%). Meanwhile, the interest rate risk accounts for the bulk of these losses (about 60%), the stock market risk for about 30%, and the currency risk for about 10%.

The balance sheet loss from the interest rate risk materialisation accounts for 15% of total losses.

Capital deficit of 0.6 trillion rubles arising from the violation of at least one of the three capital adequacy ratios as a result of a shock, may occur at 187 banks, which accounted for 42.9% of the banking sector assets as of 1 January 2015.

According to the stress test, 8 banks may face liquidity deficit (1.3% of the banking sector assets); this deficit is estimated at 30 billion rubles.

According to the stress test, the N1.0 capital adequacy ratio for the banking sector as a whole may decline (from 12.5% to 10.9%), though remaining above the regulatory minimum. This demonstrates the continued existence of a substantial capital buffer in the banking sector and its ability to resist severe shocks if the

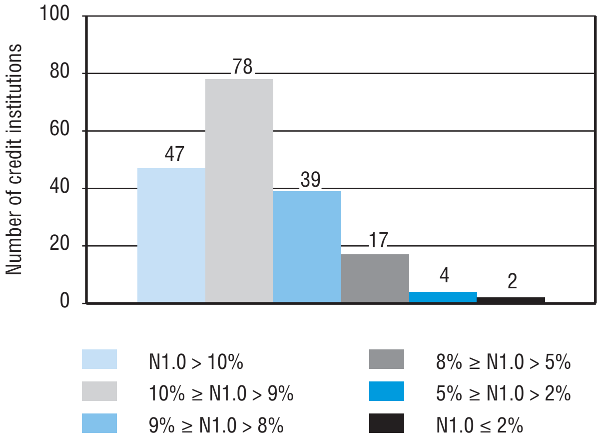
Table 2.10. Resource flow among banks in crisis environment*

Group of banks	Household deposits	Deposits and other borrowed funds of legal entities (other than credit institutions)	Corporate funds in settlement and other accounts	Resources of domestic interbank lending market	Resources of foreign interbank lending market
State-controlled banks	⇧	⇧	⇧	⇧	⇩
Foreign-controlled banks	⇩	=	=	⇧	⇧
Large private banks	⇩	⇩	⇧	⇧	⇩
Small and medium-sized banks based in Moscow and the Moscow Region	⇩	⇩	=	=	⇩
Regional banks	=	⇩	⇧	⇩	⇩

* *An arrow pointing upwards, means an increase in the index; an arrow pointing downwards – its reduction; the sign of equality means that the indicator remains practically unchanged.*

[1] The considered loan portfolio includes loans to households and legal entities (other than credit institutions).

Chart 2.27. Distribution of banks that violate at least one of the capital adequacy ratios according to the stress test



crisis aggravates provided the measures of the state support are implemented.

The stress test also assess the contagion risk in the interbank market (so called 'domino effect').

If the 'domino effect' materialises, 204 banks (accounting for 18.1% of the banking sector assets) may face capital deficit of 0.4 trillion rubles. If anti-recessionary instruments to support the domestic interbank lending market and additional sources to replenish the bank liquidity are not employed, 178 banks (18.0% of assets) may experience liquidity deficit of 0.7 trillion rubles.

Analysis of Russian bank sensitivity to liquidity risk

The liquidity risk assessment using stress-testing techniques based on the sensitivity analysis retained

Analysis algorithm for the 'domino effect' in the interbank market

The algorithm for modelling possible losses due to the 'domino effect' is as follows. Based on balance model calculation, a list of the so called problem banks – potential bankrupt banks whose N1.1 ratio may fall to a negative value and banks that are in a technical default (experiencing liquidity deficit) is compiled. Then their lenders are identified; losses of these banks are registered by their exposure to the problem banks, and the same amount is deducted from their liquid asset inflow/repayment in the current iteration.

After establishing losses and adjusting net liquidity flows, the capital adequacy ratio of lender banks and their ability to withstand the outflow of customer funds (based on the calculations of macroeconomic and balance models) is tested. Banks with negative common equity and banks experiencing technical default are also included in the list of 'problem banks' that trigger further contagion. The calculation continues until no additional problem bank is identified.

The algorithm assumes that to cover the outflow of funds (repay customer deposits), banks use their assets primarily as collateral for refinancing provided by the Bank of Russia. In case the bank has no assets eligible as collateral to borrow from the Bank of Russia, the credit institution sells securities at a discount defined by the macro-model.

The model is calculated quarterly during the entire stress period.

Stress-test method based on sensitivity analysis

The sensitivity analysis assesses possible outflow of customer funds that can be triggered by growing instability during a crisis. Assumptions concerning monthly outflows of customer/lender funds are based on actual outflows registered during the peak of the 2008 financial crisis. The outflow level (%) determined this way is applied to each bank's balance sheet.

Outflows ranging from 10% to 30% are differentiated by source of funds: household deposits, corporate deposits, settlement accounts and interbank loans from non-residents. The outflows are covered by available monetary funds and funds received from the sale of liquid assets with pre-set discounts varying from 5% to 30% (the discount depends on asset liquidity). Liquid assets used to cover the outflow include LAM, LAT[1], and securities outside the aforementioned groups of liquid assets. Losses sustained by banks due to the liquidity risk are calculated as a sum of discounts in case of an asset fire-sale.

If liquid assets are not sufficient to cover outflows, the bank is considered to be in technical default, and the amount of uncovered outflow represents the liquidity deficit.

[1] LAM means highly liquid assets, i.e. financial assets to be received during the next calendar day and (or) can be immediately claimed by the bank. LAT means liquid assets, i.e. financial assets to be received by the bank and (or) can be claimed within the next 30 calendar days (or), if necessary, sold by the bank within the next 30 days in order to obtain funds within the indicated timeline. These indicators are calculated in accordance with Bank of Russia Instruction No. 139-I, dated 3 December 2012, 'On Banks' Required Ratios'.

its relevance in 2014. Such analysis allows estimating banks' response to a shock, set by experts, which may be higher than the one underlying the macro-model[1]. Besides, the sensitivity analysis assesses possible losses without consideration of mitigating factors (in this particular case, without access to Bank of Russia refinancing or to the interbank lending market), which provides a more conservative estimate of various risks.

The liquidity risk sensitivity analysis revealed that as of 1 January 2015 the materialisation of shock could have resulted in liquidity shortage in the amount of about 51 billion rubles in 56 banks. Those banks accounted for 1.8% of the banking sector total assets. As of 1 January 2015, the influence of banks with liquidity deficit on the systemic stability of the banking sector is assessed as insignificant. For comparison: according to a stress test, as of early 2014, 58 banks experienced liquidity deficit totalling 61 billion rubles. Those banks accounted for about 6% of the banking sector total assets. Some improvement in the results of the stress test as compared with the results as of 1 January 2014 is conditioned by the improved structure of assets in several large banks in 2014.

Considering that the stress test based on the sensitivity analysis does not allow for banks' possibility to obtain refinancing from the Bank of Russia and interbank loans, the actual negative impact of the shock would be more moderate.

[1] In this particular case, shocks assumed by expert assessment were based on the actual data from the 2008–2009 crisis.

III. BANKING REGULATION AND SUPERVISION IN RUSSIA

III.1. Upgrading Legal and Regulatory Framework for Bank Activities in Line with International Standards

III.1.1. Upgrading Legal Framework for Credit Institutions

Federal laws drafted with the involvement of the Bank of Russia and adopted in 2014 are as follows:

1. Federal Law No. 12-FZ, dated 3 February 2014, 'On Amending Article 22 of the Federal Law On Banks and Banking Activity and Article 1 of the Federal Law On Foreign Investments in the Russian Federation' and Federal Law No. 106-FZ, dated 5 May 2014, 'On Amending Certain Laws of the Russian Federation', adopted to secure the transparent procedures, associated with the accreditation of representative offices of foreign banks in the Russian Federation and the assignment of the Bank of Russia with powers of their accreditation in the established order.

2. Federal Law No. 37-FZ, dated 2 April 2014, 'On the Specifics of the Functioning of the Republic of Crimea's and the Federal City of Sevastopol's Financial System in the Transition Period', that stipulates the specifics of financial institution activities during the transition period on the territory of the Republic of Crimea and in the federal city of Sevastopol.

3. Federal Law No. 39-FZ, dated 2 April 2014, 'On the Protection of Interests of Households Holding Deposits with Banks and Isolated Structural Divisions of Banks Registered and (or) Operating on the Territory of the Republic of Crimea and on the Territory of the Federal City of Sevastopol', that provides for compensation payments on deposits with Ukrainian banks to individuals residing on the territory of the Republic of Crimea and the federal city of Sevastopol.

4. Federal Law No. 41-FZ, dated 2 April 2014, 'On Amending the Federal Law On the Insurance of Household Deposits with Russian Banks', that establishes additional areas for spending funds of the mandatory deposit insurance fund, including spending associated with establishment of an autonomous non-profit organisation Depositor Protection Fund.

5. Federal Law No. 99-FZ, dated 5 May 2014, 'On Amending Chapter 4 of the Civil Code of the Russian Federation and on Invalidating Certain Provisions of Laws of the Russian Federation' (hereinafter, Federal Law No. 99-FZ), whose provisions eliminate, *inter alia*, obstacles for mergers and acquisitions for credit institutions of different organisational and legal forms.

6. Federal Law No. 189-FZ, dated 28 June 2014, 'On Amending the Federal Law On Credit Histories and Certain Laws of the Russian Federation' (hereinafter, Federal Law No. 189-FZ), that has become effective (except for certain provisions) from 1 March 2015, and is aimed at improving legal regulation of credit history bureaus and sources of credit history formation, and mitigating the credit risk in the banking system.

7. Federal Law No. 218-FZ, dated 21 July 2014, 'On Amending Certain Laws of the Russian Federation' (hereinafter, Federal Law No. 218-FZ), that provides for changes in the bankruptcy law with regard to the procedure for satisfying claims of first-ranking creditors of credit institutions to which the credit institution shall be liable for causing harm to their life or health and shall compensate for moral damage, as well as claims of depositors in the part exceeding the size of the insurance indemnity by no more than 300 thousand rubles. These claims shall be met prior to the satisfaction of other claims of first-ranking creditors.

This settlement procedure applies to the credit institutions, with regard to which the bankruptcy proceedings had started before Federal Law No. 218-FZ became effective, but does not apply to credit institutions, in respect of which the insured event occurred after Federal Law No. 451-FZ, dated 29 December 2014, 'On Amending Article 11 of Federal Law On the Insurance of Household Deposits with Russian Banks and Article 46 of Federal Law On the Central Bank of the Russian Federation (Bank of Russia)' became effective.

Federal Law No. 218-FZ also amended the Criminal Code of the Russian Federation by adding new *corpus delicti* (Article 172.1), which established criminal liability for forging financial accounting and reporting documents of a financial organisation.

8. Federal Law No. 289-FZ, dated 4 October 2014, ‘On Amending Certain Laws of the Russian Federation’, that provides for amendments to Federal Law No. 395-1, dated 2 December 1990, ‘On Banks and Banking Activity’ (hereinafter, Federal Law No 395- 1), Federal Law No. 40-FZ, dated 25 February 1999, ‘On the Insolvency (Bankruptcy) of Credit Institutions’ (invalid), Federal Law No. 125-FZ, dated 22 October 2004, ‘On Filing in the Russian Federation’, aimed at improving the requirements for filing credit institution documents and at appointing by the Government of the Russian Federation a federal executive body authorised to approve in collaboration with the Bank of Russia a list of documents generated in credit institution activities.

9. Federal Law No. 334-FZ, dated 4 November 2014, ‘On Amending Article 8 of the Federal Law On Banks and Banking Activity’, that binds credit institutions to publicly disclose information on the qualification and experience of members of the board of directors (supervisory board) of a credit institution and management of a credit institution (branch) on its official website.

10. Federal Law No. 432-FZ, dated 22 December 2014, ‘On Amending Certain Laws of the Russian Federation, and Repealing Certain Laws (Law Provisions) of the Russian Federation’ (hereinafter, Federal Law No. 432-FZ), that provides for:

– consolidating norms of Russian bankruptcy legislation;

– ensuring the possibility of the state corporation Deposit Insurance Agency (hereinafter, the DIA) to implement bank bankruptcy prevention measures on the on-going basis;

– implementing measures for financial rehabilitation of a credit institution by private investors, without involving funds of the federal budget, the Bank of Russia and the DIA;

– specifics of disputing transactions made by a credit institution (or other persons on account of a credit institution) and meeting the invalidity criteria;

– possibility of converting (swapping) creditors’ claims on subordinated loans (deposits, loans, bonds) into ordinary shares (stakes in the authorised capital) of a credit institution;

– strengthening the responsibility of credit institution controllers;

– establishing a mechanism for transferring deposits and assets of a bank deprived of its banking licence to a sound bank;

– specifics of insuring funds deposited in the escrow account opened for settlements on property sale transaction and nominal accounts opened by guardians or trustees and beneficiaries of which are their wards;

– establishing a mechanism for differentiated rates on premium banks pay to the mandatory deposit insurance fund.

11. Federal Law No. 451-FZ, dated 29 December 2014, ‘On Amending Article 11 of the Federal Law On the Insurance of Household Deposits with Russian Banks and Article 46 of the Federal Law On the Central Bank of the Russian Federation (Bank of Russia)’ (hereinafter, Federal Law No. 451-FZ, dated 29 December 2014), that provides for an increase in deposit insurance compensation to 1.4 million rubles.

12. Federal Law No. 461-FZ, dated 29 December 2014, ‘On Amending Certain Laws of the Russian Federation’, that empowers the DIA to acquire shares of (shares in) banks participating in the deposit insurance system.

13. Federal Law No. 484-FZ, dated 29 December 2014, ‘On Amending Certain Laws of the Russian Federation’, that provides for extending grounds for revocation of a banking licence established by Article 20 of Federal Law No. 395-1. The regulator is entitled to apply a measure of last resort to credit institutions which repeatedly violate over one year Bank of Russia regulations on countering legalisation (laundering) of criminally obtained incomes and financing of terrorism, issued in accordance with 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).

14. To simplify the formula for calculating the effective interest rate on consumer loan, Article 6 of Federal Law No. 353-FZ, dated 21 December 2013, ‘On Consumer Loans’ has been amended. The new formula excludes the effect from reinvestment of borrowed funds with maturities of up to 1 year and thereby reduces the difference between the interest rate on consumer loans and the effective interest rate on consumer loans in a situation where the borrower does not make any payments other than interest on loans for up to 1 year.

15. To establish conditions for Russian financial organisations to continue cooperation with foreign financial organisations, that have assumed obligations to comply with requirements of the US Act ‘On the Fiscal Discipline in Relation to Foreign Accounts’, Federal Law No. 173-FZ, dated 28 June 2014, ‘On the Specifics of Financial Transactions with Foreign Nationals and Legal Entities, on Amending the Code of Administrative

Offenses and on Repealing Certain Provisions of Laws of the Russian Federation' has been adopted. The provisions of this law were developed taking into account the need to mitigate damage to the national interests of the Russian Federation.

Measures for additional capitalisation of Russian banks approved in 2014 to improve banking regulation and banking supervision are as follows:

– improved mechanism of additional capitalisation of Russian banks out of funds of the National Wealth Fund with the state corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) (hereinafter, Vnesheconombank). The amendments allow to purchase by the decision of the Government of the Russian Federation preference shares of banks which have met their obligations on subordinated loans out of funds of the National Wealth Fund returned by Vnesheconombank and deposited in accordance with Federal Law No. 173-FZ, dated 13 October 2008, 'On Additional Measures to Support the Financial System of the Russian Federation'. Due to special conditions stipulated in the law, these preference shares can be considered as part of the bank authorised capital;

– provided possibility for the DIA to repay subordinated liabilities in non-monetary form, namely, with federal loan bonds (Federal Law No. 451-FZ). Pursuant to Federal Law No. 451-FZ, that provides for capitalisation of Russian banks by transferring federal bonds included by the Russian Federation in the property of the state corporation Deposit Insurance Agency into the capital of banks, a procedure and conditions for implementing measures to increase capitalisation of banks were adopted. The DIA published a list of 27 banks eligible to participate in the recapitalisation program (attached). According to Federal Law No. 451-FZ, the Bank of Russia can carry out additional capitalisation of Sberbank of Russia on the basis of the decision of the Bank of Russia Board of Directors through provision of subordinated loans (deposits, loans, bonds) to Sberbank of Russia. If necessary, this right will be realised.

Federal Law No. 449-FZ, dated 26 December 2014, 'On Amending the Budget Code of the Russian Federation' allows to purchase on the basis of individual decisions of the Government of the Russian Federation subordinated instruments of major Russian banks with capital of at least 100 billion rubles at the expense of the National Wealth Fund (NWF) for these banks to further finance self-supporting infrastructure projects.

To expand subordinated debt instruments of Russian banks included in the calculation of Tier 1 capital (core capital), Federal Law No. 432-FZ provides for a possibility to conclude a subordinated loan (deposit, loan) agreements without specifying the maturity or to issue subordinated bonds without maturity.

Due to the amendments to the law on trading activity fundamentals, to eliminate legal uncertainty in the regulation of relations connected with the ban on trading activities by credit institutions, Article 5 of the Federal Law No. 395-1 has been supplemented with a list of operations which cannot be regarded as a violation by credit institutions of the ban on trading activities. These include: sale of property acquired by credit institutions for their activities, which is sold in the event of foreclosure on the collateral due to the debtor's failure to fulfil his commitments secured with such collateral, or received under a contract as compensation.

III.1.2. State Registration of Credit Institutions and Banking Licensing

In 2014, the Bank of Russia continued to improve its regulatory framework for the state registration of credit institutions and banking licensing. The following regulations were adopted:

1. Bank of Russia Regulation No. 415-P, dated 18 February 2014, 'On the Procedure and Criteria for Assessing the Financial Position of Corporate Founders (Participants) of a Credit Institution and Corporate Entities Making Transactions Aimed at Acquisition of Equities (Shares) of a Credit Institution and (or) Control over Shareholders (Participants) of a Credit Institution'.

2. Bank of Russia Regulation No. 416-P, dated 18 February 2014, 'On the Procedure and Criteria for Assessing the Financial Position of Individual Founders (Participants) of a Credit Institution and Individuals Making Transactions Aimed at Acquisition of Equities (Shares) of a Credit Institution and (or) Control over Shareholders (Participants) of a Credit Institution'.

3. Bank of Russia Ordinance No. 3223-U, dated 1 April 2014, 'On the Requirements for the Heads of Risk Management Department, Internal Control Department and Internal Audit Department of a Credit Institution'.

4. Bank of Russia Ordinance No. 3219-U, dated 31 March 2014, 'On the Procedure for the Bank of Russia to Take a Decision on the State Registration of Amendments Introduced to the Charter of a Credit Institution and the Issue of a Banking Licence Due to a Change in the Status of a Bank to Non-bank Credit Institution or Due to a Change in the Type of Non-bank

Credit Institution' that establishes a procedure for the Bank of Russia to take a decision on the state registration of amendments to the charter of a credit institution, and on the issue of a banking licence due to a change in the status of a bank to non-bank credit institution, including the bank's failure to comply with capital requirements, established by Article 11.2 of Federal Law No. 395-1, and due to a change in the type of non-bank credit institution.

5. Bank of Russia Ordinance No. 3220-U, dated 31 March 2014, 'On the Procedure to Submit Bank's Request to Terminate the Right to Operate with Deposits on the Basis of the Bank of Russia's Requirement Sent in Accordance with Part 3 of Article 48 of the Federal Law On the Insurance of Household Deposits with Russian Banks and the Procedure of Recognising Invalid the Bank of Russia Licence to Raise Ruble Funds on Individual Deposits or the Bank of Russia Licence to Raise Funds on Individual Deposits in Rubles and Foreign Currency, or the General Banking Licence'.

6. Bank of Russia Ordinance No. 3221-U, dated 1 April 2014, 'On Amending Bank of Russia Ordinance No. 1606–U, Dated 11 August 2005, On the Procedure for Handling Documents with Which Credit Institutions Operated Before the State Registration of Amendments to Their Founding Documents, State Registration of Credit Institutions Established Through Reorganisation, and Before the Replacement of Their Banking Licences'.

7. Bank of Russia Ordinance No. 3222-U, dated 1 April 2014, 'On the Procedure for the Bank of Russia to Take a Decision to Grant the Status of a Bank to a Non-bank Credit Institution', that establishes a procedure for the Bank of Russia to take a decision on granting the status of a bank to a non-bank credit institution (conditions for a non-bank credit institution to obtain the status of a bank, required documents, procedure and terms for processing documents), and repealing the ban for the Bank of Russia to give rights to raise funds to household deposits to a credit institution, that has received the status of a bank.

8. Bank of Russia Ordinance No.3327-U, dated 18 July 2014, 'On Amending Bank of Russia Ordinance No. 3028-U, Dated 22 July 2013, On the Procedure for Opening (Closing) and Managing a Mobile Cash Office of a Bank (Branch)', that establishes the right of a bank (branch) to organise operation of mobile cash offices in the federal district in which it is located, in the Russian regions belonging to other federal districts and directly bordering the territory of the said federal district.

9. Bank of Russia Ordinance No.3287-U, dated 20 June 2014, amending Bank of Russia Regulation No. 345-P, dated 27 October 2009, 'On the Procedure for Disclosing Information on the Bank of Russia Website about Persons Controlling or Exerting Material (Direct or Indirect) Influence on Decisions Made by the Management of Banks Participating in the Compulsory Household Deposit Insurance System' (hereinafter, Regulation No. 345-P).

Bank of Russia Ordinance No.3287-U, dated 20 June 2014, amended provisions of Regulation No. 345-P taking into account that Federal Law No. 335-FZ, dated 2 December 2013, 'On Amending the Federal Law On the Insurance of Household Deposits with Russian Banks, the Federal Law On the Central Bank of the Russian Federation (Bank of Russia) and Invalidating Certain Provisions of Laws of the Russian Federation' (hereinafter, Federal Law No. 335-FZ) distinguishes the indicator of compliance of a bank participating in the deposit insurance system with the Bank of Russia procedure regarding the unlimited disclosure of information on persons exerting control or material influence on the bank as an independent indicator in the group of bank financial stability indices.

10. Due to the amendments to Federal Law No. 218-FZ, dated 30 December 2004, 'On Credit Histories', the Bank of Russia issued Ordinance No. 3465-U, dated 1 December 2014, 'On the Composition and Procedure for Compiling the Data Part of the Credit History' that establishes requirements to compiling the data part of a credit history (became effective from 1 March 2015).

11. The Bank of Russia prepared the Ordinance 'On Amending Bank of Russia Regulation No. 345-P, Dated 27 October 2009, On the Procedure for Disclosing Information on the Bank of Russia Website about Persons Exerting Material (Direct or Indirect) Influence on the Decisions Made by the Management of Banks Participating in the Compulsory Household Deposit Insurance System' that binds all banks participating in the deposit insurance system to post information about persons who control or exercise a material influence on banks on the Bank of Russia website (Bank of Russia Ordinance No. 3542-U, dated 23 January 2015, registered with the Ministry of Justice of Russia on 19 February 2015).

12. To implement the priority measures for developing banking and payment systems on the territory of the Crimea Federal District the Bank of Russia issued four orders aimed at adapting the conditions for developing comprehensive banking infrastructure in the Crimea Federal District.

III.1.3. Banking Regulation

III.1.3.1. BANK REGULATORY ISSUES

In 2014, the Bank of Russia continued to introduce into the Russian banking practices internationally recognised approaches to banking regulation and supervision, including those recommended by the Basel Committee on Banking Supervision (hereinafter, the BCBS), and to refine approaches to banking regulation.

Thus, measures taken to implement internationally recognised approaches are as follows:

– established procedure for assessing labour remuneration system of a credit institution and the procedure for sending instructions to the credit institution to eliminate violations in its remuneration system (Bank of Russia Instruction No. 154-I, dated 17 June 2014, 'On the Procedure for Assessing Credit Institution Remuneration System and Issuing Orders to the Credit Institution to Correct Deficiencies in the Remuneration System' (hereinafter, Instruction No. 154-I).

Assessment of the remuneration systems will be carried out in accordance with Instruction No. 154-I annually from October 2015. The adoption of Instruction No. 154-I completed implementation of the Principles and Standards of the Financial Stability Board (FSB) in the area of remuneration payment in the system of banking regulation and supervision. Starting 2009, these principles constitute an integral part of the second pillar of Basel II. Instruction No. 154-I also determines a procedure for the Bank of Russia to send credit institutions instructions to eliminate deficiencies in the existing labour remuneration systems if they are inadequate to the risks assumed and the nature and scope of activities.

The procedure for calculating employee incentive risk (PU7) is also supposed to be amended accordingly and the indicator is to be included in the calculation of the bank management quality index under Bank of Russia Ordinance No. 2005-U;

– Bank of Russia Regulation No.421-P, dated 30 May 2014, 'On the Procedure for Calculating Liquidity Coverage Ratio (Basel III)' established the procedure for calculating liquidity coverage ratio (hereinafter, the LCR). No minimum requirement is set for this indicator. Starting with the statements as of 1 August 2014, the Bank of Russia monitors the calculation of the LCR in major banks[1] in order to quantify and calibrate individual elements whose values are not set by Basel III;

– differentiated functions of internal audit and internal controls (compliance) and established procedure for the Bank of Russia to assess quality of internal control system and specifics of supervision of compliance with requirements to the internal control system (Bank of Russia Ordinance No. 3241-U, dated 24 April 2014, 'On Amending Bank of Russia Regulation No. 242-P, Dated 16 December 2003, On Organising Internal Controls in Credit Institutions and Banking Groups', Bank of Russia Ordinance No. 3483-U, dated 15 December 2014, 'On Amending Bank of Russia Ordinance No. 2005-U, Dated 30 April 2008, On Assessing Banks' Economic Situation').

As part of the refinement of its approaches to banking regulation in 2014, the Bank of Russia adopted *inter alia* the following decisions.

The regulatory requirements for assessing mortgage lending risk were adjusted to increase stability of mortgage lending system in the Russian Federation:

– possibilities for banks to apply a reduced risk ratio of 70% for residential mortgages with reduced risk level for the purpose of calculating capital adequacy ratios were expanded, namely, some operational requirements for confirming the status of such loans were cancelled;

– the minimum reserve requirements for the categories of new military mortgages and mortgages with reduced risk level in the portfolio of homogeneous loans were revised downward;

– the procedure for calculating liquidity coverage ratio was adjusted to include the bridge financing provided to banks by agencies for housing mortgage lending under the programmes for securitisation of mortgage loan portfolios;

– the mortgage loans with low risk level to which a 50% ratio shall be applied when calculating required ratios were defined.

To limit the effective interest rate on consumer loans on the basis of the average market values calculated by the Bank of Russia, in 2014 the Bank of Russia started calculating the value of this indicator quarterly and publishing it on its website not later than 45 calendar days before the beginning of the quarter when the market average value of the effective interest rate on consumer loan shall be applied when concluding agreements.

The average market values of the effective interest rate on consumer loans issued by credit institutions, microfinance organisations and credit cooperatives, includ-

[1] Credit institutions (other than non-bank credit institutions) meeting criteria of Clause 7 of Part 1 of Article 76 of Federal Law No. 86-FZ.

ing agricultural cooperatives and pawnshops in September 2014, were first published on 14 November 2014. In view of the limitation (average market value of the effective interest rate on consumer loan plus one-third) set by Federal Law No. 353-FZ, dated 21 December 2013, 'On Consumer Loans' (hereinafter, Federal Law No. 353-FZ), the Bank of Russia calculated marginal values of the effective interest rate on consumer loans that were to be applied from 1 January to 31 March 2015. However, amid rising interest rates in the financial markets, it was decided to temporary suspend the use of these limits from 1 January to 30 June 2015.

Due to the adoption of Federal Law No. 335-FZ, the Bank of Russia issued Ordinance No. 3279-U, dated 11 June 2014, 'On Amending Bank of Russia Ordinance No. 2330-U, Dated 11 November 2009, On the Procedure for Prohibiting Banks from Taking Household Deposits and Opening Household Accounts' providing for the following:

– exclusion of provisions on the Bank of Russia's right (while maintaining the provisions of the obligation) to impose a ban on a bank participating in the deposit insurance system if a threat to the interests of the bank's creditors and depositors is revealed in its activity;

– an obligation of the bank affected by the ban to publish information on the termination of the right to attract household deposits in the bank's premises accessible to its customers, its branches and internal structural divisions, and on the bank's website, and to communicate the imposed ban to its branches, representative offices and internal structural divisions;

– a procedure for the Bank of Russia to publish on its official website and delete information on the ban imposed on the bank in accordance with Part 3 of Article 48 of the Federal Law 'On the Insurance of Household Deposits with Russian Banks', which includes the text of the Bank of Russia information notice.

Due to the increase in the minimum bank capital requirements to 300 million rubles from 1 January 2015, the Bank of Russia issued Ordinance No. 3466-U, dated 2 December 2014, 'On the Procedure for Determining the Grounds Stipulated by Clauses 5 and 6 of Part 2 of Article 20 of the Federal Law On Banks and Banking Activity for the Revocation of a Banking Licence from a Bank'. The regulation establishes a procedure for the Bank of Russia to take a decision of the licence revocation if a documentary evidence of a credit institution's failure to reach the capital level of 300 million rubles as of 1 January 2015 and (or) of its drop below the specified value for three consecutive months after 1 January 2015.

In late 2014, in order to create conditions for the banking sector to adjust to the sharp fluctuations of price parameters in the foreign exchange (foreign currency exchange rate) and financial (price and yield of securities) markets resulting mostly from external factors, the Bank of Russia decided to introduce provisional peculiarities of calculating prudential norms, including:

– credit institutions were entitled to use the official ruble exchange rate for calculating prudential ratios on foreign exchange transactions until 1 July 2015 (Bank of Russia Letter No. 211-T, dated 18 December 2014);

– a moratorium expiring in 1 July 2015 on recognising negative revaluation of credit and non-credit financial institutions' securities portfolios by credit institutions to reduce sensitivity of market participants to the market risk and limit the impact of negative revaluation on financial performance and capital was introduced (Bank of Russia Ordinance No. 3498-U, dated 18 December 2014).

Besides, in view of temporary factors seriously affecting the economic situation and the financial standing of borrowers, it was decided to introduce provisional peculiarities of regulating requirements for creating loan loss provisions, namely:

– an opportunity for credit institutions not to downgrade debt service quality regardless of the assessment of the borrower's financial standing on restructured loans, e.g., if currency of the loan is changed (Bank of Russia Letter No. 209-T, dated 18 December 2014);

– credit institutions are allowed to decide not to revise downwards the borrower's financial standing for the purpose of loan loss provisioning if changes in the financial standing result from restrictive economic and (or) political measures imposed by foreign countries (Bank of Russia Letter No. 210-T, dated 18 December 2014);

– the period during which a credit institution can abstain from increasing the amount of actual provisions on loans to borrowers whose financial standing and (or) debt service quality and (or) quality of collateral for these loans has deteriorated as a result of an emergency, has been extended from 1 year to 2 years. Similarly, the period during which a credit institution can abstain from creating loss provisions on investment project loans in the absence of payments on investment loans or minor amounts of such payments has been extended (Bank of Russia Ordinance No. 3496-U, dated 18 December 2014, 'On Amending Bank of Russia Regulation No. 254-P, Dated

26 March 2004, On the Procedure for Making Loss Provisions by Credit Institutions for Loans, Loan and Similar Debts').

In order to reduce credit institutions' dependence on the ratings assigned by international rating agencies the Bank of Russia issued Ordinance No. 3453-U, dated 25 November 2014, 'On the Specifics of Using Credit Ratings for the Application of Bank of Russia Regulations', that provides for the right of the Bank of Russia Board of Directors to set the date of credit rating assigned by international rating agencies of the Russian Federation to credit institutions and other entities to be used instead of the current date to ensure the application of Bank of Russia regulations.

III.1.3.2. ON-SITE INSPECTION OF CREDIT INSTITUTIONS

In 2014, the Bank of Russia continued improving regulatory and methodological framework for its inspection activities.

Following the completion of phased centralisation of its inspection activities, the Bank of Russia issued the following documents:

– Bank of Russia Instruction No. 149-I, dated 25 February 2014, 'On Organising Inspection Activities of the Central Bank of the Russian Federation (Bank of Russia)' (hereinafter, Instruction No. 149-I), which establishes procedures inspecting credit institutions amid centralisation of the Bank of Russia inspection activities with regard to legislative amendments on Bank of Russia authority related to arranging and holding inspections of banks participating in banking groups and bank holding companies, including cross-border banks;

– Bank of Russia Ordinance No. 3216-U, dated 28 March 2014, 'On Recognising Invalid Bank of Russia Ordinance No. 2563-U, Dated 30 December 2010, On the Specifics of Compiling and Submitting Reporting Form 0409037 Report on Inspections of Credit Institutions (Their Branches)'.

To enhance the efficiency and effectiveness of inspecting of credit institutions (their branches), the Bank of Russia issued Ordinance No. 3462-U, dated 30 November 2014, 'On the Content and Formats of Accounting, Operational and Other Information Submitted by a Credit Institution (its Branch) Electronically', developed in accordance with Bank of Russia Instruction No 147-I, dated 5 December 2013, 'On the Procedure for Inspecting Credit Institutions (their Branches) by Authorised Representatives of the Central Bank of the Russian Federation (Bank of Russia)' (hereinafter, Instruction No. 147-I) and stipulating the requirements for presenting structured information by credit institutions on the basis of the existing registers and accounting documents they keep in accordance with the Russian legislation and Bank of Russia regulations.

Documents issued to improve the procedure for arranging and conducting inspections of credit institutions (their branches) are as follows:

– Bank of Russia Ordinance No. 3325-U, dated 17 July 2014, 'On Amending Bank of Russia Instruction No. 147-I, Dated 5 December 2013', that considers developments of the Bank of Russia organisational structure, including the creation of the Bank of Russia main branches and the subordinate divisions and divisions – national banks, and the changed name of the Bank of Russia Chief Inspection;

– Bank of Russia Ordinance No. 3339-U, dated 23 July 2014, 'On Amending Bank of Russia Ordinance No.1542-U, Dated 13 January 2005, On the Specifics of Conducting Inspections of Banks with the Participation of Deposit Insurance Agency Employees', aimed at aligning the involvement of DIA employees in bank inspections with the procedure established by Bank of Russia Instructions No. 147-I and No. 149-I.

To implement provisions of Article 73 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 issued Regulation No. 442-P, dated 30 November 2014, 'On the Procedure for Selecting Audit Firms to Audit Credit Institutions (their Branches) on behalf of the Bank of Russia Board of Directors' and the Bank of Russia Ordinance No. 3463-U, dated 30 November 2014, 'On the Specifics of Arranging and Conducting Inspections of Credit Institutions (Their Branches) by Audit Firms on behalf of the Bank of Russia Board of Directors'.

III.1.4. Methodology of On-Going Supervision

In 2014, to enhance the efficiency of banking supervision in accordance with new provisions in Russian banking legislation the Bank of Russia:

– unified supervisory requirements for assessing bank financial soundness and requirements for participation in the deposit insurance system with appropriate references to indicators and methods for their calculation, defined by Bank of Russia Ordinance No. 2005-U

(Bank of Russia Ordinance No.3277-U, dated 11 June 2014, 'On Methodologies for Assessing Bank Financial Soundness for Qualifying it as Adequate for Participation in the Deposit Insurance System');

– adjusted the methodology for assessing the indicator of availability of information on persons exerting control or material influence on the bank (PU2) for banks applying for a Bank of Russia licence to attract household deposits and to open and keep bank accounts of households and also included in the list of banks registered with the Deposit Insurance System (Bank of Russia Ordinance No. 3276-U, dated 11 June 2014, 'On Amending Annex 9 of Bank of Russia Ordinance No. 2005-U, Dated 30 April 2008, On Assessing Banks' Economic Situation');

– established the procedure for the Bank of Russia to inform banks included into the list of banks participating in the deposit insurance system of revealed conditions in their activity leading to termination of the bank's right to attract household deposits and open and keep accounts of households within a time period specified in Part I of Article 48 of the Federal Law 'On the Insurance of Household Deposits with Russian Banks' (Bank of Russia Ordinance No. 3229-U, dated 5 April 2014, 'On the Procedure to Inform Banks about Revealed Conditions in Their Activity Leading to Termination of the Bank's Right to Attract Household Deposits and Open and Keep Accounts of Households');

– adjusted the procedure for the activities of supervisory groups monitoring banking groups, including the procedure for their cooperation with foreign supervisory authorities (Bank of Russia Ordinance No. 3440-U, dated 7 November 2014, 'On Amending Bank of Russia Ordinance No. 3089-U, Dated 25 October 2013, On the Procedure of Supervising Banking Groups').

III.2. State Registration of Credit Institutions and Banking Licensing

In 2014, the total number of operating credit institutions holding banking licences dropped from 923 as of 1 January 2014 to 834 as of 1 January 2015, or by 9.6%, due to licence revocations and reorganisations.

In the reporting year:

– the Bank of Russia registered seven credit institutions established in 2014 (including four banks, two of which are banks with participation of non-residents, and three non-bank credit institutions) against ten credit institutions in 2013 (including three banks with participation of non-residents and seven non-bank credit institutions, two of which were with participation of non-residents);

– seven credit institutions discontinued their operations due to the reorganisation through merger (including one non-bank credit institution) (against 11 banks in 2013);

– two banks changed their form of incorporation, of which one bank was transformed from a limited liability company into a joint-stock company and one bank – from a closed joint-stock company into a limited liability company (in 2013 four banks were transformed);

– one bank changed its bank status for that of a non-bank credit institution due to the failure to comply with the minimum capital requirements, established by Article 11.2 of Federal Law No. 395-1 (in 2013, the Bank of Russia took no decisions on changing the status of a bank to that of a non-bank credit institution).

During 2014, ten credit institutions or 1.2% of the total number of operating credit institutions (in 2013 – 26 credit institutions) expanded their operations by obtaining new licences, of which:

– three banks obtained general banking licences (in 2013 – seven banks), of which one bank received a general banking licence together with a licence to attract deposits and place precious metals;

– four banks obtained licences to attract deposits and placing precious metals (in 2013 – seven banks), of which one bank also received a general banking licence, and another one – a licence to attract household deposits denominated in rubles and foreign currency;

– one bank obtained a licence to attract household deposits denominated in rubles and foreign currency together with a licence to attract deposits and place precious metals (in 2013, licences to attract household deposits denominated in rubles and foreign currency were issued to five banks);

– one bank obtained a licence for banking operations with ruble and foreign currency funds (without the right to attract household deposits) due to obtaining the right to collect cash, bills, payment and settlement documents and provide cash services to households and corporates;

– two banks obtained licences to carry out banking operations with ruble and foreign currency funds (without the right to attract household deposits) due to the cancellation of restriction to establish correspondent relations with foreign banks (in 2013 – three banks).

– one non-bank credit institution obtained a licence for banking operations with ruble and foreign currency funds executed by settlement non-bank credit institutions, that contains a wider range of banking operations from those indicated in Annex 9 to Bank of Russia Instruction No. 135-I, dated 2 April 2010, 'On the Procedure for the Bank of Russia to Make Decisions on the State Registration and Licensing of Credit Institutions'.

In 2014, 75 credit institutions had their banking licences replaced due to a change in the names pursuant to Federal Law No. 99-FZ.

As of 1 January 2015, the Bank of Russia accredited 73 representative offices of foreign credit institutions. In 2014, the Bank of Russia extended the validity of previously issued permits for activities of 20 representative offices of foreign credit institutions in the Russian Federation.

Total investments of non-residents in the aggregate paid-in authorised capital of credit institutions increased in 2014 from 404.8 billion rubles to 405.6 billion rubles or by 0.19% (in 2013[1], they increased by 38.7 billion rubles or by 10.6%). The non-resident shareholding in the Russian banking system declined from 26.42% to 21.68% (in 2013, grew from 26.13% to 26.42%). The number of operating credit institutions with non-resident shareholding reduced from 251 to 225 (in 2013, went up from 244 to 251). The number of credit institutions with foreign shareholding of more than 50% decreased from 122 to 113 (in 2013, increased from 117 to 122), while foreign investments in the authorised capital of these credit institutions rose by 5.5 billion rubles (in 2013, rose by 10.6 billion rubles).

Credit institutions with foreign investments are located in 37 Russian regions, of which 149 credit institutions (66.2% of the total number) are based in Moscow and the Moscow Region and 12 credit institutions (5.3% of the total number) are based in Saint Petersburg.

In 2014, the Bank of Russia registered 180 issues of securities of credit institutions. The par value of 162 share issues amounted to 603.4 billion rubles (in 2013, the value of 199 share issues totalled 224.4 billion rubles). These included the par value of shares issued to increase credit institutions' authorised capital of 596.5 billion rubles for 146 issues. Six issues of shares worth 0.8 billion rubles were registered to reduce the par value of shares. The par value of share issues not affecting credit institutions' authorised capital amounted to 6.1 billion rubles for ten issues (in 2013, 187 issues worth 222.4 billion rubles, two issues worth less than 0.1 billion rubles, and ten issues worth 1.9 billion rubles respectively).

The par value of bond issues amounted to 48.7 billion rubles for 18 issues (in 2013, 51 issues worth 189.6 billion rubles).

The Bank of Russia registered reports and received notifications on the results of 192 securities issues (in 2013 – 229 issues), according to which the par value of placed shares totalled 431.6 billion rubles (in 2013 – 198.0 billion rubles), and bonds – 70.6 billion rubles (in 2013 – 108.9 billion rubles).

In the reporting year, the Bank of Russia cancelled 36 securities issues worth 40.5 billion rubles due to the issuer's failure to place any securities and to comply with the Russian securities legislation (in 2013 – 28 issues worth 48.8 billion rubles).

In 2014, the Bank of Russia registered 39 terms of certificate issue and circulation: nine terms of issue and circulation of registered certificates of deposit, four terms of issue and circulation of bearer certificates of deposit, ten terms of issue and circulation of registered savings certificates, 16 terms of issue and circulation of bearer savings certificates.

III.3. Off-Site Supervision and Supervisory Response

In 2014, the Bank of Russia continued the policy of rehabilitation and strengthening of the banking sector, carrying out measures to further intensify the banking supervision. When organising this activity, the Bank of Russia proceeds from the need to ensure maximum transparency of bank operations to the regulator, understand the bank business model and the economics of operations conducted by banks.

For the purpose of early detection of problems in credit institutions' operations the Bank of Russia continued to implement the risk-based approach to the banking supervision, assuming the priority of content over the form of asset valuation.

In the reporting year, off-site supervision departments focused on improving response to negative developments in certain banks, more conservative assessment of bank risks and selecting efficient supervisory measures adequate to revealed violations. To this end, the practice of daily submission of the main reporting forms by banks to the Bank of Russia was selectively applied.

Substantial attention was given to banks engaged in dubious transactions; they were promptly subjected

[1] Starting 1 January 2013, data are given for paid-in authorised capital (with registered issues taken into account).

to restrictive measures, and if they failed to eliminate considerable and repeated violations of the law their banking licences were revoked.

In this area, the Bank of Russia gave additional attention on the quality of internal controls in credit institutions and the compliance of banks' rules of internal controls with regulatory requirements.

In the reporting period, the supervision over banks of federal and regional importance was enhanced. The Bank of Russia additionally analysed all aspects of their activities both at the regional division level and at the level of the Bank of Russia Head Office.

During 2014, major Russian banks and banking groups were gradually transferred under direct supervision of the Systematically Important Banks Supervision Department.

Within the supervision the Bank of Russia applied methods of consolidated supervision over banking groups, including those presuming a limit on the credit institution risk exposure to the owners' business. The entire range of supervisory response tools was used to reduce the concentration of bank risks on the owners' business. Banks actively developed and implemented action plans to reduce the concentration of risks on the owners' business.

In 2014, the Bank of Russia continued developing the institute of authorised representatives. The range of banks to which authorised representatives of the Bank of Russia were assigned was expanded significantly taking account of additional possibilities granted to the Bank of Russia by law.

The number of banks to which authorised representatives of the Bank of Russia were assigned increased from 17 as of 1 January 2014 to 141 as of 1 January 2015, to 129 of which in the reporting year authorised representatives were appointed pursuant to Clause 7 of Part 1 of Article 76 of Federal Law No. 86-FZ (assets amount to 50 or more billion rubles and (or) the amount of funds raised from households under bank deposit agreements and bank account agreements is at least 10 billion rubles), and to two banks in accordance with Article 7 of Federal Law of No. 37-FZ , dated 2 April 2014, 'On the Specifics of the Functioning of the Republic of Crimea's and the Federal City of Sevastopol's Financial System in the Transition Period'. In 2014, the activity of authorised representatives was terminated in three credit institutions due to their reorganisation. The presence of Bank of Russia authorised representatives in major credit institutions allows fuller and prompter information support of the banking supervision with a view to ensure transparency of credit institutions for the regulator.

Among the bank risks, the credit risk traditionally calls for special supervisory attention. Amid vigorous build-up of loan portfolios by banks in 2014 more attention was paid to the actual business performance of the borrower as the source of funds to service loans and to the quality and adequacy of collateral used to adjust the value of created provisions. To improve quality of supervision in 2014 the Bank of Russia continued to collect and assess information on real sector companies borrowing from credit institutions. The analysis of activity of especially economically important borrowing enterprises was given special attention.

The Bank of Russia additionally focused on the situation in the market of unsecured consumer lending that experienced considerable risk accumulation in recent years. The activity of credit institutions with significant share of consumer loans in the asset structure was subjected to in-depth analysis, involving the use of stress testing methods; intra-bank models of risk management were assessed within off-site supervision. The adopted regulatory measures (including statutory restrictions on the effective interest rate on consumer loans) and the undertaken supervision resulted in strategy adjustment by a number of banks, higher focus on risk management systems, and a trend to gradually replace old portfolios with higher quality new ones.

In 2014, within banking supervision the Bank of Russia continued to analyse credibility of banks' assessment of certain types of assets, in particular closed-end unit investment funds and real estate both being a separate asset on the bank's balance sheet and a part of property of a closed-end unit investment fund, or used as collateral (including the case of mortgage participation certificates).

In 2014, banking supervision was challenged by considerable surge in financial market volatility. Sharp fluctuations in the foreign exchange market resulted in significant structural changes in balance sheet indicators and leaps in market interest rates increased the cost of credit institution funding. The supervisory practice monitored the impact of changes in foreign exchange rates and interest rates on the income and capital level of banks with sizeable shares of assets and liabilities denominated in foreign currencies.

Under conditions of higher cost of funding, an aggressive policy of some banks in the market of household deposits in the absence of an efficient risk management system and given low asset quality may result in a fall in the interest margin and losses. In this regard, regional divisions of the Bank of Russia assessed interest rate policy carried out by banks, including household deposits and the retail lending segment. In the event of threats to the interests of creditors and depositors, the banks were subjected to such supervisory response measures as a restriction and a ban on attracting deposits, limiting the interest rate when raising funds from households.

Optimisation of the Bank of Russia territorial structure accounted for changes in the banking supervision. When of regional divisions are reorganised the supervision management structure in the Bank of Russia changes to a vertical system of supervision organisation and supervisory activity management at the levels of the main branch and the division, a single information space of banking supervision departments is developed. The developed system for analysing supervision efficiency will ensure administrative and analytical control of timeliness and adequacy of supervisory response measures at all the stages and levels of decision-making.

Due to the creation of a mega-regulator, the banking supervision has acquired additional opportunities to obtain information on the activities of banks, banking groups and financial conglomerates. Amendments to legislation, including the expansion in Bank of Russia authorities, expanded possibility of banking supervision with regard to banks' operations with other financial market participants.

Nine supervisory groups were formed to supervise banking groups[1]. The Bank of Russia ensures interaction of its structural divisions supervising banks and non-bank financial organisations with a view to identify risks assumed by participants of banking groups (holding companies) on a consolidated and standalone basis.

In 2014, banking and financial supervision departments provided mutual information support and coordinated supervisory activities of banks and related financial institutions, if necessary.

Banking supervision is provided with exchange information on the volume and intensity of market trading in quoted assets to assess quality of these instruments, and data on the actual availability of assets in financial companies with which credit institutions have opened deposit accounts. Banking supervision is supported by regularly provided information on the results of checks for possible violations by financial market participants 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', and on suspension or revocation of licences for professional activity in the securities market. Banking supervision, on its part, also provides information support to departments supervising financial institutions, including information required for deciding on the admission of credit and other financial institutions to the financial markets.

In 2014, to ensure transparency of international banking operations and determine a regime for supervising credit institutions participating in banking groups, Bank of Russia representatives participated in international supervisory boards, conducted by the supervisory authorities of the Netherlands, Hungary and Austria. Participation in international boards expands Bank of Russia possibilities in supervising Russian credit institutions participating in banking groups, in understanding governance and risk management at the group level by tracking changes in the group's strategy, including the Russian business, in refining the country risk estimates.

In 2014, preventive measures were actively applied to credit institutions: written notices were sent to the management of 873 supervised banks; 444 meetings with banks were held. Compulsory measures in the form of orders to eliminate violations were applied to 546 banks, fines were imposed on 133 banks, restrictions on certain transactions were imposed on 209 credit institutions, some transactions were banned in 64 banks and 53 banks were prohibited from opening branches.

In 2014, the Bank of Russia revoked banking licences of 86 credit institutions.

Banks in unsatisfactory financial condition continued to be removed from the banking market. Strategically, these actions are aimed at enhancing confidence in the banking sector, terminating disguising poor quality of assets by misreporting, preventing transfers by unscrupulous owners of high-quality assets from credit institutions to other organisations under their control, further countering withdrawal of funds from the banking system through shell companies. Individual stability of credit institutions is decisive for systemic stability.

[1] These include three groups supervising the activity of banking groups, where the parent organisations are systemically important credit institutions.

The withdrawal of unreliable banks from the market is largely completed, but the Bank of Russia continues rehabilitating the domestic banking sector. The banking sector rehabilitation considers the on-going developments, and bank rehabilitation procedures are implemented, if necessary, in accordance with approaches worked out by the Bank of Russia and the DIA.

III.4. Bank Inspections

In 2014, the Bank of Russia continued improving the inspection quality; this included establishing necessary organisational and legal conditions and completing centralisation of the inspection activity.

Authorised representatives of the Bank of Russia conducted[1] 817 inspections of credit institutions (their branches). Most inspections were held at the head offices of credit institutions.

In the reporting period, the inspection units primarily focused on profiling risks, assessing their concentration (including risk concentration of owners and affiliated parties), assessing asset quality and capital adequacy, and compliance with regulatory requirements. In this connection, the inspections were mainly of a thematic type.

In accordance with the Summary Plan, 551 inspections (67.4% of the total number) were carried out, 266 inspections (32.6%) were unscheduled. Eighty six unscheduled inspections of the total number were carried out at the behest of the Bank of Russia management. Other inspections were sanctioned by heads of Bank of Russia regional divisions on the following grounds: 117 inspections were conducted due to an increase of over 10% in credit institutions' authorised capital; two inspections were held due to the grounds to apply bankruptcy prevention measures to the credit institutions; three inspections resulted from the credit institutions' request to expand the activities by obtaining the appropriate licences; two inspections were carried out due to the reported non-compliance of credit institutions with Bank of Russia regulations on cash circulation; two inspections were conducted due to credit institutions' reorganisation through merger with other credit institutions; 54 inspections focused on the issues of credit institutions' compliance with reserve requirements, proper recording of liabilities in balance sheet accounts of credit institutions' branches.

Pursuant to requirements of Articles 27 and 32 of Federal Law No. 177-FZ, DIA officers were involved in 56 inspections of banks participating in the deposit insurance system.

In 2014, 233 inspections of credit institutions (their branches) falling within the 'second-line' of supervision and 53 inspections of systemically important credit institutions (their branches) were held.

Considerable number of violations was revealed during the assessment of quality of banks' assets. Inspectors revealed facts of lending to legal entities (including affiliates) not engaged in real activities and providing unreliable statements to the credit institution; facts of inadequate assessment of financial standing and quality of debt servicing; facts of accepting collateral that does not meet the established requirements or accepting overestimated collateral.

Inspections revealed that in order to conceal real risk exposure some credit institutions continued replacing impaired loan debt with investments in shares of closed-end unit investment funds, for which current (fair) value was created artificially.

Inspections of consumer lending institutions revealed instances of concealing the real period of overdue debt, failures to assess financial standing of individual borrowers, unavailability of documents confirming the borrower's income, or signs of unreliability of information provided by the borrower at the time of the loan issue, including the invalidity of borrowers' passports.

Inspections also revealed instances of creating banks' income using inappropriate assets or untimely fulfilment of customer orders. In some cases, the amount of funds accounted in correspondent accounts and in the vaults of credit institutions was sufficient to effect payments, indicating the presence of a concealed encumbrance on the accounts and the violation of statutory order of debiting funds from the bank account. Inspections also revealed instances of creating bogus liabilities on household deposits by banks experiencing severe problems.

The inspections of credit institutions' compliance with legislation revealed violations of AML/CTF laws. They detected multiple instances where bank's AML/CTF rules of internal controls did not comply with legislation and Bank of Russia regulations and some credit institutions were involved in different dubious transactions. Some credit institutions showed formalist approach to identification of 'dubious' transactions and

[1] Inspections began in 2014.

low efficiency of measures aimed at deterring customers from such transactions.

To improve the quality of inspections, the Bank of Russia continues monitoring their organisation and implementation.

As part of a comprehensive analysis of credit institution activities branches are inspected simultaneously with bank head offices (almost 43% of scheduled inspections of branches were performed simultaneously with inspections of head offices).

The risk level was assessed on a consolidated basis along with inspections of credit institutions participating in bank holdings companies (banking groups). This revealed systemic weaknesses of bank risk management and problem areas in credit institution activities. The inspectors revealed operations aimed at risk and revenue redistribution within the banking group, ensuring liquidity, and regulating required ratios.

Measures implemented within internal control arrangements were an additional factor affecting performance of inspection units, especially remote ones. Considerable attention was given to expanding the internal control system with assistance of interregional inspectorates, located in federal districts.

To assess the efficiency of internal control at the regional level, examine inspection monitoring arrangement and interaction of inspection units with regional divisions, the Bank of Russia held 17 on-site inspections (audits), including 13 regional audits performed by interregional inspection units.

The Bank of Russia cooperated with public authorities of the Russian Federation (including Russian regions) and law enforcement agencies. Nineteen reports on transactions and deals of credit institutions and their customers, possibly involved in illegal activities, were sent to the Prosecutor General's Office of the Russian Federation, 22 reports on transactions of credit institutions and their customers, which could be related to legalising (laundering) of criminally obtained incomes and financing of terrorism, or had intricate, unusual character, or had no apparent economic or lawful purpose were sent to the Federal Financial Monitoring Service. The Bank of Russia received 102 applications from federal authorities. The information provided in 14 notices was taken into account when organising and conducting inspections of credit institutions, non-bank financial organisations and self-regulatory organisations; data from 22 messages was either considered or used in off-site supervision. With regard to 12 requests the Bank of Russia Chief Inspection assigned its officers as experts to advise on banking legislation. The Bank of Russia also considered 54 requests for information or materials on the results of inspections of credit institutions and non-bank financial organisations.

During 50 inspections of credit institutions (their branches), 387 requests for information about customers of credit institutions and verification of their possible involvement in illegal activities were sent to the regional agencies of the FMS of Russia and law enforcement agencies.

III.5. Financial Rehabilitation and Liquidation of Credit Institutions

In 2014, the Bank of Russia and the DIA took joint measures to prevent the insolvency (bankruptcy) of credit institutions pursuant to Federal Law No. 175-FZ, dated 27 October 2008, ‘On Additional Measures to Strengthen the Stability of the Banking System until 31 December 2014’ (invalid) and Federal Law No. 127-FZ, dated 26 October 2002, ‘On Insolvency (Bankruptcy)’ (as amended by Federal Law No. 432-FZ, dated 22 December 2002) (hereinafter, Federal Law No. 127-FZ).

In the reporting period, the Bank of Russia sent the DIA proposals for participation in bankruptcy prevention of 14 banks.

In 2014, the Bank of Russia and the DIA took joint measures to prevent bankruptcy of 19 banks, of which:

– in two banks bankruptcy prevention measures involved reorganisation through merger with other banks;

– one bank transferred its liabilities to depositors and a part of its property to another bank (later its banking licence was revoked);

– one bank had its banking licence revoked by the Bank of Russia.

As of 1 January 2015, 15 banks continued implementing the scheduled measures in line with the approved plans of DIA participation in their bankruptcy prevention.

In 2014, the Bank of Russia controlled the activities of 96 credit institutions to prevent the insolvency (bankruptcy) of credit institutions subject to bankruptcy prevention measures in accordance with article 189.10 of Federal Law No. 127-FZ[1], of which:

[1] Before Federal Law No. 432-FZ became effective, the grounds for bankruptcy prevention measures were stipulated by Article 4 of Federal Law No 40-FZ , dated 25 September 1999, ‘On the Insolvency (Bankruptcy) of Credit Institutions’ (invalid).

– in 15 banks the Bank of Russia and the DIA implemented joint bankruptcy prevention measures;

– one credit institution operated under a financial rehabilitation plan;

– 36 credit institutions eliminated reasons for grounds for bankruptcy intervention (without relevant requirements from the Bank of Russia);

– in the reporting month, in six credit institutions the capital fell below the registered authorised capital level, including:

1 credit institution was ordered to align its capital with the authorised capital;

for 1 credit institution in the reporting period, the order by a Bank of Russia regional division for aligning the authorised capital of the credit institution and its capital is pending;

1 credit institution was not sent this order because it operated for less than two years after receiving a banking licence;

in 3 credit institutions the ground has subsequently disappeared due to changes in the method of capital calculation, stipulated by Bank of Russia Regulation No. 395-P, dated 28 December 2012, 'On the Methodology for Measuring Bank Capital and Assessing its Adequacy (Basel III)';

38 credit institutions qualified for bankruptcy prevention measures pursuant to Article 189.10 of Federal Law No. 127-FZ, had their banking licences revoked by Bank of Russia orders (including 4 credit institutions whose licences were revoked in January 2015).

As of 1 January 2015, twenty one credit institutions were qualified for insolvency (bankruptcy) prevention measures.

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

In 2014, three banks joined the deposit insurance system and 16 banks dropped out.

In 2014, insured events occurred in 61 banks which had their banking licences revoked.

As of 1 January 2015, the mandatory deposit insurance fund amounted to 83.6 billion rubles (net of provision for occurred insured events of 68.9 billion rubles).

In 2014, the Bank of Russia monitored the emergence of conditions stipulated by Article 48 of Federal Law No. 177-FZ for terminating the right of banks, included in the register, to attract household deposits and to open and operate bank accounts of households in banks participating in the deposit insurance system.

In 2014, six banks participating in the deposit insurance system were prohibited from attracting household deposits and opening bank accounts of households in accordance with Article 48 of Federal Law No. 177-FZ. Subsequently, four of these banks had their banking licences revoked.

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

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

Reasons to revoke the banking licences were as follows:

– non-compliance with federal banking laws and Bank of Russia regulations, if a credit institution had been repeatedly subject to the measures stipulated by Federal Law No. 86-FZ: 75 cases (in 2013 – 30 cases);

– repeated violation over the year of requirements stipulated by Article 6 and Article 7 (except for Clause 3 of Article 7) of Federal Law No. 115-FZ: 36 cases (in 2013 – eight cases);

– established facts of considerable unreliability of reporting data: 13 cases (in 2013 – seven cases);

– decrease in the bank capital below the minimal amount of the authorised capital established as of the date of its state registration: 14 cases (in 2013 – six cases);

– capital adequacy ratio below 2%: 12 cases (in 2013 – five cases);

– failure to meet creditors' claims on monetary obligations within 14 days of the due date: 26 cases (in 2013 – two cases).

Besides, in the reporting period, the Bank of Russia cancelled licences of two non-bank credit institutions (in 2013 – one non-bank credit institution) due to their shareholders' decision on voluntary liquidation.

More than half of credit institutions (50 out of 86) that had their licences revoked in the reporting year were registered in Moscow and the Moscow Region.

Higher number of credit institutions whose banking licences were revoked in 2014 (compared with 2013) results mainly from their active involvement in laundering of criminally obtained incomes and illegal overseas money transfers requiring harsh response by the supervisory authority. It should be noted that most credit institutions indicated by the regulator curtailed such activities, but in some cases (42% of revoked licences) Bank of Russia had to resort to the extreme measure vested by law.

Essential number of licence revocations resulted from financial problems accumulated by credit institutions followed by the loss of capital and (or) stable insolvency (38% of revoked licences). At the same time, some banks concealed their real financial standing and submitted substantially unreliable statements to the Bank of Russia (15% of revoked licences).

During 2014, there were 117 provisional administrations managing credit institutions. The DIA performed the functions of the provisional administration in 13 of them in accordance with the plan for DIA participation in bank bankruptcy prevention. Other 103 provisional administrations were appointed to credit institutions due to the revocation of their banking licences and 1 provisional administration was appointed in accordance with Paragraph 4 of Part 2 of Article 74 of Federal Law No. 86-FZ.

During 2014, the Bank of Russia appointed 98 provisional administrations to manage credit institutions, of which 11 provisional administrations were appointed to credit institutions according to the approved plans for DIA participation in bank bankruptcy prevention, 86 provisional administrations were appointed due to the revocation of credit institutions' banking licences, and one provisional administration was appointed in accordance with Paragraph 4 of Part 2 of Article 74 of Federal Law No. 86-FZ.

In 2014, the Bank of Russia terminated the activity of 93 provisional administrations of credit institutions, including 85 provisional administrations, appointed due to the revocation of credit institutions' banking licences, 7 provisional administrations, appointed in accordance with the approved plans for DIA participation in bank bankruptcy prevention, and 1 provisional administration appointed in accordance with Paragraph 4 of Part 2 of Article 74 of Federal Law No. 86-FZ.

As of 1 January 2015, 24 provisional administrations of credit institutions were operating, including 18 provisional administrations, appointed due to the revocation of credit institutions' banking licence; the DIA was assigned to perform the functions of provisional administration of six banks.

As of 1 January 2015, liquidation was pending at 214 credit institutions whose banking licences had been revoked (cancelled) and the Bank of Russia had not received certificates of their striking off the state register due to the liquidation. There was on-going liquidation at 199 credit institutions, the relevant adjudications were not passed as of the reporting date with respect to 15 credit institutions following the revocation of their banking licences.

As many as 162 credit institutions were recognised as bankrupt and bankruptcy proceedings were initiated against them (in 2014, 56 credit institutions were recognised as bankrupt, including one credit institution with regard to which the arbitration court adjudicated on the forced liquidation). Arbitration courts adjudicated on forced liquidation of 36 credit institutions (in 2014 – 29 credit institutions). Besides, one credit institution is liquidated voluntarily, as decided by its participants.

In accordance with Russian legislation on insolvency (bankruptcy) and Article 23.2 of Federal Law No. 395-1, the DIA performed liquidation procedures in 181 credit institutions undergoing liquidation as of 1 January 2015. The DIA performed the receiver's functions in 154 of them and the liquidator's functions in 27 credit institutions.

As of 1 January 2015, the DIA was appointed as a receiver (liquidator) in 387 credit institutions, of which 206 credit institutions that had been liquidated by the DIA were struck off the state register of legal entities[1].

As of 1 January 2015, over the entire history of the Russian banking system, 1,638 credit institutions were struck off the state register of legal entities due to their liquidation. According to statement presented to the Bank of Russia, the average ratio of met creditor claims on these credit institutions stood at 11.9%, including 69.0% of claims of first-ranking creditors. For the liquidated credit institutions where the DIA performed the functions of the receiver (liquidator), the average ratio of met creditor claims on these credit institutions was 28.0%, including 55.5% of claims of first-ranking credi-

[1] This information was prepared based on the data reported by the registrar to the Bank of Russia as of 1 January 2015.

tors, 34.6% of claims of second-ranking creditors, and 15.9% of claims of third-ranking creditors and other creditors whose claims were to be met after those listed in the register of creditor claims.

In 2014, the Bank of Russia conducted 26 inspections of receivers (liquidators) of credit institutions, of which 21 inspections were performed in accordance with the Summary plan of inspections of receivers (liquidators) of credit institutions for II-IV quarters 2014. In all 26 cases the inspections focused on the activities of the DIA as a receiver (liquidator) of credit institutions.

In 2014, 25 receivers were certified with the Bank of Russia and 25 receivers had their certification extended. Besides, nine receivers were denied certification or its extension due to their ineligibility.

As of 1 January 2015, fifty receivers were certified with the Bank of Russia.

In 2014, the Bank of Russia Board of Directors did not pass any decision on Bank of Russia payments pursuant to Federal Law 'On Bank of Russia Compensation Payments for Household Deposits with Russian Bankrupt Banks Uncovered by the Deposit Insurance System'.

As of 1 January 2015, the Bank of Russia payments in the total amount of 1,231,258.7 thousand rubles were received by 36,173 depositors. As of 1 January 2015, receivers satisfied Bank of Russia claims on credit institutions whose depositors had received payments from the Bank of Russia totalling 433,325.3 thousand rubles, or 35.19% of total claims. In 2014, the Bank of Russia received 688.3 thousand rubles in claims payable to the Bank Russia that resulted from its payments.

Thirty three credit institutions, the depositors of which received Bank of Russia payments, were struck off the unified state register of legal entities due to their liquidation. The Bank of Russia claims on such credit institutions, that remained unsatisfied during the bankruptcy proceedings due to the insufficiency of debtors' property in the total amount of 797,411.4 thousand rubles were written off the Bank of Russia balance sheet (in 2014, 75,304.2 thousand rubles were written off the Bank of Russia balance sheet).

III.6. Countering Legalisation (Laundering) of Criminally Obtained Incomes and Financing of Terrorism

In 2014, the Bank of Russia continued to exercise powers stipulated by Federal Law No. 115-FZ with a focus on enhancing efficiency of the anti-money laundering and counter-terrorism financing system (hereinafter, the AML/CTF) as an important factor for mitigating banking risks and ensuring banking sector stability.

An important event in 2014 was the adoption of Federal Law No. 484-FZ, dated 29 December 2014, 'On Amending Certain Laws of the Russian Federation' worked out with consideration of Bank of Russia proposals, that provides for restricting grounds for the Bank of Russia to apply administrative measures to credit institutions under Article 15.27 of the Code of Administrative Offenses of the Russian Federation with an emphasis towards the application of measures stipulated by Article 74 of Federal Law No. 86-FZ, and adjusts the grounds on which the Bank of Russia is entitled to apply supervisory response measures.

Besides, in 2014, the Bank of Russia prepared eight recommendations for credit institutions on the procedure for identifying individual transactions of their customers based on the analysis of information received in the framework of its supervisory activities and aiming at ensuring the effective implementation by credit institutions of the risk-based approach, reducing the risk of involvement of certain credit institutions in servicing customers making dubious financial transactions.

The results of Bank of Russia activity allow ascertaining a decline in the value of illegal transactions and a reduction in the number of credit institutions carrying out such transactions. The total number of banks with signs of high involvement in dubious non-cash and cash transactions of customers, defined by Bank of Russia Letter No. 172-T, dated 4 September 2013, 'On Priority Measures in Banking Supervision', decreased from mid-2013 by more than 12-fold.

In September 2014, at a plenary meeting of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), the Russian delegation that included Bank of Russia representatives successfully defended its third report on the development of the Russian AML/CTF system. MONEYVAL decided to hear the next report on Russia's progress only in 2017.

Issues related to AML/CTF laws were considered in 48% of all completed scheduled and unscheduled inspections of credit institutions.

As a result, during 2014, the consideration of 1,120 administrative offense cases was completed with 319 adjudications on imposing fines (including 62 rulings with regards to executives of credit institutions), 539 adjudications on issuing warnings (including 290 rulings with regards to executives of credit institutions), and 262 adjudications to close administrative cases (including 75 rulings with regards to executives of credit institutions).

III.7. Central Catalogue of Credit Histories

In the reporting year, the Central Catalogue of Credit Histories (hereinafter, the CCCH) saw further increase in credit history titles and inquiries from credit history makers and users.

During 2014, the CCCH received 21.7 million credit history titles (10.5% growth as compared with early 2014); as of the end of the reporting year, their number totalled 229.6 million. Moderate increase in the number of credit history titles is explained by slower lending rate in 2014.

Over 2014, the number of credit history titles of individual borrowers increased by 21.6 billion (10.4%) and stood at 228.9 million as of early 2015, while the number of credit history titles of corporate borrowers totalled 745 thousand as of 1 January 2015, having risen by 13.2% as compared with early 2014.

The number of information inquiries addressed to the CCCH by credit history makers and users about the credit history bureaus (CHBs) in which their credit histories were filed and the number of requests for creating or cancelling credit history maker codes grew by almost 2 million (by 13.79%) in the reporting year and reached 16.3 million since the CCCH launch.

In particular, the number of inquiries addressed to the CCCH by credit history makers on credit history bureaus keeping their credit histories increased by 18.7% over the reporting year and totalled 1.8 million in absolute terms. Credit history makers addressed such inquiries mainly by applying to credit institutions: the number of such inquiries grew over the reporting year by 18.2% to 1.4 million.

In 2014, the CCCH was able to provide information to 76.7% of inquiries from credit history makers and users about CHBs in which their credit histories were filed (in 2013 – 75%, in 2012 – 72.3%, in 2011 – 71.0%). This confirms that most borrowers had had their credit histories put on file.

In 2014, one CHB was included in the state register of credit history bureaus. Thus, the number of CHBs totalled 26 as of 1 January 2015.

III.8. Cooperation with Russia's Banking Community

In 2014, the specially established Bank of Russia working group on consumer lending conducted meetings and surveys of banking community representatives for defining categories of consumer loans, subject to limitation of the effective interest rate pursuant to the Federal Law 'On Consumer Loans', and forms of individual provisions of consumer lending agreements.

Besides, to introduce provisions of Basel II, the Bank of Russia preliminarily validated rating systems and credit processes of three banks that had decided to implement the credit risk assessment approach based on internal ratings (IRB approach), and arranged business meetings with banks interested in introducing IRA, where plans and the current level of banks' readiness to switch to IRA to assess capital adequacy were considered.

In 2014, under cooperation with the banking community, the Bank of Russia drafted its banking regulations in active consultation with the Association of Russian Banks (ARB) and the Association of Regional Banks of Russia (the Russia Association), as well as with major credit institutions.

The section 'Answers to Frequently Asked Questions from Credit Institutions and Bank of Russia Regional Divisions Concerning Banking Regulation and Supervision' was regularly updated on the Bank of Russia website.

The Bank of Russia continued its active cooperation with credit institutions within the context of traditional banking forums, conferences and meetings (the 22nd International Banking Forum Banks of Russia – XXI regarding the issue 'Financial Sector Development Models amid Globalisation: Russia and International Practice' held by the Russia Association; the 25th Congress of the Association of Russian Banks regarding the issue 'On the Prospects of the Russian Banking System: a View of the Banking Community'; the All-Russian Banking Conference 'The Banking System 2014: Interaction Between the Mega-regulator and Financial Market Participants'; meeting of Bank of Russia top executives and credit institutions' management regarding the issue 'Regulation of Commercial Banks' Activities by the Central Bank of the Russian Federation').

The Bank of Russia held the 23rd International Banking Congress 'Banking Business: New Realities', which discussed issues urgent for the banking sector (monetary policy; recent developments in banking regulation to reduce systemic risks and maintain the systemic stability; banking supervision development; impact of the strengthened banking regulation on banking activities; international experience in payment systems development, use of cash and other payment instruments, national payment systems and their compatibility with international payment systems; mutual complementarity and competition between banks and non-bank financial organisations, minimisation of the regulatory arbitrage).

III.9. Cooperation with International Financial Organisations, Foreign Central Banks and Supervisors

In 2014, the Bank of Russia continued to participate in the work of the BCBS and its working groups and sub-groups, including quantitative assessments of the impact of BCBS new regulatory standards (the so-called QIS – Quantitative Impact Study), and mutual assessment of compliance of BCBS member states with BCBS documents.

In 2014, it also prepared information and other materials requested by the Secretariat of the BCBS Group of Bank Supervisors from Central and Eastern Europe (hereinafter, the Group). In May 2014, the Group organised a seminar 'Basel III and Systemic Stability Policy' in the city of Tula participated by representatives of supervisory authorities of the Group member states.

The information on banking laws and regulations for the IMF electronic database was further updated. The Bank of Russia publishes this information on its website quarterly. The Bank of Russia held meetings with IMF experts including consultations on Article IV of the IMF Articles of Agreement.

In 2014, the Bank of Russia cooperated with the working group of the Financial Stability Board on introduction of international standards in Russia and adherence to international principles and recommendations on financial rehabilitation of credit institutions received under the Financial Sector Assessment Program (FSAP).

Within the cooperation with the Organization for Economic Cooperation and Development (OECD), Bank of Russia representatives participated in reviewing and amending draft overviews of the Russian Federation prepared by the OECD Committee on Financial Markets and the OECD Committee on Investments, and in developing Russia's position in the negotiations with the EU on a new EU-Russia framework agreement.

The Bank of Russia attaches great importance to cooperation and information exchange with banking supervisory authorities of foreign countries and has signed 37 cooperation agreements (memoranda of understanding) with foreign bank supervisors.

In 2014, to expand cooperation in banking supervision of credit institutions and supervisory information exchange (including the supervision of cross-border establishments of Russian and foreign banks with respect to BCBS recommendations), the Bank of Russia continued coordinating draft memoranda (agreements) with supervisory authorities of a number of countries, given the approved amendments to the Russian legislation.

In 2014, the Bank of Russia held bilateral meetings on topical issues of banking regulation and supervision with representatives of Hungarian and Chinese supervisory authorities.

To coordinate activities of authorities supervising cross-border establishments of banking groups and ensure transparency of international bank transactions, the Bank of Russia cooperates with foreign supervisors in international supervisory colleges. During the reporting period, Bank of Russia representatives participated in international supervisory colleges arranged by the supervisors of Austria, Hungary and the Netherlands. Participation in international colleges expands possibilities of the Bank of Russia in supervising Russian credit institutions participating in banking groups, in understanding governance and risk-management processes at the group level, in tracking changes in the strategy of the group, including the Russian business direction, and in refining country risk estimates.

In its cooperation with the Eurasian Economic Community (EurAsEC) and with the member states of the Common Economic Space (CES), the Bank of Russia participated in coordination of the draft agreement on the Eurasian Economic Union (EAEU), and the draft agreement on the information exchange, including confidential data, in banking, securities markets, and insurance, the formulation of approaches to harmonise laws of EAEU member states taking into account the views of the banking community, to create conditions for free movement of capital in the financial markets.

III.10. Outlook for Banking Regulation and Supervision in Russia

III.10.1. State Registration of Credit Institutions and Banking Licensing

In 2015, the Bank of Russia will further draft federal laws:

– 'On Amending Articles 16 and 18 of the Federal Law on Banks and Banking Activities' (with regards to legislative consolidation of foreign shareholding in the total capital of credit institutions holding banking licences);

– No. 460145-6 'On Amending Certain Laws of the Russian Federation' and No. 460168-6 'On Amending Part 1 and Part 2 of the Tax Code of the Russian Federation', aimed at implementing the concepts of 'bank deposit agreement in precious metals' and 'bank account agreement in precious metals', improving legal conditions of transactions with precious metals, adjusting certain provisions of the law on banks and banking activities, clarifying the specifics of bankruptcy proceedings of a credit institution involved in transactions with precious metals;

– No. 47538-6/9 'On Amending Part 2 of the Civil Code of the Russian Federation and Certain Laws of the Russian Federation', aimed at improving the Russian legislation with regard to the regulation of financial transactions, including the introduction of a new type of a bank deposit that does not provide for the possibility of early withdrawal of the deposit amount or a part thereof, and a deposit certified with a savings (deposit) certificate, which does not provide for the right of its presentation for payment before the expiry of the period specified therein;

– 'On Amending the Federal Law On Banks and Banking Activity', aimed at establishing from 1 July 2015 single requirements for the minimum authorised capital for all newly registered non-bank credit institutions in the amount of 90 million rubles, and from 1 July 2018 single requirements for the amount of capital of non-bank credit institutions.

Besides, the Bank of Russia will continue improving its regulatory framework. In particular, it intends:

– to accomplish drafting Bank of Russia Ordinance establishing the procedure and criteria for the disclosure of information on qualification and experience of members of the credit institution's Board of Directors (Supervisory Board), persons in the position of the sole executive body, their deputies, members of the collective executive body, chief accountant, deputy chief accountant of a credit institution, head and the chief accountant of a credit institution branch on its official website;

– to continue amending Bank of Russia regulations, associated with changes in the territorial structure of the Bank of Russia and the procedure of supervising systemically important credit institutions, which resulted in the need to clarify relevant terminology and workflow on the subject of the projects;

– to amend Bank of Russia regulations, associated with specifics of assessing the financial standing and business reputation of persons included in the shareholders (participants) of a credit institution as a result of an exchange (conversion) of claims on subordinated credits (deposits, loans);

– to amend Bank of Russia Instruction No. 135-I, dated 2 April 2010, 'On the Bank of Russia's Decision Making Procedure for the State Registration and Licensing of Credit Institutions' to provide, inter alia, for the following:

a possibility to exchange (convert) creditors' claims on subordinated loans (deposits, loans), including claims for unpaid interest on such loans (deposits, loans), bonds of a credit institution, and claims for financial penalties for a default on subordinated loans (deposits, loans), for ordinary shares (stakes) of a credit institution, and to clarify the procedure for the state registration of the respective amendments to the charter of a credit institution;

a clarification of the procedure for the state registration of amendments to the charter of a credit institution associated with an increase in its authorised capital pursuant to acts of the Government of the Russian Federation in case the DIA acquires shares (stakes) of a credit institution out of non-monetary property in accordance with the Part 6 of Article 15 of the Federal Law 'On the Insurance of Household Deposits with Russian Banks'.

III.10.2. Banking Regulation

In 2015, major banking regulation developments will be associated with both the systematic implementation of international agreements, recommendations and standards of the Basel Committee on Banking Supervision, and Bank of Russia measures aimed at supporting the domestic banking sector due to lower accessibility of foreign financial markets and the transition to a floating exchange rate. In future, the Bank of Russia will continue developing a sound regulatory framework to ensure high-quality operation of the Russian banking system.

Bank of Russia documents to be published in 2015 are as follows:

– regulations establishing requirements to the risk and capital management systems of a credit institution and a banking group, including requirements to implement internal capital adequacy assessment process (hereinafter, the ICAAP);

– regulations, establishing a methodology for the supervisory assessment of the ICAAP quality and results and capital adequacy assessment;

– a document stipulating the use of the LCR as a mandatory standard. Considering complicated access of Russian banks to long-term resources, the Bank of Russia intends to introduce the LCR as a prudential norm from 1 July 2015 (meanwhile, the Bank of Russia is developing a mechanism to provide banks irrevocable credit lines secured by assets not included in the calculation of highly liquid assets eligible as collateral under refinancing. Banks will include the value of the limit set on a credit line with account of the available collateral in the calculation of the new standard liquidity coverage ratio);

– regulations implementing the Core Principles for Effective Banking Supervision with regard to establishing standards for drawing up consolidated financial statements and other information used for the banking supervision purposes to evaluate risks a credit institution accepts on a consolidated basis (replace Bank of Russia Regulations No. 191-P, dated 30 July 2002, ‘On the Consolidated Financial Statements’ and No. 246-P, dated 5 January 2004, ‘On the Procedure for the Parent Credit Institution of a Banking Group to Draw up Consolidated Financial Statements’);

– regulations that define possible signs of relatedness of legal entities and (or) individuals to the credit institution and (or) its affiliates that do not arise directly from the credit institution’s existing authority to manage their activities, for the Banking Supervision Committee of the Bank of Russia to decide on the relatedness of the person(s) to the credit institution, and the procedure for the Banking Supervision Committee of the Bank of Russia to decide on recognising a person to be related to the credit institution (be a part of the group of persons related to the credit institution);

– a procedure for notifying the Bank of Russia on the establishment of a bank holding company, its management company and its powers, and clarification of the procedure for submitting information on risks of a bank holding company to the Bank of Russia, including presentation of reports and other risk-related information of a bank holding company in the form of electronic messages containing an authentication code by parent organisations of bank holding companies (its management companies) to the Bank of Russia;

– regulations that establish credit institutions’ obligation to disclose in the annual (interim) accounting (financial) statements the value of financial leverage indicator, information on transactions involving the assignment of monetary claims, including those certified with mortgages, to mortgage agents or specialised associations, and the obligation of unconsolidated credit institutions to disclose and submit to the Bank of Russia standalone financial statements prepared in accordance with the International Financial Reporting Standards;

– a procedure for applying measures stipulated in Article 74 of Federal Law No. 86-FZ to credit institutions.

Bank of Russia regulations to be worked out and published in 2015 due to the amendments to the Federal Law ‘On the Insurance of Household Deposits with Russian Banks’ are as follows:

– a procedure for determining the base rate of return on deposits to identify banks paying premiums to the mandatory deposit insurance fund at an additional rate or an increased additional rate;

– clarification of the procedure for calculating the effective interest rate on deposit based on the average annual return formula, and the procedure for determining other material benefit of the depositor;

– a procedure for a bank to submit an application to the Bank of Russia on referring it to banks other than those paying insurance premiums at an additional rate or an increased additional rate;

– a procedure for recognising the financial standing of a bank to be meeting the criteria for paying insurance premiums at an increased additional rate;

– a procedure for sending the DIA information on the bank’s compliance with the criteria for paying insurance premiums at an additional or an increased additional rates.

III.10.3. Off-Site Supervision and Supervisory Response

The Bank of Russia plans to further develop its supervisory activities in the following areas:

1. Development of methodological approaches and operational practices for risk-based supervision, including consolidated supervision of banking groups, bank holding companies and other groups of financial market participants.

2. Implementation of new legislation that, on the one hand, expands the powers of the Bank of Russia, and, on the other hand, embodies the countercyclical super-

visory approaches expressed through granting certain exemptions to credit institutions in the regulation of their activities, including the period until 30 June 2015;

– to apply the official ruble exchange rate set by the Bank of Russia on 1 October 2014 in the calculation of prudential ratios for transactions in foreign currency;

– not to recognise the negative revaluation of the securities portfolio to reduce the sensitivity to the market risk and limit the impact of the negative revaluation on the financial performance and capital;

– to decide not to revise downwards the borrower's financial standing for the purpose of loan loss provisioning if changes in the financial standing result from restrictive economic and (or) political measures imposed by foreign countries;

– to decide not to revise downwards the quality of servicing the debt on loans, restructured through changing the loan currency for rubles;

– not to apply the limit of the effective interest rate on consumer loans set by Federal Law No. 353-FZ in the amount of the calculated by the Bank of Russia average market effective interest rate on consumer loans plus one third.

Credit institutions have been entitled to include unencumbered bonds included in the Bank of Russia Lombard list and classified as 'held to maturity', regardless of the term remaining to maturity, in the calculation of liquid assets for the entire 2015.

Due to the developments in the international situation in 2014 and the restricted access of Russian companies and banks to borrowing in international financial markets, large corporate borrowers faced the problem of refinancing the existing debt mainly domestically. This means higher demand for loans from such borrowers to Russian banks. Under these circumstances, it was decided to postpone by one year until 1 January 2016, the application of new criteria of borrowers' relatedness to a group with account of the IFRS, and economic criteria in accordance with provisions of Article 64 of Federal Law No. 86-FZ, to calculate the maximum risk ratio per borrower or a group of related borrowers (N6 ratio); the enactment of the N25 ratio establishing the maximum risk per bank related person (group of bank related persons) has also been postponed.

In 2015, the supervisor will use the additional time provided by the legislator for preparing to apply these innovations to actively cooperate with banks on bringing the concentration of credit risks in compliance with the ratios.

3. The regulation of remuneration systems of credit institutions applied to employees assuming risks becomes effective in 2015. In accordance with Bank of Russia Instruction No. 154-I, dated 17 June 2014, ''On the Procedure for Assessing Credit Institution Remuneration System and Issuing Orders to the Credit Institution to Correct Deficiencies in the Remuneration System' the supervisor will assess remuneration systems of credit institutions for the first time as of 1 October 2015. This assessment will be further made annually.

4. To monitor the compliance of certain credit institutions with the imposed restrictions on raising household funds, in 2015, the Bank of Russia intends to introduce methods of rapid assessment of banks into the supervision practice to identify facts of deposit-taking in violation of the applied bans and restrictions.

5. The Bank of Russia will continue examining assets of credit institutions and assessing their quality, including the fair value recognition in bank statements. The assets in unit investment funds owned by credit institutions and assets used as collateral covering credit risks and other assets, generated by real estate will be examined to determine their compliance with market value requirements.

In this regard, the Bank of Russia will maintain the practice of conducting expert assessments of the market value of banks' assets, including asset revaluation, included in capital calculation, and collateral accepted under credit deals. The Bank of Russia intends to make wider use of professional assessment of non-financial assets and property of banks.

In March 2014, the Bank of Russia offered for the banking community's consideration the Basic Approaches to the Regulation and Supervision of Systemically Important Credit Institutions. This work is expected to result in a system of operating conditions for systemically important credit institutions which will combine tighter regulatory requirements and more intensive supervision.

III.10.4. On-Site Inspection

Generally, the Bank of Russia will ensure the continuity of the established approaches to inspection activities.

Thematic inspections on issues that are difficult or impossible to review and evaluate in off-site supervision will be prioritised to determine the risk profile and the main areas of risk concentration, detect operations aimed at concealing the real quality of assets and ensuring the formal observance of regulatory requirements.

The Bank of Russia intends to further develop regulatory and legal support for inspection activities in the following areas:

– improvement of the regulatory and legal framework regulating the issues of arranging and conducting on-site inspections of credit institutions (their branches) taking account of optimisation of the Bank of Russia regional network (including the establishment of the Bank of Russia main branches, subordinated divisions and divisions – national banks);

– improvement of the methodological support of the inspection activities, including the inspections of individual activities of credit institutions;

– automation of activity of the Bank of Russia Chief Inspection to develop new approaches to unification of inspection activities, improve methodological, information and analytical support, and standardise inspection reports;

– improvement of approaches to arranging and conducting inspections of systemically important credit institutions taking account of their structure (multi-branch network), scope of activity, participation in banking groups (bank holding companies), and concentration of banking risks. The Bank of Russia will continue simultaneous inspections of the most significant structural units of systemically important credit institutions, inspections of credit institutions participating in banking groups (or controlled by the same group of owners), and inspections of related credit institutions and non-bank financial organisations;

– enhancement of the inspection divisions' cooperation with off-site supervision units in the run-up to the inspection, its arrangement and conducting through continuous and operative exchange of existing materials (information) to identify and continuously monitor risks in the activities of credit institutions, timely detect increased risks and take effective supervision response measures to normalise the situation.

III.10.5. Household Deposit Insurance

As part of the effort to enhance its regulations taking account of amendments to Federal Law No. 177-FZ, the Bank of Russia intends to publish the amended Ordinance 'On the Form of the Register of Bank Liabilities to Depositors'.

III.10.6. Financial Rehabilitation of Credit Institutions

To implement provisions of Article 57 of Federal Law No. 86-FZ and Article 24 of Federal Law No. 395-1 taking account of amendments introduced by Federal Law No.432-FZ, the Bank of Russia intends to work out draft regulations on preparing and submitting plans for recovering financial stability by credit institutions, amending such plans, their assessment by the Bank of Russia, and developing action plans for systemically important credit institutions by the Bank of Russia.

To implement provisions of Federal Law No.127-FZ, dated 26 October 2002, the Bank of Russia intends to approve regulations on analysing the bank's financial standing to decide on the appropriateness of DIA participation in implementing bankruptcy prevention measures or in settling the bank's liabilities, submission of Bank of Russia proposals for the DIA to participate in the bank bankruptcy prevention, the reduction of the bank's authorised capital to the value of its capital, the selection of acquirer of the bank's assets and liabilities.

III.10.7. Liquidation of Credit Institutions

Enhancement of the Russian legislation aimed at reducing the risk of abuse by management and owners of credit institutions and minimising negative consequences of revocation of credit institutions' banking licence for lenders and the entire banking system is an acute task of banking regulation and supervision.

To that end, considering the application by the Bank of Russia of Article 40.1 of Federal Law No. 395-1, that establishes an obligation of a credit institution to record all the operations and other transactions in electronic databases and to create and submit their backup copies to the Bank of Russia, legal grounds should be expanded for the Bank of Russia to send a credit institution an order to create and transfer electronic database backup copies for safekeeping to the Bank of Russia.

III.10.8. Countering Legalisation (Laundering) of Criminally Obtained Incomes and Financing of Terrorism

In 2015, the Bank of Russia will continue implementing tasks and functions defined in the framework of reforming the regulatory system of the Russian financial market and delegating functions of a single regulator to the Bank of Russia[1].

Another key task for the Bank of Russia and its regional divisions in 2015 will be to ensure the effective introduction of a risk-based approach in the AML/CTF

[1] Federal Law No. 251-FZ, dated 23 July 2013, 'On Amending Certain Laws of the Russian Federation Due to the Delegation to the Central Bank of the Russian Federation of the Authority to Regulate, Control and Supervise Financial Markets' (became effective from 1 September 2013) assigned the Bank of Russia with functions of regulating and controlling activities of non-bank financial organisations (microfinance organisations, credit consumer cooperatives, etc.).

in credit institutions with the view of mitigating the risk of credit institutions' involvement in money laundering and terrorism financing.

Besides, in 2015, the Bank of Russia will continue:

– to control the application by credit institutions of instruments allowing them to refuse to conclude a bank account (deposit) agreement, carry out transactions and terminate a bank account (deposit) agreement in cases stipulated by Federal Law No. 115-FZ;

– to enshrine in law the credit institution's obligations to conclude a bank account (deposit) agreement, and to refuse to execute an operation if the customer is characterised by a high risk level, determined in accordance with regulations developed by the Bank of Russia together with the Federal Financial Monitoring Service;

– to optimise requirements for credit institutions to identify customers, customers' representatives and beneficial owners with a view of countering the legalisation (laundering) of criminally obtained incomes and the financing of terrorism.

III.11. Bank of Russia Supervisors

The Bank of Russia supervisory divisions employ 5,038 executives and specialists, of which 42.6% work at the head office. Most specialists hold a university degree (98.2%), have over three years of experience in the banking system (87%), and are aged 30-50 y.o. (61.8%).

The Bank of Russia focuses onimproving expertise and skills of bank supervisors. In 2014, fifty one employees took a professional retraining course under the credit institution supervisors and inspectors training programme developed in advance at the request of the Bank of Russia. Besides, the Bank of Russia launched a two-year training under three new training programmes for bank financial rehabilitation advisers, heads of provisional administrations and inspectors of commercial banks.

In 2014, as many as 1,825 managers and specialists of banking supervision units improved their skills by attending 92 short-term training events (seminars, courses, internships) covering the entire range of issues in this area of Bank of Russia activities and the issues of the international financial reporting standards, use of information systems, information security, development of management and social skills.

In 2014, the Bank of Russia held training on bank supervision for employees of the newly created Divisions for the Republic of Crimea and for the City of Sevastopol. Besides, training was provided to specialists of credit institutions located on the territory of the Republic of Crimea (1,672 people).

The Bank of Russia continued its cooperation in staff training with foreign partners: Deutsche Bundesbank, the Bank of France, the Bank of Finland, the Bank of Spain, the Central Bank of Brazil, the Financial Technology Transfer Agency (Luxembourg), the Financial Stability Institute of the Bank for International Settlements (Basel), and others.

IV. ANNEXES

IV.1. Banking Sector Stability Monitoring

In 2014, the Bank of Russia continued to regularly monitor the liquidity risk, risks associated with lending to non-financial organisations and households, capital adequacy and the market risk for the purpose of early identification of negative trends in the banking sector, including bank groups and individual banks whose transactions contribute considerably to these trends. Along with monitoring key financial risks, the Bank of Russia also analysed for potential systemic risks the following:

– asset and liability structure of major credit institutions;

– asset and liability structure of banks with the largest volume of household deposits;

– impact of the situation in the stock market on credit institutions' financial standing;

– transactions for taking and placing interbank loans and deposits at high interest rates;

– reasons for credit institutions to pursue the aggressive policy to attract household deposits;

– development and risks of the unsecured consumer lending market, including banks specialising in unsecured consumer lending;

– considerable loans issued to companies which had experienced technical defaults on their publicly traded debt instruments;

– loans to organisations and individual entrepreneurs adjudicated bankrupt;

– dependence of credit institutions' funding from the Bank of Russia;

– restructured and extended loans.

Russian banking sector risk map

When building a risk map, the Bank of Russia used the experience of international organisations, regulators and central banks of different countries. In particular, it analysed IMF's Global Financial Stability Reports, the Financial Stability Review of the European Central Bank, annual reports and financial stability reports of regulators and national (central) banks of a number of countries. To determine the stability level of the national financial system national banks and international organisations usually employ a risk map in the form of a web, consisting of several risk directions (vectors), or a heat map, and calculate the financial stability index or the final risk profile without building a risk map.

The risk map of the Russian banking sector is aimed at determiningrisk level and dynamics, it is calculated quarterly using Bank of Russia data, Federal State Statistics Service data and international statistics.

The map comprises seven groups of indicators (vectors) with a risk level ranging from 0 to 10: industry-specific risk factors are liquidity, credit risk, profitability, capital, market risk; and external risk factors include macroeconomic and external risks. The larger is the distance to the centre of the web, i.e.the zero point, the higher is the risk level. Given the crisis period (late 2008 – early 2009), the risk map has been zoned: the red zone for a high risk level, yellow for moderate, and green for a low level of risk.

Each vector comprises a set of indicators to determine the risk level used to assess the dynamics of relative indicators. After a data set is built, a percentile is calculated to which the index value for the analysed period refers. The higher is the percentile value, the higher is the risk for this indicator. The risk level of a particular vector is calculated as a total of percentiles of indicators it comprises. These percentiles are weighted with respect to their impact on the final risk level of a particular vector.

Initially, components of the risk map vectors are assigned equal weights. Further calibration of the weights of the risk map vector components is based on the verification of their importance/impact (based on historical data) in the structure of the respective vector taking account of significance of their impact on aggregate index.

The weights of all risk map vectors are equivalent.

The web-shape risk mapis placed inside a regular heptagon. To determine the risk level for the banking sector, a risk zone shall be calculated; it is limited to an irregular polygon.

Besides, the final financial stability indicator shall be calculated as a ratio (percentage) of the area outside the risk zone (large regular heptagon less the risk zone area) to the total area of the regular heptagon. The maximum stability corresponds to the financial stability indicator equalling 100%, the minimum stability – 0%.

The levels are as follows:

high level of stability – financial stability indicator ≥ 80%;

medium level of stability – 60% <financial stability indicator <80%;

low level of stability – financial stability indicator <60%.

The Bank of Russia continued to assess the financial stability indicator of the Russian banking sector whenbuildingthe risk map. TheBanking Supervision Committee considered the results of evaluation quarterly.

Stress testing makes an important part of banking sector stability assessment (see Section II.6).

IV.2. National Payment System

In 2014, due to the impact of external geopolitical factors on the situation in the Russian Federation, the Bank of Russia focused on ensuring uninterrupted settlementson the Russian territory, and developing a forward-looking infrastructure for the national payment system adequate to modern challenges.

Pursuant to Federal Law No.112-FZ, dated 5 May 2014,‘On Amending the Federal Law On the National Payment System and Certain Laws of the Russian Federation’ the Bank of Russia developed the National Payment CardSystem (hereinafter, the NPCS). The NPCS is operated by JSC NPCS established by the Bank of Russia. The main objectives of the NPCS are to develop on the territory of the Russian Federation an independent infrastructure and a single processing centre for domestic transactions with cards of international payment systems, and to launch and process its own payment application.

The development of NPCS was prioritised, given that in Russia payment cards belong to the fastest growing payment instruments. As of early 2015, Russian credit institutions issued 227.7 million payment cards (1.6 cards per capita). In 2014, they were used to make 10.1 million operations worth 36.2 trillion rubles (an increase of 30.7% and 22.1% respectively), of which more than 96% in volume and value – are domestic.

To ensure uninterrupted servicing of payment system participants, the federal legislation was supplemented with provisions on the criteria for recognising payment systemsas nationally important, on the formation of security contributions of payment system operators, and on application to them of supervisory measures in the event of a unilateral suspension (termination) of servicing of payment systemparticipants. To avoid such cases, it is obligatory that international payment systems and credit institutions interact with the NPCS operational payment clearing centre. Besides, to promote non-cash payments by payment cards, legislative amendments were introduced providing for the duty of NPCS participants, trade (service) companies to ensure the acceptance and the possibility of paying for goods (works, services) with national payment instruments.

In 2014, the Bank of Russia took the necessary efforts and measures to ensure provision of settlement services and intraday settlements by the Bank of Russia within the framework of the Bank of Russia payment system on money transfers through payment cards of international payment systems on the territory of the Russian Federation.

In the reporting year, in accordance with the action plan for establishing Bank of Russia divisions for the Republic of Crimea and the city of Sevastopol, regional components of the Bank of Russia payment system were promptly formed in these Russian regions. A payment infrastructure was created and conditions for providing settlement and cash services to Bank of Russia customers were establishedin Crimea in accordance with the Russian legislation. The Bank of Russia signed bank account agreements with its customers and organised electronic messaging.

In 2014, the value of corporate sector payment transactions continued growing. Credit institutions operating money transfers accepted for execution 1.6 billion money transferorders amounting to 500.7 trillion rubles from corporate customers other than credit institutions[1], an increase by 2.9% and 17.3% respectivelycompared to

[1] Including payments in Russian rubles (except for operations in the financial markets and loan repayments).

2013. At that, credit transfer remained the main payment instrument used by this category of customers making 69.6% and 99.0% respectively by volume and value.

As remote technology evolves in Russia, electronic money is more widely used. As of 1 January 2015, as many as 97 credit institutions communicated a launch of electronic money transfers to the Bank of Russia (82 credit institutions a year earlier). During 2014,they issued 350.0 million electronic payment instruments (EPIs) for electronic money transfers. EPIs were used to carry out 1.1 operations in the amount of 1.1 trillion rubles.

In this regard, the Bank of Russia focused on legislative regulation of payment services associated with electronic money transfers. To reduce the risks of anonymous payments, the Bank of Russia restricted transactions between individuals and payments to non-residents. At the same time, limits for electronic money balances have been increased for individuals who underwent simplified or complete identification;this should encourage development of payment services in this segment.

In 2014, the quantitative and value indicators characterising functioning of systemically and nationally important payment system of the Bank of Russia remained at the 2013 level: 1.4 billion money transfersin the amount of 1,205 trillion rubles, including 2.9 million transfers totalling 475.6 trillion rubles made through the banking electronic speedy payment system (BESP).

During the implementation of the Concept of the Bank of Russia Payment System Development until 2015, the Bank of Russia continued developing the automated system to ensure functioning of the forward-looking payment system of the Bank of Russia, which will effect money transfers of participants regardless of their geographical location and time zone in the Russian Federation. The Bank of Russia started creating an automated system using domestic and foreignsoftware components that meets high reliability, security, performance and architecture requirements.

From December 2014, in the framework of developing the electronic financial messaging, the Bank of Russia launchedfinancial messaging on domestic operationsin SWIFT format for credit institutions.

As of early 2015, the Bank of Russia supervision and surveillance in the national payment system covered money transfer operators (Bank of Russia, Vnesheconombank, 831 credit institutions); 33 payment system operators (Bank of Russia, 18 credit institutions and 14 non-bankorganisations); payment infrastructure service operators (35 operation centres, 36 payment clearing centres, 32 settlement centres); 97 electronic money operators; Federal State Unitary Enterprise Russian Post. Besides, payment acceptance in Russia was carried out by payment agents and bank payment agents, which as of 1 January 2015 opened 29.7 thousand accounts with credit institutions.

Supervision of the national payment system was aimed primarily at ensuring the compliance of international payment system operators with established requirements. The Bank of Russia applied supervisory response measures against Visa and MasterCard payment systemoperators, which had violated requirements of the Russian legislation and Bank of Russia regulations, in particular by unilateral suspension (termination) of payment infrastructure services to some participants and their customers. They were subject to coercive measures stipulated by Part 2 of Article 34 of Federal Law No. 161-FZ. These organisations and their officials were brought to administrative responsibility in accordance with Article 15.36 of the Code of Administrative Offenses of the Russian Federation.

In accordance with legislative requirements the Bank of Russia for the first time published a review Results of Monitoring in the National Payment System in 2012–2014[1], which sets out goals and areas of the Bank of Russia practical activities in monitoring the national payment system for the near future and provides information on the results of the Bank of Russia monitoring of systemically and socially important payment systems.

A number of payment systems, in particular, the Bank of Russia payment system and the NCO CJSC NSD payment system that are systemically important and a socially important payment system Golden Crown, were assessed for compliance with the international standards set forth in the CPSS-IOSCO document Principles for Financial Market Infrastructures. The assessment results indicate high compliance of these payment systems with international standards.

IV.3. Development of Central Catalogue of Credit Histories

To exercise powers to control and supervisethe activities of credit history bureausand to keep the state register of credit history bureaus delegated to the Cen-

[1] Bank of Russia Bulletin No. 97 (1575), dated 20 October 2014.

tral Bank of the Russian Federation in accordance with Federal Law No. 251-FZ, dated 23 July 2013,'On Amending Certain Laws of the Russian Federation Due to the Delegation to the Central Bank of the Russian Federation of the Authority to Regulate, Control and Supervise Financial Markets', in 2015, the Bank of Russia will adopt regulations governing the procedure for authorised Bank of Russia representatives to inspect credit history bureaus and the procedure for the Bank of Russia to make a record regarding the credit history bureau in the state register of credit history bureaus.

Besides, as Federal Law No. 189-FZ, dated 1 March 2015, became effective, the Bank of Russia in 2015 intends to amend effective regulations and to issue new documents regulating the following operation aspects of the credit history institute:

– the procedure for informing the debtor on the transfer of his data to credit history bureaus;

– the procedure forcredit history bureaus to submit credit reports to the Bank of Russia;

– the procedure for credit history bureaus to check the availability of consents of credit history makers for disclosing the credit report to credit history users other than those controlled (supervised) by the Bank of Russia.

To optimise the cooperation of the Central Catalogue of Credit Histories with the Federal Bailiff Service (FSSP Russia) in 2015 it is planned to automate receiving of FSSP Russia requests by the CCCH, finding the required information by the automated system Central Catalogue of Credit Histories, and transferring the relevant information to the FSSP Russia.

IV.4. Statistical Appendix

Table 1. Key macroeconomic indicators (in comparable prices), as % of previous year

	2007	2008	2009	2010	2011	2012	2013	2014
GDP[1], billions of rubles	33,247.5	41,276.8	38,807.2	46,308.5	55,967.2	62,176.5	66,190.1	71,406.4
GDP growth rate	108.5	105.2	92.2	104.5	104.3	103.4	101.3	100.6
Federal budget surplus (+)/deficit (–), as % of GDP	5.4	4.1	-6.0	-3.9	0.8	-0.1	-0.5	-0.5
Industrial output index	106.8	100.6	89.3	107.3	105.0	103.4	100.4	101.7
Agricultural output	103.3	110.8	101.4	88.7	123.0	95.2	105.8	103.7
Retail trade turnover	116.1	113.7	94.9	106.5	107.1	106.3	103.9	102.7
Fixed capital investments	123.8	109.5	86.5	106.3	110.8	106.8	100.8	97.3
Household real disposable money income	112.1	102.4	103.0	105.9	100.5	104.6	104.0	99.3
Unemployment rate, as % of economically active population (period average)	6.0	6.2	8.2	7.3	6.5	5.5	5.5	5.2
Consumer price index (December as % of previous December)	111.9	113.3	108.8	108.8	106.1	106.6	106.5	111.4
Average nominal US dollar/ruble rate over period	25.57	24.81	31.68	30.36	29.35	31.07	31.82	37.97

[1] *In current prices.*

Table 2. Russian banking sector macroeconomic indicators

	1 January 2011	1 January 2012	1 January 2013	1 January 2014	1 January 2015
Banking sector assets (liabilities), billions of rubles	33,804.6	41,627.5	49,509.6	57,423.1	77,653.0
as % of GDP	73.0	74.4	79.6	86.8	108.7
Banking sector capital, billions of rubles	4,732	5,242	6,113	7,064	7,928
as % of GDP	10.2	9.4	9.8	10.7	11.1
as % of banking sector assets	14.0	12.6	12.3	12.3	10.2
Loans and other funds provided to non-financial organisations and households, including overdue debt, billions of rubles	18,148	23,266	27,708	32,456	40,866
as % of GDP	39.2	41.6	44.6	49.0	57.2
as % of banking sector assets	53.7	55.9	56.0	56.5	52.6
Securities acquired by banks, billions of rubles	5,829	6,212	7,035	7,822	9,724
as % of GDP	12.6	11.1	11.3	11.8	13.6

End of the table 2

as % of banking sector assets	17.2	14.9	14.2	13.6	12.5
Household deposits, billions of rubles	9,818	11,871	14,251	16,958	18,553
as % of GDP	21.2	21.2	22.9	25.6	26.0
as % of banking sector liabilities	29.0	28.5	28.8	29.5	23.9
as % of household income	30.2	33.3	35.7	38.0	38.9
Funds raised from organisations[1], billions of rubles	11,127	13,996	15,648	17,787	25,008
as % of GDP	24.0	25.0	25.2	26.9	35.0
as % of banking sector liabilities	32.9	33.6	31.6	31.0	32.2

[1] *Including deposits, government and other extra-budgetary funds, funds of the Federal Treasury, fiscal authorities, individual unincorporated entrepreneurs, customers in factoring and forfeiting operations, certificates of deposit, float, and funds written off from customer accounts but not passed through a credit institution's correspondent account (net of funds raised from credit institutions).*

Table 3. Registration and licensing of credit institutions as of 1 January 2015 (information is based on data received from the registration authority as of the reporting date)

Registration of credit institutions

1. Credit institutions* registered by the Bank of Russia or the registration authority, in line with Bank of Russia decisions, total[1]	1,049
including:	
– banks	976
– non-bank credit institutions	73
1.1. Registered wholly foreign-owned credit institutions	75
1.2. Credit institutions that have been registered by the Bank of Russia but have not yet paid the authorised capital and have not received a licence (within the time period established by law)	1
including:	
– banks	0
– non-bank credit institutions	1

Operating credit institutions

2. Credit institutions licensed to conduct banking operations, total[2]	834
including:	
– banks	783
– non-bank credit institutions	51
2.1. Credit institutions holding licences (permits):	
– to take household deposits	690
– to conduct operations in foreign currency	554
– general licences	256
– to conduct operations with precious metals	203
2.2. Credit institutions with a foreign stake in authorised capital, total	225
including:	
– wholly foreign-owned credit institutions	75
– credit institutions with a 50%-plus foreign stake	38
2.3. Credit institutions registered with the deposit insurance system, total[3]	698
3. Registered authorised capital of operating credit institutions (millions of rubles)	1,840,301
4. Branches of operating credit institutions in Russia, total	1,708
including:	
– Sberbank branches[4]	95
– branches of wholly foreign-owned credit institutions	89
5. Branches of operating credit institutions abroad, total[5]	6

End of the table 3

6. Branches of non-resident banks in Russia	0
7. Representative offices of Russian operating credit institutions, total[6]	318
including:	
– in Russia	276
– in non-CIS countries	28
– in CIS countries	14
8. Additional offices of credit institutions (branches), total	23,301
including:	
– Sberbank additional offices	11,734
9. External cash desks of credit institutions (branches), total	6,735
including:	
– Sberbank cash desks	4,544
10. Cash and credit offices of credit institutions (branches), total	2,289
including:	
– Sberbank cash and credit offices	0
11. Operations offices of credit institutions (branches), total	9,273
including:	
– Sberbank operations offices	651
12. Mobile banking vehicles of credit institutions (branches), total	196
including:	
– Sberbank mobile banking vehicles	194
License revocation and liquidation of corporate entities	
13. Credit institutions that had their banking licenses revoked (cancelled) but have not been struck off the state register[7]	214
14. Liquidated credit institutions struck off the state register, total[8]	2,117
including:	
– liquidated due to license revocation (cancellation)	1,638
– liquidated due to reorganisation	478
including:	
– by merger	2
– by acquisition	476
including:	
– by being transformed into other banks’ branches	384
– by being merged with other banks (without setting up a branch)	92
– liquidated due to an infraction of law in respect of payment of authorised capital	1

Notes

**The term ‘credit institution’ in this Table denotes one of the following:*
– a corporate entity registered by the Bank of Russia (prior to 1 July 2002) or the registration authority and having the right to conduct banking operations;
– a corporate entity registered by the Bank of Russia (prior to 1 July 2002) or the registration authority, which had but lost the right to conduct banking operations.
[1] Credit institutions that have the status of a corporate entity as of the reporting date, including credit institutions that have lost the right to conduct banking operations but have not yet been liquidated as corporate entities.
[2] Credit institutions registered by the Bank of Russia (prior to 1July 2002) or the registration authority and having the right to conduct banking operations.
[3] Based on data provided to the Bank of Russia by the state corporation Deposit Insurance Agency as of the reporting date.
[4] Sberbank branches put on the state register of credit institutions and assigned a serial number. Prior to 1 January 1998 this item of the monthly information on credit institutionsreflected the total Sberbank branches – 34,426.
[5] Branches opened by Russian credit institutions abroad.
[6] 6The representative offices of Russian credit institutions abroad include the offices of whose opening abroad the Bank of Russia has been notified.
[7] 7Total credit institutions that had their banking licenses revoked (cancelled), including liquidated credit institutions struck off the state register – 1,852.
[8] After 1 July 2002, the liquidated credit institution is struck off the state register as a corporate entity only after its liquidation has been registered by the registration authority.

Table 4. Credit institutions by form of incorporation

	As of 1 January 2014		As of 1 January 2015	
	number	% share	number	% share
Operating credit institutions licensed to conduct banking operations, total	923	100	834	100
including:				
– joint-stock companies	607	65.76	557	66.79
of which: – closed joint-stock companies	246	26.65	193	23.14
– open joint-stock companies	361	39.11	288	34.53
– public joint-stock companies	-	-	31	3.72
– joint-stock companies	-	-	45	5.4
– limited liability companies	316	34.24	277	33.21

Table 5. Number of credit institutions and their branches by region as of 1January 2015

Item No.	Region	Number of credit institutions in region	Number of branches in region		
			total	credit institutions with head office in given region	credit institutions with head office in another region
1	2	3	4	5	6
	Russian Federation	834	1708	232	1476
1	CENTRAL FEDERAL DISTRICT	504	348	66	282
	Belgorod Region	3	10	1	9
	Bryansk Region	0	7	0	7
	Vladimir Region	3	12	0	12
	Voronezh Region	1	28	0	28
	Ivanovo Region	6	11	0	11
	Kaluga Region	4	9	0	9
	Kostroma Region	5	5	0	5
	Kursk Region	1	7	0	7
	Lipetsk Region	1	9	0	9
	Moscow Region	9	40	0	40
	Orel Region	1	12	0	12
	Ryazan Region	4	10	0	10
	Smolensk Region	2	8	2	6
	Tambov Region	1	3	0	3
	Tver Region	4	11	1	10
	Tula Region	4	12	0	12
	Yaroslavl Region	5	24	2	22
	Moscow	450	130	22	108
	Moscow Region (for reference)[1]	*459*	*170*	*60*	*110*
2	NORTH-WESTERN FEDERAL DISTRICT	64	251	8	243
	Republic of Karelia	1	11	2	9
	Republic of Komi	1	11	2	9
	Arkhangelsk Region	0	17	0	17
	of which: Nenets Autonomous Area	0	1	0	1
	Arkhangelsk Region, excluding Nenets Autonomous Area	0	16	0	16
	Vologda Region	9	11	2	9
	Kaliningrad Region	1	23	1	22
	Leningrad Region	4	11	0	11

Continuation of the table 5

1	2	3	4	5	6
	Murmansk Region	3	12	0	12
	Novgorod Region	2	9	0	9
	Pskov Region	2	7	0	7
	Saint Petersburg	41	139	1	138
3	SOUTHERN FEDERAL DISTRICT	43	196	13	183
	Republic of Adygeya (Adygeya)	4	5	1	4
	Republic of Kalmykia	1	3	0	3
	Krasnodar Territory	15	59	1	58
	Astrakhan Region	5	12	0	12
	Volgograd Region	4	32	0	32
	Rostov Region	14	85	11	74
4	NORTH CAUCASIAN FEDERAL DISTRICT	28	99	25	74
	Republic of Daghestan	12	25	16	9
	Republic of Ingushetia	0	3	0	3
	Kabardino-Balkar Republic	5	11	3	8
	Karachay-Cherkess Republic	4	5	0	5
	Republic of North Ossetia – Alania	2	9	1	8
	Chechen Republic	0	4	0	4
	Stavropol Territory	5	42	5	37
5	VOLGA FEDERAL DISTRICT	92	322	39	283
	Republic of Bashkortostan	7	31	0	31
	Mari El Republic	2	12	4	8
	Republic of Mordovia	4	4	0	4
	Republic of Tatarstan (Tatarstan)	22	49	31	18
	Udmurt Republic	2	8	0	8
	Chuvash Republic – Chuvashia	4	6	0	6
	Perm Territory	4	33	0	33
	Kirov Region	3	7	0	7
	Nizhny Novgorod Region	10	71	2	69
	Orenburg Region	7	11	0	11
	Penza Region	1	11	0	11
	Samara Region	15	47	2	45
	Saratov Region	9	22	0	22
	Ulyanovsk Region	2	10	0	10
6	URALS FEDERAL DISTRICT	35	193	55	138
	Kurgan Region	2	7	0	7
	Sverdlovsk Region	14	65	4	61
	Tyumen Region	12	53	13	40
	of which: Khanty-Mansi Autonomous Area – Yugra	6	15	1	14
	Yamalo-Nenets Autonomous Area	0	9	0	9
	Tyumen Region, excluding Khanty-Mansi Autonomous Area – Yugra and Yamalo-Nenets Autonomous Area	6	29	12	17
	Chelyabinsk Region	7	68	38	30
7	SIBERIAN FEDERAL DISTRICT	44	192	20	172
	Altai Republic	2	6	1	5

End of the table 5

1	2	3	4	5	6
	Republic of Buryatia	1	8	2	6
	Republic of Tuva	1	3	0	3
	Republic of Khakassia	2	2	0	2
	Altai Territory	7	13	5	8
	Trans-Baikal Territory	0	5	0	5
	Krasnoyarsk Territory	5	30	3	27
	Irkutsk Region	7	19	1	18
	Kemerovo Region	6	11	0	11
	Novosibirsk Region	6	58	0	58
	Omsk Region	5	20	0	20
	Tomsk Region	2	17	8	9
8	FAR-EASTERN FEDERAL DISTRICT	22	89	6	83
	Republic of Sakha (Yakutia)	4	13	0	13
	Kamchatka Territory	3	7	3	4
	Primorye Territory	6	18	1	17
	Khabarovsk Territory	2	29	0	29
	Amur Region	2	5	0	5
	Magadan Region	0	5	0	5
	Sakhalin Region	5	7	2	5
	Jewish Autonomous Region	0	4	0	4
	Chukotka Autonomous Area	0	1	0	1
9	CRIMEA FEDERAL DISTRICT	2	18	0	18
	Republic of Crimea	1	13	0	13
	Sevastopol	1	5	0	5

[1] *In line 'Moscow Region', figures in column 5 and column 6 indicate the number of branches whose parent credit institution is located in the given region (Moscow and the Moscow Region) and in other regions.*

Table 6.1. Density of banking services in Russian regions as of 1 January 2014

Region	Number of credit institutions branches, additional, operations, and cash and credit offices	Loans extended to resident organisations and households and other placements, millions of rubles[1]	Household deposits, millions of rubles[1]	Gross Regional Product (GRP) in 2013, billions of rubles	Population, thousands	Per capita income (monthly average in 2013, rubles)	Institutional density of banking services (by population)[2]	Financial density of banking services (by volume of loans)[3]	Savings index[4]	Composite banking services density index by region[5]
1	2	3	4	5	6	7	8	9	10	11
CENTRAL FEDERAL DISTRICT	**10,610**	**13,562,946**	**8,465,219**	**18,976**	**38,820**	**33,467**	**1.02**	**1.24**	**1.43**	**1.22**
CENTRAL FEDERAL DISTRICT without Moscow (for reference)	*6,503*	*4,428,707*	*2,280,057*	*7,343*	*26,712*	*23,765*	*0.91*	*1.05*	*0.79*	*0.91*
Belgorod Region	337	327,281	126,099	569	1,544	23,735	0.82	1.00	0.76	0.85
Bryansk Region	226	122,174	67,906	223	1,243	20,152	0.68	0.95	0.60	0.73

Continuation of the table 6.1

1	2	3	4	5	6	7	8	9	10	11
Vladimir Region	368	159,573	113,159	307	1,413	18,796	0.98	0.90	0.94	0.94
Voronezh Region	558	400,274	205,593	607	2,329	22,056	0.90	1.15	0.88	0.97
Ivanovo Region	289	90,624	75,304	158	1,043	18,123	1.04	1.00	0.88	0.97
Kaluga Region	274	149,316	87,591	293	1,005	23,182	1.02	0.89	0.83	0.91
Kostroma Region	191	72,946	44,453	143	656	17,575	1.09	0.89	0.85	0.94
Kursk Region	278	218,386	67,699	272	1,119	20,809	0.93	1.40	0.64	0.94
Lipetsk Region	301	150,697	82,372	315	1,160	22,222	0.97	0.83	0.70	0.83
Moscow Region	1,779	1,689,450	824,159	2,551	7,134	32,739	0.94	1.15	0.78	0.94
Orel Region	194	89,661	48,865	165	770	18,262	0.94	0.95	0.76	0.88
Ryazan Region	250	144,467	87,684	279	1,141	19,828	0.82	0.90	0.85	0.86
Smolensk Region	203	122,346	62,317	226	968	19,982	0.79	0.94	0.71	0.81
Tambov Region	218	125,161	56,635	236	1,069	19,834	0.76	0.92	0.59	0.75
Tver Region	268	139,738	94,652	291	1,325	19,106	0.76	0.83	0.82	0.80
Tula Region	343	227,432	110,661	347	1,521	20,903	0.85	1.14	0.77	0.90
Yaroslavl Region	426	199,181	124,907	361	1,272	21,127	1.26	0.96	1.02	1.07
Moscow	4,107	9,134,239	6,185,162	11,633	12,108	54,870	1.27	1.37	2.05	1.53
NORTH-WESTERN FEDERAL DISTRICT	**4,140**	**3,440,192**	**1,880,564**	**5,587**	**13,801**	**26,167**	**1.12**	**1.07**	**1.15**	**1.11**
Republic of Karelia	193	92,481	52,265	176	634	21,494	1.14	0.91	0.84	0.96
Republic of Komi	287	115,553	92,935	491	872	29,335	1.23	0.41	0.80	0.74
Arkhangelsk Region	317	200,099	106,231	512	1,192	26,263	1.00	0.68	0.75	0.80
Vologda Region	428	204,290	93,931	341	1,193	20,513	1.34	1.04	0.84	1.06
Kaliningrad Region	286	227,781	98,038	277	963	20,642	1.11	1.43	1.08	1.20
Leningrad Region	411	335,767	105,645	693	1,764	20,161	0.87	0.84	0.65	0.78
Murmansk Region	252	119,115	116,708	307	771	32,912	1.23	0.67	1.01	0.94
Novgorod Region	202	91,829	41,434	178	622	21,392	1.22	0.90	0.68	0.91
Pskov Region	190	71,439	37,599	114	657	17,804	1.09	1.09	0.71	0.94
Saint Petersburg	1,574	1,981,839	1,135,779	2,497	5,132	31,407	1.15	1.38	1.55	1.35
SOUTHERN FEDERAL DISTRICT	**4,007**	**2,083,824**	**979,434**	**3,528**	**13,964**	**21,842**	**1.08**	**1.03**	**0.71**	**0.92**
Republic of Adygeya (Adygeya)	109	41,895	15,171	72	446	18,513	0.92	1.01	0.40	0.72
Republic of Kalmykia	55	30,156	6,899	41	282	11,311	0.73	1.28	0.46	0.76
Krasnodar Territory	1,731	977,446	437,078	1,618	5,404	25,777	1.20	1.05	0.69	0.96
Astrakhan Region	222	100,166	58,093	268	1,017	19,778	0.82	0.65	0.64	0.70
Volgograd Region	525	273,681	160,302	606	2,569	17,590	0.77	0.79	0.78	0.78
Rostov Region	1,365	660,479	301,891	924	4,246	20,995	1.21	1.24	0.74	1.04
NORTH CAUCASIAN FEDERAL DISTRICT	**1,200**	**572,723**	**271,635**	**1,359**	**9,590**	**18,900**	**0.47**	**0.73**	**0.33**	**0.48**
Republic of Daghestan	257	62,597	41,032	430	2,964	21,717	0.33	0.25	0.14	0.23
Republic of Ingushetia	27	12,864	4,161	45	453	13,821	0.22	0.50	0.15	0.25
Kabardino-Balkar Republic	114	75,651	24,278	113	858	15,297	0.50	1.16	0.41	0.62
Karachay-Cherkess Republic	54	50,619	10,741	63	470	14,664	0.43	1.40	0.34	0.59
Republic of North Ossetia – Alania	76	48,016	26,148	112	704	17,788	0.40	0.74	0.46	0.52
Chechen Republic	51	30,955	7,763	118	1,346	17,188	0.14	0.46	0.07	0.17
Stavropol Territory	621	292,021	157,511	478	2,795	19,768	0.83	1.06	0.63	0.82

Continuation of the table 6.1

1	2	3	4	5	6	7	8	9	10	11
VOLGA FEDERAL DISTRICT	**7,825**	**4,409,401**	**2,221,039**	**8,571**	**29,739**	**21,864**	**0.99**	**0.90**	**0.75**	**0.87**
Republic of Bashkortostan	1,129	549,090	245,236	1,267	4,070	23,892	1.04	0.75	0.55	0.76
Mari El Republic	147	88,107	31,245	124	689	14,517	0.80	1.23	0.69	0.88
Republic of Mordovia	213	126,530	39,315	149	812	14,433	0.98	1.47	0.74	1.02
Republic of Tatarstan (Tatarstan)	1,119	724,897	351,825	1,547	3,838	26,161	1.09	0.82	0.77	0.88
Udmurt Republic	432	249,539	88,593	405	1,517	18,660	1.07	1.07	0.69	0.92
Chuvash Republic – Chuvashia	268	147,046	68,861	224	1,240	15,264	0.81	1.14	0.80	0.90
Perm Territory	881	525,194	221,309	893	2,636	25,054	1.25	1.02	0.71	0.97
Kirov Region	338	132,205	76,900	225	1,311	18,012	0.97	1.02	0.72	0.89
Nizhny Novgorod Region	886	519,095	292,758	926	3,281	23,503	1.01	0.98	0.80	0.92
Orenburg Region	510	251,360	115,928	710	2,009	18,628	0.95	0.62	0.68	0.74
Penza Region	292	130,202	78,286	271	1,361	17,815	0.80	0.84	0.71	0.78
Samara Region	822	511,184	362,315	1,041	3,211	26,865	0.96	0.85	0.92	0.91
Saratov Region	504	273,601	172,087	529	2,497	16,035	0.76	0.90	0.95	0.86
Ulyanovsk Region	284	181,351	76,381	260	1,268	18,580	0.84	1.21	0.71	0.90
URALS FEDERAL DISTRICT	**3,644**	**2,806,779**	**1,221,915**	**7,649**	**12,234**	**28,994**	**1.12**	**0.64**	**0.76**	**0.81**
Kurgan Region	191	83,177	35,341	165	877	17,583	0.82	0.88	0.50	0.71
Sverdlovsk Region	1,222	1,015,908	450,251	1,586	4,321	31,013	1.06	1.11	0.74	0.96
Tyumen Region	1,241	1,083,678	490,030	5,018	3,546	36,399	1.31	0.38	0.83	0.74
Chelyabinsk Region	990	624,016	246,293	879	3,490	21,888	1.06	1.23	0.71	0.98
SIBERIAN FEDERAL DISTRICT	**4,996**	**3,004,519**	**1,250,714**	**5,535**	**19,293**	**20,454**	**0.97**	**0.94**	**0.70**	**0.86**
Altai Republic	55	26,779	6,042	33	212	14,752	0.97	1.41	0.43	0.84
Republic of Buryatia	312	147,804	37,667	178	974	20,785	1.20	1.45	0.41	0.89
Republic of Tuva	60	26,900	6,399	42	312	13,472	0.72	1.12	0.34	0.65
Republic of Khakassia	174	55,285	23,715	144	534	17,876	1.22	0.67	0.55	0.76
Altai Territory	489	274,250	111,217	411	2,391	15,979	0.77	1.16	0.64	0.83
Trans-Baikal Territory	278	106,742	46,938	230	1,090	19,886	0.96	0.81	0.48	0.72
Krasnoyarsk Territory	858	566,650	207,645	1,257	2,853	24,922	1.13	0.78	0.64	0.83
Irkutsk Region	622	382,503	167,807	797	2,418	19,425	0.96	0.84	0.79	0.86
Kemerovo Region	591	547,156	171,477	668	2,734	19,697	0.81	1.42	0.70	0.93
Novosibirsk Region	712	447,633	259,636	821	2,731	22,597	0.98	0.95	0.93	0.95
Omsk Region	552	257,294	127,922	553	1,974	21,364	1.05	0.81	0.67	0.83
Tomsk Region	293	165,525	84,250	403	1,070	20,430	1.03	0.72	0.85	0.85
FAR-EASTERN FEDERAL DISTRICT	**1,891**	**1,163,820**	**647,051**	**2,808**	**6,227**	**28,930**	**1.14**	**0.72**	**0.79**	**0.87**
Republic of Sakha (Yakutia)	327	247,389	71,520	569	955	31,528	1.28	0.76	0.52	0.80
Kamchatka Territory	126	64,009	47,994	132	320	35,371	1.48	0.85	0.93	1.05
Primorye Territory	543	325,924	195,379	576	1,939	24,343	1.05	0.99	0.91	0.98
Khabarovsk Territory	369	273,148	161,815	474	1,340	29,382	1.03	1.00	0.90	0.98
Amur Region	228	112,071	56,654	211	811	24,671	1.05	0.92	0.62	0.85
Magadan Region	59	36,444	25,659	88	150	42,463	1.47	0.72	0.88	0.98
Sakhalin Region	166	79,501	70,275	674	491	39,971	1.27	0.21	0.79	0.59

End of the table 6.1

1	2	3	4	5	6	7	8	9	10	11
Jewish Autonomous Region	51	15,446	8,854	38	170	20,417	1.12	0.71	0.56	0.76
Chukotka Autonomous Area	22	9,898	8,900	47	51	52,695	1.63	0.37	0.73	0.76
Total for Russian Federation	**38,313**	**31,044,214**	**16,937,570**	**54,014**	**143,667**	**25,928**	**1.00**	**1.00**	**1.00**	**1.00**

[1] Based on data reported in Form 0409302.
[2] The ratio of the number of bank units (column 2) to the number of population (column 6) is calculated for each region and divided by the value of the same indicator calculated for Russia as a whole.
[3] The ratio of total loans (column 3) toGRP (column 5) is calculated for each region and is divided by the value of the same indicator calculated for Russia as a whole.
[4] The ratio of per capita deposits (column 4/ column 6) to per capita money income (column 7) is calculated for each region and divided by the value of the same indicator calculated for Russia as a whole.
[5] Calculated as a geometric average of three special density indices (columns 8–10).

Table 6.2. Density of banking services in Russian regions as of 1 January 2015

Region	Number of credit institutions branches, additional, operations, and cash and credit offices	Loans extended to resident organisations and households and other placements, millions of rubles[1]	Household deposits, millions of rubles[1]	Gross Regional Product (GRP) in 2014, billions of rubles	Population, thousands	Per capita income (monthly average in 2014, rubles)	Institutional density of banking services (by population)[2]	Financial density of banking services (by volume of loans)[3]	Savings index[4]	Composite banking services density index by region[5]
1	2	3	4	5	6	7	8	9	10	11
CENTRAL FEDERAL DISTRICT	**10,053**	**16,773,269**	**9,484,516**	**20,347**	**38,945**	**34,781**	**1.01**	**1.27**	**1.52**	**1.25**
CENTRAL FEDERAL DISTRICT without Moscow (for reference)	*6,207*	*5,347,988*	*2,495,782*	*7,874*	*26,761*	*26,101*	*0.91*	*1.05*	*0.78*	*0.90*
Belgorod Region	323	335,354	142,626	611	1,548	25,065	0.82	0.85	0.80	0.82
Bryansk Region	227	140,161	69,529	239	1,233	21,741	0.72	0.90	0.56	0.72
Vladimir Region	352	180,355	118,695	330	1,406	20,359	0.98	0.84	0.90	0.91
Voronezh Region	561	460,093	222,774	650	2,332	25,435	0.94	1.09	0.82	0.94
Ivanovo Region	286	97,787	83,826	169	1,037	20,218	1.08	0.89	0.87	0.94
Kaluga Region	261	177,545	92,990	315	1,010	25,507	1.01	0.87	0.78	0.88
Kostroma Region	196	82,420	46,557	153	654	19,555	1.17	0.83	0.79	0.92
Kursk Region	270	235,275	70,269	292	1,117	23,467	0.94	1.24	0.58	0.88
Lipetsk Region	280	166,217	90,799	338	1,158	25,055	0.95	0.76	0.68	0.79
Moscow Region	1,607	2,257,023	933,318	2,736	7,237	35,573	0.87	1.27	0.79	0.95
Orel Region	183	99,351	51,397	176	766	19,484	0.93	0.87	0.75	0.85
Ryazan Region	242	159,193	93,016	299	1,136	21,502	0.83	0.82	0.83	0.83
Smolensk Region	203	148,941	63,817	242	964	21,945	0.82	0.95	0.65	0.80
Tambov Region	217	144,025	59,551	253	1,063	22,154	0.80	0.88	0.55	0.73
Tver Region	255	150,213	101,207	312	1,315	20,428	0.76	0.74	0.82	0.77
Tula Region	326	299,355	116,628	372	1,513	22,832	0.84	1.24	0.73	0.91

Continuation of the table 6.2

1	2	3	4	5	6	7	8	9	10	11
Yaroslavl Region	418	214,680	138,784	387	1,272	23,263	1.28	0.86	1.02	1.04
Moscow	3,846	11,425,282	6,988,735	12,473	12,184	53,847	1.23	1.41	2.31	1.59
NORTH-WESTERN FEDERAL DISTRICT	**4,010**	**4,100,555**	**2,136,355**	**5,990**	**13,847**	**28,662**	**1.13**	**1.06**	**1.17**	**1.12**
Republic of Karelia	203	92,215	53,284	189	633	21,988	1.25	0.75	0.83	0.92
Republic of Komi	282	128,189	90,099	526	864	30,173	1.28	0.38	0.75	0.71
Arkhangelsk Region	322	234,185	112,929	549	1,184	28,949	1.06	0.66	0.72	0.79
Vologda Region	401	253,553	102,364	366	1,191	22,433	1.32	1.07	0.83	1.05
Kaliningrad Region	271	283,065	112,147	297	968	23,171	1.09	1.47	1.08	1.20
Leningrad Region	422	391,590	99,921	743	1,774	21,411	0.93	0.81	0.57	0.76
Murmansk Region	234	158,202	118,677	330	766	34,020	1.19	0.74	0.99	0.96
Novgorod Region	202	119,954	43,795	191	619	23,791	1.28	0.97	0.65	0.93
Pskov Region	179	74,221	40,273	123	651	19,145	1.07	0.93	0.70	0.89
Saint Petersburg	1,494	2,365,381	1,362,865	2,677	5,197	35,137	1.12	1.36	1.62	1.35
SOUTHERN FEDERAL DISTRICT	**3,793**	**2,379,276**	**1,062,914**	**3,783**	**14,006**	**24,168**	**1.06**	**0.97**	**0.68**	**0.89**
Republic of Adygeya (Adygeya)	112	43,462	15,027	77	449	22,145	0.98	0.87	0.33	0.65
Republic of Kalmykia	49	32,976	6,500	44	281	12,959	0.68	1.15	0.39	0.67
Krasnodar Territory	1,651	1,144,654	474,171	1,735	5,454	28,471	1.18	1.02	0.66	0.93
Astrakhan Region	203	111,659	60,415	287	1,022	21,978	0.78	0.60	0.58	0.65
Volgograd Region	538	292,915	174,977	650	2,558	19,152	0.82	0.69	0.78	0.76
Rostov Region	1,240	753,609	331,825	990	4,242	23,209	1.14	1.17	0.73	0.99
NORTH CAUCASIAN FEDERAL DISTRICT	**1,155**	**621,132**	**280,400**	**1,457**	**9,659**	**20,667**	**0.47**	**0.66**	**0.30**	**0.45**
Republic of Daghestan	198	65,022	40,041	461	2,990	23,529	0.26	0.22	0.12	0.19
Republic of Ingushetia	20	11,417	3,609	48	463	13,440	0.17	0.36	0.13	0.20
Kabardino-Balkar Republic	114	78,498	24,695	121	861	16,661	0.52	1.00	0.37	0.58
Karachay-Cherkess Republic	51	54,242	10,688	67	469	16,302	0.42	1.24	0.30	0.54
Republic of North Ossetia – Alania	77	49,996	26,062	120	705	20,117	0.43	0.64	0.40	0.48
Chechen Republic	55	34,956	7,816	127	1,370	19,755	0.16	0.43	0.06	0.16
Stavropol Territory	640	327,002	167,490	513	2,800	21,347	0.89	0.98	0.61	0.81
VOLGA FEDERAL DISTRICT	**7,804**	**5,272,908**	**2,386,817**	**9,190**	**29,718**	**23,946**	**1.03**	**0.88**	**0.73**	**0.87**
Republic of Bashkortostan	1,111	703,724	257,991	1,359	4,072	25,985	1.07	0.80	0.53	0.77
Mari El Republic	154	102,193	32,834	133	688	16,055	0.88	1.18	0.65	0.87
Republic of Mordovia	217	133,977	43,849	160	809	15,568	1.05	1.29	0.76	1.01
Republic of Tatarstan (Tatarstan)	1,121	824,066	379,437	1,659	3,855	29,747	1.14	0.77	0.72	0.86
Udmurt Republic	417	357,973	95,907	434	1,517	20,956	1.07	1.27	0.65	0.96
Chuvash Republic – Chuvashia	278	163,170	74,199	241	1,238	16,396	0.88	1.05	0.79	0.90
Perm Territory	876	677,876	235,541	958,	2,638	28,520	1.30	1.09	0.68	0.99
Kirov Region	343	138,326	80,702	241	1,305	20,286	1.03	0.89	0.66	0.84
Nizhny Novgorod Region	864	617,716	318,526	993	3,271	27,999	1.03	0.96	0.75	0.91
Orenburg Region	514	295,128	120,970	761	2,001	20,840	1.00	0.60	0.63	0.72

End of the table 6.2

1	2	3	4	5	6	7	8	9	10	11
Penza Region	285	144,307	79,852	290	1,356	19,597	0.82	0.77	0.65	0.74
Samara Region	825	586,707	401,845	1,116	3,212	25,945	1.00	0.81	1.05	0.95
Saratov Region	525	303,630	184,347	567	2,494	17,633	0.82	0.83	0.91	0.85
Ulyanovsk Region	274	224,115	80,815	279	1,263	21,185	0.85	1.24	0.66	0.88
URALS FEDERAL DISTRICT	**3,482**	**3,416,524**	**1,320,078**	**8,201**	**12,276**	**30,488**	**1.11**	**0.64**	**0.77**	**0.82**
Kurgan Region	188	88,613	36,825	177	870	18,614	0.85	0.77	0.49	0.69
Sverdlovsk Region	1,156	1,234,757	481,182	1,701	4,328	32,032	1.04	1.12	0.75	0.96
Tyumen Region	1,193	1,330,971	536,932	5,380	3,583	38,532	1.30	0.38	0.84	0.75
Chelyabinsk Region	945	762,184	265,140	943	3,496	23,387	1.06	1.25	0.70	0.98
SIBERIAN FEDERAL DISTRICT	**4,729**	**3,561,939**	**1,300,080**	**5,935**	**19,314**	**21,370**	**0.96**	**0.93**	**0.68**	**0.85**
AltaiRepublic	52	28,575	6,613	35	214	16,897	0.95	1.24	0.40	0.78
Republic of Buryatia	296	155,914	38,454	191	979	21,778	1.18	1.26	0.39	0.84
Republic of Tuva	58	33,389	5,922	45	314	12,978	0.72	1.15	0.32	0.64
Republic of Khakassia	146	65,537	21,358	154	536	18,607	1.07	0.66	0.47	0.69
Altai Territory	476	290,135	116,572	441	2,385	18,437	0.78	1.02	0.58	0.77
Trans-Baikal Territory	267	120,018	46,656	246	1,087	20,743	0.96	0.75	0.45	0.69
Krasnoyarsk Territory	807	779,141	205,681	1,347	2,860	24,217	1.10	0.89	0.64	0.86
Irkutsk Region	602	450,875	167,016	854	2,416	20,381	0.97	0.81	0.74	0.84
Kemerovo Region	564	670,763	179,560	717	2,725	19,740	0.81	1.44	0.72	0.95
Novosibirsk Region	678	518,046	293,526	881	2,747	23,741	0.97	0.91	0.98	0.95
Omsk Region	505	281,337	130,693	593	1,979	24,108	1.00	0.73	0.59	0.76
Tomsk Region	278	168,211	88,028	432	1,074	20,614	1.01	0.60	0.86	0.81
FAR-EASTERN FEDERAL DISTRICT	**1,860**	**1,426,499**	**681,872**	**3,011**	**6,211**	**31,089**	**1.17**	**0.73**	**0.77**	**0.87**
Republic of Sakha (Yakutia)	321	366,986	72,265	610,	957	33,542	1.31	0.93	0.49	0.84
Kamchatka Territory	121	75,417	49,518	141	317	35,834	1.49	0.82	0.95	1.05
Primorye Territory	538	374,778	208,172	617	1,933	27,065	1.09	0.94	0.86	0.96
Khabarovsk Territory	364	334,962	170,088	508	1,339	31,639	1.06	1.02	0.87	0.98
Amur Region	221	118,928	58,988	226	810	25,928	1.07	0.81	0.61	0.81
Magadan Region	59	39,418	28,525	95	148	43,395	1.56	0.64	0.96	0.99
Sakhalin Region	165	90,132	76,911	722	488	43,673	1.32	0.19	0.78	0.58
Jewish Autonomous Region	49	16,071	9,454	41	168	21,076	1.14	0.61	0.58	0.74
Chukotka Autono-mous Area	22	9,807	7,951	50	51	52,161	1.69	0.30	0.65	0.69
CRIMEA FEDERAL DISTRICT	**519**	**6,543**	**28,789**		**2,294**		**0.88**			
Republic of Crimea	395	5,080	19,771		1,893		0.82			
Sevastopol	124	1,463	9,018		401		1.21			
Total for Russian Federation	**37,405**	**37,558,647**	**18,681,821**	**57,916**	**146,270**	**27,720**	**1.00**	**1.00**	**1.00**	**1.00**

[1] *Based on data reported in Form 0409302.*
[2] *The ratio of the number of bank units (column 2) to the number of population (column 6) is calculated for each region and divided by the value of the same indicator calculated for Russia as a whole.*
[3] *The ratio of total loans (column 3) to GRP (column 5) is calculated for each region and divided by the value of the same indicator calculated for Russia as a whole.*
[4] *The ratio of per capita deposits (column 4/column 6) to per capita money income (column 7) is calculated for each region and divided by the value of the same indicator calculated for Russia as a whole.*
[5] *Calculated as a geometric average of three special density indices (columns 8–10).*

Table 7. Banking sector key indicators, billions of rubles

	1 January 2014	1 February 2014	1 March 2014	1 April 2014	1 May 2014	1 June 2014	1 July 2014	1 August 2014	1 September 2014	1 October 2014	1 November 2014	1 December 2014	1 January 2015
Assets													
Assets (liabilities)	57,423	58,450	59,137	59,377	60,208	61,196	61,385	62,127	62,464	64,073	66,982	71,163	77,653
Growth, %: for one month	2.1	1.8	1.2	0.4	1.4	1.6	0.3	1.2	0.5	2.6	4.5	6.2	9.1
for twelve months	16.0	20.7	20.3	19.1	18.8	18.6	16.4	16.4	15.9	17.9	21.8	26.5	35.2
Loans to non-financial organisations	22,499	23,130	23,409	23,842	24,330	24,382	24,338	24,870	25,229	25,806	26,797	28,042	29,536
Growth,%: for one month	-0.7	2.8	1.2	1.8	2.0	0.2	-0.2	2.2	1.4	2.3	3.8	4.6	5.3
for twelve months	12.7	16.1	17.0	18.1	18.0	17.5	15.7	16.0	15.9	17.3	20.1	23.7	31.3
Share of foreign currency loans, %	24.0	24.8	25.3	25.2	25.3	24.6	24.0	24.6	25.4	26.2	27.9	30.1	33.3
Loans to resident financial institutions (other than credit institutions)	1,179	1,152	1,135	1,123	1,170	1,220	1,264	1,303	1,280	1,310	1,328	1,375	1,306
Growth, %: for one month	-6.8	-2.3	-1.5	-1.1	4.3	4.3	3.6	3.1	-1.7	2.3	1.4	3.5	-5.0
for twelve months	24.6	26.4	20.9	19.9	22.0	22.6	22.6	21.3	16.8	11.5	11.4	8.6	10.8
Share of foreign currency loans, %	8.1	10.2	12.2	12.8	13.1	12.1	11.4	13.5	12.9	13.0	14.0	15.2	13.1
Household loans	9,957	9,980	10,096	10,228	10,412	10,519	10,639	10,820	10,959	11,096	11,208	11,321	11,330
Growth, %: for one month	1.9	0.2	1.2	1.3	1.8	1.0	1.1	1.7	1.3	1.3	1.0	1.0	0.1
for twelve months	28.7	28.0	27.4	26.3	24.6	22.6	20.9	19.7	18.2	18.0	16.6	15.9	13.8
Share of foreign currency loans, %	2.4	2.5	2.5	2.4	2.3	2.2	2.0	2.1	2.1	2.2	2.3	2.5	2.7
Housing mortgage loans	2,649	2,682	2,746	2,810	2,905	2,976	3,037	3,133	3,201	3,278	3,356	3,449	3,520
Growth, %: for one month	3.5	1.3	2.4	2.3	3.4	2.4	2.0	3.2	2.2	2.4	2.4	2.8	2.1
for twelve months	32.6	33.4	33.7	34.1	34.4	34.4	33.5	33.8	33.5	36.6	35.3	34.7	32.9
Car loans	935	915	917	920	919	915	913	912	909	910	926	916	915
Growth, %: for one month	2.8	-2.2	0.2	0.4	-0.2	-0.4	-0.2	-0.1	-0.4	0.1	1.8	-1.1	-0.1
for twelve months	22.0	19.4	18.2	16.6	13.5	11.4	9.2	6.6	3.8	1.9	2.8	0.7	-2.1
Unsecured consumerloans[1]	5,872	5,878	5,926	5,996	6,086	6,177	6,240	6,319	6,387	6,436	6,444	6,466	6,393
Growth, %: for one month	1.6	0.1	0.8	1.2	1.5	1.5	1.0	1.3	1.1	0.8	0.1	0.3	-1.1
for twelve months	31.3	29.8	30.8	27.0	24.4	22.3	20.4	18.7	16.8	15.3	13.0	11.9	8.9

End of the table 7

Capital and financial result													
Capital[2]	7,064	7,074	7,253	7,303	7,345	7,405	7,370	7,463	7,534	7,631	7,740	7,862	7,928
Growth, %: for one month	1.3	0.1	2.5	0.7	0.6	0.8	-0.5	1.3	0.9	1.3	1.4	1.6	0.8
for twelve months	15.6	15.3	17.2	15.9	15.9	16.0	12.2	12.6	12.2	12.2	12.3	12.7	12.2
N1.0 capital adequacy (N1)[2], %	13.5	12.9	13.1	13.2	13.0	12.9	12.8	12.7	12.6	12.6	12.2	11.9	12.5
Credit institutions having N1.0 (N1)ratio below 11%[2]	20	65	51	44	49	56	49	64	58	55	65	72	27
Loss provision balances[3]	2,852	2,974	3,057	3,074	3,153	3,248	3,250	3,349	3,442	3,501	3,656	3,792	4,054
Growth for the year	411	122	205	223	301	396	399	497	591	649	804	940	1202
Current-year profits	994	93	168	232	292	338	451	513	592	685	732	781	589
Return on assets[4], %	1.9	1.9	1.9	1.8	1.7	1.7	1.7	1.6	1.6	1.6	1.5	1.5	0.9
Return on equity[2,4], %	15.2	15.2	15.1	14.5	14.0	13.5	13.6	13.2	13.0	12.8	12.4	12.1	7.9
Liabilities													
Household deposits	16,958	16,689	16,908	16,564	16,847	16,756	16,883	17,112	17,271	17,298	17,685	18,087	18,553
Growth, %: for one month	4.3	-1.6	1.3	-2.0	1.7	-0.5	0.8	1.4	0.9	0.2	2.2	2.3	2.6
for twelve months	19.0	18.6	17.4	12.4	10.8	10.0	8.0	8.3	8.3	8.5	10.1	11.2	9.4
Share of foreign currency deposits, %	17.4	19.5	20.1	20.3	19.8	19.3	18.9	19.4	19.4	19.8	21.8	23.8	26.1
Deposits and funds on organisations' accounts (other than credit institutions)	16,901	17,427	17,979	17,853	17,639	17,831	17,446	17,513	17,650	18,226	19,047	20,293	23,419
Growth, %: for one month	6.8	3.1	3.2	-0.7	-1.2	1.1	-2.2	0.4	0.8	3.3	4.5	6.5	15.4
for twelve months	16.0	20.9	22.3	20.9	18.8	17.4	12.4	13.2	14.2	18.0	24.8	28.2	38.6
Share of foreign currency balances, %	32.2	36.0	36.8	37.9	38.3	37.7	36.3	37.4	38.1	39.8	43.6	45.5	43.8
Loans extended by the Bank of Russia	4,439	4,282	3,967	4,702	5,051	5,018	5,368	5,592	5,452	5,644	6,157	6,743	9,287
Share of liabilities, %	7.7	7.3	6.7	7.9	8.4	8.2	8.7	9.0	8.7	8.8	9.2	9.5	12.0

[1] *On homogeneous loans.*
[2] *From 1 February 2014, in accordance with Basel III.*
[3] *Balance sheet statement data (not corresponding with the income statement data as bad debt provision has been partially written off from the balance sheet).*
[4] *For 12 months preceding the reporting date.*

Table 8. Bank assets grouped by investment, billions of rubles

Assets		1 January 2014	1 April 2014	1 July 2014	1 October 2014	1 January 2015
1	Money, precious metals and gemstones, total	1,609	1,645	1,448	1,468	2,754
1.1	Of which: money	1,523	1,557	1,387	1,398	2,672
2	Accounts with the Bank of Russia and authorised bodies of other countries, total	2,265	2,067	2,007	2,160	3,298
	Of which:					
2.1	bank correspondent accounts with the Bank of Russia	1,242	1,380	1,395	1,381	1,557
2.2	bank required reserves transferred to the Bank of Russia	402	440	428	427	470
2.3	deposits and other fundsplaced with the Bank of Russia	619	241	178	345	1,268
3	Correspondent accounts with credit institutions, total	1,497	1,675	1,849	1,491	2,675
	Including:					
3.1	correspondent accounts with correspondent credit institutions	398	400	461	383	760
3.2	correspondent accounts with non-resident banks	1,098	1,275	1,388	1,108	1,916
4	Securities acquired by credit institutions, total	7,822	7,948	7,891	8,382	9,724
	Including:					
4.1	debt obligations	6,163	6,218	6,216	6,410	7,651
4.2	equities	790	785	397	376	489
4.3	discounted bills	274	249	228	224	218
4.4	shares of subsidiaries and affiliated joint-stock companies	595	696	1,050	1,372	1,366
5	Other stakes in authorised capital	354	377	447	442	428
6	Financial derivatives	176	397	316	615	2,299
7	Loans, total	40,535	42,140	43,955	45,926	52,116
	Of which:					
7.1	loans, deposits and other placements	40,535	42,140	43,955	45,926	52,116
	of which: overdue debt	1,398	1,526	1,656	1,782	1,978
	of which:					
7.1.1	loans and other placements with non-financial organisations	22,499	23,842	24,338	25,806	29,536
	of which: overdue debt	934	1,003	1,069	1,106	1,251
7.1.2	loans and other funds extended to households	9,957	10,228	10,639	11,096	11,330
	of which: overdue debt	440	498	565	630	667
7.1.3	loans, deposits and other placements with credit institutions	5,131	5,152	5,816	5,646	6,895
	of which: overdue debt	11	13	10	32	44
8	Fixed assets, other real estate,intangible assets and inventories	1,148	1,154	1,182	1,190	1,222
8.1	Of which: real estate temporarily unused in core activities	65	66	74	76	74
9	Disposition of profits	192	66	77	144	177
	Of which: profit tax	189	66	77	133	158
10	Other assets, total	1,826	1,908	2,213	2,254	2,960
	Of which:					
10.1	float	790	848	1,046	1,010	1,611
10.2	debtors	312	296	291	305	307
10.3	deferred expenses	123	125	123	127	148
Total assets		**57,423**	**59,377**	**61,385**	**64,073**	**77,653**

Table 9. Bank liabilities grouped by source of funds, billions of rubles

	Liabilities	1 January 2014	1 April 2014	1 July 2014	1 October 2014	1 January 2015
1	Bank funds and profits, total	6,629	6,607	6,728	7,146	6,922
	Including:					
1.1	funds	3,261	3,248	3,264	3,469	3,357
1.2	profits (losses), including previous-year financial results	3,368	3,358	3,391	3,588	3,479
	of which:					
1.2.1	current-year profits (losses)	994	232	451	685	589
2	Loans, deposits and other funds received by credit institutions from the Bank of Russia	4,439	4,702	5,368	5,644	9,287
3	Bank accounts, total	584	574	651	552	965
	Of which:					
3.1	correspondent banks' correspondent accounts	366	353	421	337	688
3.2	non-resident banks' correspondent accounts	123	118	118	131	169
4	Loans, deposits and other funds received from other credit institutions, total	4,806	4,815	5,339	5,308	6,594
5	Customer funds, total[1]	34,931	36,162	36,400	38,009	43,814
	Of which:					
5.1	budget funds in settlement accounts	42	53	68	69	72
5.2	government and extra-budgetary funds in settlement accounts	0	1	0	0	0
5.3	organisations' funds in settlement and other accounts	6,516	7,325	6,805	6,574	7,435
5.4	customer float	400	489	504	487	551
5.5	deposits and other funds raised by corporate entities (other than credit institutions)	10,838	11,555	11,976	13,422	17,008
5.6	household deposits	16,958	16,564	16,883	17,298	18,553
5.7	customer funds in factoring and forfeiting operations	44	35	34	29	26
6	Bonds	1,213	1,149	1,204	1,220	1,358
7	Bills and bank acceptances	1,004	966	863	872	868
8	Financial derivatives	135	286	226	526	1,953
9	Other liabilities, total	3,682	4,116	4,606	4,797	5,892
	Of which:					
9.1	loss provisions	2,852	3,074	3,250	3,501	4,054
9.2	float	309	470	719	601	1,160
9.3	creditors	96	114	119	115	78
9.4	deferred income	8	6	7	7	13
9.5	accrued interest and interest/coupon liabilities on securities	417	452	455	517	527
9.5.1	of which: overdue interest	0	0	0	0	0
Total liabilities		**57,423**	**59,377**	**61,385**	**64,073**	**77,653**

[1] *Including certificates of deposit and savings certificates.*

Table 10. Quality of the banking sector's loan portfolio

	1 January 2014	1 February 2014	1 March 2014	1 April 2014	1 May 2014	1 June 2014	1 July 2014	1 August 2014	1 September 2014	1 October 2014	1 November 2014	1 December 2014	1 January 2015
Legal entities													
Share of overdue loans in total value of loans to non-financial organisations, %	4.2	4.1	4.2	4.2	4.3	4.5	4.4	4.5	4.5	4.3	4.2	4.2	4.2
Share of overdue loans in total value of loans to resident financial institutions (other than credit institutions), %	1.1	1.1	1.1	1.0	1.0	1.0	0.9	1.0	1.1	1.0	1.0	1.0	1.2
Share of Quality Category IV and Quality Category V loans in total value of loans to legal entities (other than credit institutions), %	6.5	6.6	6.6	6.6	6.8	6.9	6.7	6.8	6.7	6.5	6.9	6.8	7.2
Loss provisions for loans to legal entities (other than credit institutions), as % of total value of such loans	6.4	6.4	6.5	6.3	6.3	6.3	6.3	6.3	6.3	6.2	6.4	6.4	6.8
Individuals													
Share of overdue loans in total value of household loans, %	4.4	4.7	4.9	4.9	5.0	5.3	5.3	5.4	5.6	5.7	5.8	5.9	5.9
Share of loans not repaid on the due date in a month preceding the reporting date	11.5	12.6	12.5	13.3	13.7	14.0	14.7	14.3	14.2	14.7	17.0	16.5	15.4
Share of Quality Category IV and Quality Category V loans in total loan value, %	7.5	8.1	8.4	8.5	8.7	9.1	9.2	9.3	9.5	9.6	9.8	9.9	9.9
Loss provisions for loans, as % of total value of such loans	7.5	7.9	8.2	8.2	8.4	8.7	8.8	9.0	9.2	9.3	9.4	9.6	9.6
Loss provisions for loans with arrears exceeding 90 days, as % of total value of such loans	81.9	82.2	82.5	81.7	81.9	81.9	82.0	82.2	82.6	82.9	83.2	83.8	84.2

Table 11. Data on housing mortgage loans (HML)[1], billions of rubles

	1 January 2014	1 February 2014	1 March 2014	1 April 2014	1 May 2014	1 June 2014	1 July 2014	1 August 2014	1 September 2014	1 October 2014	1 November 2014	1 December 2014	1 January 2015
HMLs, total	2,649	2,682	2,746	2,810	2,905	2,976	3,037	3,133	3,201	3,278	3,357	3,449	3,520
Growth, %: for one month	3.5	1.3	2.4	2.3	3.4	2.4	2.0	3.2	2.2	2.4	2.4	2.8	2.1
for twelve months	32.6	33.4	33.7	34.1	34.4	34.4	33.5	33.8	33.5	36.6	35.3	34.7	32.9
HML share in foreign currency, %	4.2	4.4	4.3	4.0	3.8	3.5	3.3	3.3	3.3	3.3	3.5	3.7	3.9
Including overdue HMLs	40	40	41	41	41	41	40	42	42	42	44	46	46
Growth, %: for one month	-1.0	2.0	1.7	-1.2	0.7	-0.5	-0.9	3.1	0.5	0.9	3.8	5.8	-0.5
for twelve months	-4.6	-3.8	-2.1	-3.4	-3.3	-3.6	-3.8	-2.1	-1.9	3.6	8.5	15.7	16.3
Share of overdue loans in total HMLs, %	1.5	1.5	1.5	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Share of overdue loans in foreign currency in total overdue HMLs, %	35.8	36.8	37.1	36.5	36.2	35.2	34.6	35.4	35.4	36.1	37.9	40.2	37.2
Value of HMLs extended year-to-date	1,354	79	198	335	496	631	770	927	1,073	1,222	1,387	1,538	1,763
Volume of HMLs extended year-to-date, thousands	825	48	118	198	292	370	449	539	621	704	797	882	1,012,3
HMLs in rubles	2,537	2,564	2,628	2,698	2,795	2,871	2,936	3,028	3,096	3,169	3,240	3,321	3,384
Growth, %: for one month	3.8	1.1	2.5	2.6	3.6	2.7	2.3	3.1	2.2	2.4	2.2	2.5	1.9
for twelve months	35.3	35.6	35.9	36.5	36.8	37.0	36.3	36.3	36.0	38.8	36.9	35.9	33.4
Value of HMLs in rubles extended year-to-date	1,339	79	197	333	494	628	766	923	1,068	1,216	1,380	1,529	1,752
Weighted average interest rate on ruble HMLs extended year-to-date, %	12.4	12.3	12.3	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.3	12.4	12.5
Weighted average loan term of rubleHMLs extended year-to-date, months	176.4	174.1	181.2	183.9	174.5	176.2	175.9	178.4	178.4	178.8	179.5	179.7	179.5
HMLs in foreign currency	112	119	118	112	110	105	100	104	104	109	117	129	136
Growth, %: for one month	-3.5	6.1	-0.7	-4.9	-1.7	-4.5	-4.8	4.0	0.2	3.9	7.8	9.8	6.1
for twelve months	-8.8	-1.1	-1.3	-6.0	-7.3	-10.8	-17.2	-13.3	-13.3	-6.2	2.4	10.7	21.8
Value of foreign-currency HMLs extended year-to-date	15	0	1	2	3	3	4	4	5	6	7	9	10.8
Weighted average interest rate on foreign-currency HMLs extended year-to-date, %	9.6	9.8	9.3	9.3	9.5	9.6	9.5	9.5	9.4	9.4	9.3	9.3	9.3

End of the table 11

	1 January 2014	1 February 2014	1 March 2014	1 April 2014	1 May 2014	1 June 2014	1 July 2014	1 August 2014	1 September 2014	1 October 2014	1 November 2014	1 December 2014	1 January 2015
Weighted average loan term of foreign-currency HMLs extended year-to-date, months	151.9	193.2	177.2	165.9	148.4	143.9	145.9	147.2	144.5	140.3	140.1	139.9	146.3

[1] *Housing mortgage loans extended to borrowers according to the procedure stipulated by Federal Law No. 102-FZ, dated 16 July 1998, 'On Mortgage (Mortgage Security)'. Source: reporting Form 0409316.*

Table 12. Household deposits in 2014

	1 January 2014	1 February 2014	1 March 2014	1 April 2014	1 May 2014	1 June 2014	1 July 2014	1 August 2014	1 September 2014	1 October 2014	1 November 2014	1 December 2014	1 January 2015	Growth for 2014, %
Total, billions of rubles	16,958	16,689	16,908	16,564	16,847	16,756	16,883	17,112	17,271	17,298	17,685	18,087	18,553	9.4
Growth for one month, %	4.3	-1.6	1.3	-2.0	1.7	-0.5	0.8	1.4	0.9	0.2	2.2	2.3	2.6	
Ruble deposits, billions of rubles	14,001	13,433	13,510	13,207	13,507	13,516	13,699	13,796	13,929	13,876	13,829	13,784	13,707	-2.1
Growth for one month, %	5.8	-4.1	0.6	-2.2	2.3	0.1	1.4	0.7	1.0	-0.4	-0.3	-0.3	-0.6	
Foreign-currency deposits, billions of rubles	2,957	3,256	3,398	3,357	3,340	3,240	3,184	3,316	3,342	3,421	3,856	4,303	4846.1	63.9
Foreign-currency deposits, billions of dollars	90.3	92.4	94.2	94.1	93.6	93.3	94.7	92.8	90.5	86.9	88.9	87.2	86.1	-4.7
Growth for one month, %	-0.8	2.3	2.0	-0.2	-0.5	-0.3	1.5	-2.0	-2.5	-4.0	2.3	-1.8	-1.3	
Share of foreign-currency deposits in total deposit value, %	17.4	19.5	20.1	20.3	19.8	19.3	18.9	19.4	19.4	19.8	21.8	23.8	26.1	

Table 13. Weighted average interest rates on funds raised and placed in reporting month with maturities of over one year

	2014											
	January	February	March	April	May	June	July	August	September	October	November	December
Ruble funds												
Loans to non-financial organisations	10.64	11.11	10.60	10.97	11.23	11.67	11.92	11.83	12.05	12.24	12.56	12.94
including small and medium-sized businesses	12.83	13.15	12.68	13.03	12.76	12.82	13.27	13.59	13.45	13.65	14.00	14.92
Deposits of non-financial organisations	8.01	7.91	7.72	8.65	8.66	8.66	8.77	9.31	9.44	8.54	9.82	13.46
Loans to credit institutions	8.98	7.84	9.42	8.87	9.57	9.68	7.22	10.24	8.84	10.47	11.45	8.92
Deposits of credit institutions	8.98	7.88	9.10	8.97	9.53	6.59	6.21	10.18	9.24	10.53	7.74	7.97
Household loans	18.31	18.00	17.78	17.74	17.67	17.53	17.53	17.39	17.66	17.60	17.72	17.37
Housing mortgage loans	12.28	12.29	11.97	12.30	12.20	12.23	12.22	12.29	12.44	12.85	12.62	13.16
Household deposits	7.33	7.30	7.17	7.56	7.78	7.72	7.80	7.89	8.02	8.15	8.41	11.74
US dollar funds												
Loans to non-financial organisations	7.00	6.57	5.44	5.45	6.65	7.05	6.62	7.01	6.88	6.74	6.29	7.11
including small and medium-sized businesses	10.01	9.49	9.99	10.17	11.12	9.03	10.55	10.21	9.65	8.38	10.84	11.45
Deposits of non-financial organisations	3.56	1.52	1.98	3.03	3.74	3.39	3.71	4.89	5.42	5.38	5.73	5.87
Loans to credit institutions	4.60	7.40	5.02	6.02	3.62	3.90	4.06	7.91	8.40	7.13	7.77	8.26
Deposits of credit institutions	2.75	4.79	6.04	2.32	3.20	2.77	2.01	3.40	5.47	4.01	2.62	5.40
Household loans	13.37	10.96	10.82	10.67	11.37	10.87	11.19	10.33	10.86	11.54	10.80	10.30
Household deposits	2.75	2.89	2.55	3.26	2.91	3.04	2.98	3.08	3.08	3.58	3.83	5.36
Euro funds												
Loans to non-financial organisations	6.56	7.23	6.24	8.63	5.59	7.89	6.68	6.19	7.24	7.08	7.00	7.68
including small and medium-sized businesses	9.00	9.97	8.61	9.82	8.73	11.35	8.97	9.79	9.77	9.38	10.00	10.57
Deposits of non-financial organisations	1.80	3.27	3.41	2.64	2.93	5.68	3.19	2.81	3.29	3.96	3.82	5.95
Loans to credit institutions	1.79	2.15	5.10	7.76	4.39	3.50	3.84	8.01	6.44	5.04	5.25	6.95
Deposits of credit institutions	1.86	1.97	2.46	2.15	3.82	3.32	3.28	2.19	2.06	3.35	2.29	1.90
Household loans	8.91	9.99	10.08	9.79	9.98	12.38	12.16	10.00	9.41	9.24	10.65	9.46
Household deposits	2.70	2.49	2.18	2.74	2.72	2.61	2.60	2.57	2.83	3.34	3.56	4.90

Table 14. Categorised performance indicators on credit institutions with foreign interest in authorised capital relative to indicators on operating credit institutions, %

	1 January 2011	1 January 2012	1 January 2013	1 January 2014	1 January 2015
Credit institutions with a 50%-plus foreign stake in authorised capital					
Assets	18.0	16.9	17.8	15.3	13.9
Capital[1]	19.1	17.6	19.3	17.3	17.2
Correspondent accounts with non-resident banks	20.3	14.3	21.7	18.6	15.4
Loans and other funds provided to non-financial organisations	15.1	14.0	14.2	12.0	11.6
Loans and other funds provided to households	25.7	22.0	22.6	21.0	18.6
Loans, deposits and other funds provided to credit institutions	25.1	30.0	27.3	19.9	14.1
Household deposits	11.5	11.4	13.5	12.5	12.0
Funds raised from organisations[2]	17.6	17.4	18.6	15.6	13.7
Current-year profits (losses)	20.7	17.4	19.6	15.2	20.2
Number of credit institutions, units (for reference)	111	113	117	122	113
including credit institutions with a 100% foreign stake in authorised capital					
Assets	11.0	10.0	9.8	9.0	8.5
Capital[1]	12.1	11.1	11.4	11.1	10.9
Correspondent accounts with non-resident banks	9.2	6.9	15.2	12.8	12.0
Loans and other funds provided to non-financial organisations	9.2	8.3	7.5	7.2	7.8
Loans and other funds provided to households	14.9	10.7	11.1	10.8	10.1
Loans, deposits and other funds provided to credit institutions	20.0	24.2	20.0	16.4	11.1
Household deposits	5.3	5.4	6.1	6.2	5.8
Funds raised from organisations[2]	11.0	10.7	11.0	10.3	9.6
Current-year profits (losses)	15.1	12.0	13.4	12.7	14.9
Number of credit institutions, units (for reference)	80	77	73	76	75

[1] *For statements as of 1 February 2014 and later, capital is calculated in accordance with requirements of Bank of Russia Regulation No. 395-P, dated 28 December 2012 (Basel III), prior to this date calculations are made in accordance with requirements of Bank of Russia Regulation No. 215-P, dated 10 February 2003.*

[2] *These include deposits, government and other extra-budgetary funds, funds of the Federal Treasury, fiscal authorities, individual unincorporated entrepreneurs, and customers in factoring and forfeiting operations, certificates of deposit, float, and funds written off from customer accounts but not passed through a credit institution's correspondent account (net of funds raised from credit institutions).*

Table 15. Indicators of individual groups of credit institutions[1]

Group of credit institutions	Number of credit institutions		Share of banking sector total assets, %		Share of banking sector total capital, %	
	01.01.14	01.01.15	01.01.14	01.01.15	01.01.14	01.01.15
State-controlled banks	25	26	58.0	58.5	54.8	57.0
Foreign-controlled banks	76	78	10.5	9.8	12.6	12.4
Large private banks	144	139	26.7	28.3	26.3	24.4
Small and medium-sized banks based in the Moscow Region	289	257	2.4	1.6	3.3	2.9
Small and medium-sized regional banks	325	283	2.2	1.4	2.8	2.4
Non-bank credit institutions	64	51	0.3	0.4	0.3	0.9
Total	**923**	**834**	**100.0**	**100.0**	**100.0**	**100.0**

[1] *Criteria for such grouping and indicators of the above groups of credit institutions are used solely for the purposes of analysis within this Report.*

Table 16. Accounting (financial) statements aggregates on non-financial organisations with assets exceeding 10 billion rubles, billions of rubles

Indicator	Organisations with assets											
	exceeding 10 billion rubles, total			of which								
				exceeding 100 billion rubles			from 50 to 100 billion rubles			from 10 to 50 billion rubles		
	30 September 2014	31 December 2013	Growth for the first 9 months of 2014, %	30 September 2014	31 December 2013	Growth for the first 9 months of 2014, %	30 September 2014	31 December 2013	Growth for the first 9 months of 2014, %	30 September 2014	31 December 2013	Growth for the first 9 months of 2014, %
ASSETS	55,015	50,963	7.9	46,383	43,045	7.8	4,041	3,737	8.1	4,590	4,182	9.8
Non-working assets, of which:	38,469	36,274	6.0	33,801	31,928	5.9	2,223	2,088	6.5	2,445	2,259	8.2
fixed assets	21,165	20,738	2.1	18,300	18,065	1.3	1,300	1,196	8.7	1,565	1,477	5.9
financial investments	14,507	12,903	12.4	13,215	11,741	12.6	676	642	5.3	615	520	18.4
Current assets, of which	16,546	14,689	12.6	12,583	11,117	13.2	1,818	1,649	10.2	2,146	1,923	11.6
inventories	2,748	2,386	15.2	1,689	1,495	13.0	445	363	22.5	614	528	16.4
receivables	8,346	7,463	11.8	6,354	5,641	12.6	931	854	9.1	1,061	968	9.6
financial investments (excluding cash equivalents)	3,377	2,868	17.8	2,914	2,456	18.6	206	201	2.5	258	211	22.3
cash and cash equivalents	1,552	1,480	4.9	1,295	1,208	7.2	120	120	0.1	138	152	-9.3
LIABILITIES	55,015	50,963	7.9	46,383	43,045	7.8	4,041	3,737	8.1	4,590	4,182	9.8
CAPITAL AND PROVISIONS	30,888	29,995	3.0	27,754	26,975	2.9	1,450	1,436	1.0	1,684	1,584	6.3
Authorised capital	6,255	6,125	2.1	5,562	5,443	2.2	372	362	2.8	321	320	0.3
Retained earnings (retained loss)	14,449	13,713	5.4	13,044	12,429	4.9	604	540	11.7	802	744	7.8
LIABILITIES	24,127	20,968	15.1	18,629	16,070	15.9	2,591	2,301	12.6	2,906	2,598	11.9
Fixed liabilities, of which:	13,162	11,379	15.7	10,694	9,182	16.5	1,223	1,100	11.2	1,245	1,097	13.5
borrowed funds	10,541	9,493	11.0	8,494	7,630	11.3	1,013	944	7.3	1,034	919	12.6
Current liabilities, of which:	10,965	9,590	14.3	7,936	6,887	15.2	1,368	1,202	13.9	1,661	1,501	10.7
borrowed funds	4,257	3,746	13.6	3,249	2,875	13.0	473	406	16.6	535	466	14.9
payables	5,972	5,272	13.3	4,110	3,596	14.3	829	735	12.8	1,033	942	9.7

End of the table 16

Indicator	Organisations with assets											
	exceeding 10 billion rubles, total			of which								
				exceeding 100 billion rubles			from 50 to 100 billion rubles			from 10 to 50 billion rubles		
	30 September 2014	31 December 2013	Growth for the first 9 months of 2014, %	30 September 2014	31 December 2013	Growth for the first 9 months of 2014, %	30 September 2014	31 December 2013	Growth for the first 9 months of 2014, %	30 September 2014	31 December 2013	Growth for the first 9 months of 2014, %
FINANCIAL RESULT												
	First 9 months of 2014	First 9 months of 2013	Growth as % of the first 9 months of 2013	First 9 months of 2014	First 9 months of 2013	Growth as % of the first 9 months of 2013	First 9 months of 2014	First 9 months of 2015	Growth as % of the first 9 months of 2013	First 9 months of 2014	First 9 months of 2013	Growth as % of the first 9 months of 2013
Proceeds	20,029	18,176	10.2	16,091	14,450	11.4	1,511	1,430	5.6	2,426	2,296	5.7
Cost of sales	12,288	11,019	11.5	9,395	8,262	13.7	1,063	1,032	3.0	1,831	1,725	6.1
Sales profit (loss)	2,990	2,800	6.8	2,629	2,475	6.2	164	147	11.2	198	177	11.5
Income from shareholding	469	317	47.9	403	258	55.8	45	43	4.0	21	15	39.3
Interest receivables	340	287	18.7	291	246	18.5	22	20	9.7	27	21	29.2
Interest payable	562	450	24.8	428	340	25.9	54	43	25.4	80	67	18.6
Balance of other income and expenses	-805	-295	172.8	-731	-235	210.7	-48	-32	51.4	-26	-28	-7.6
Other income	5,528	4,909	12.6	4,923	4,331	13.7	259	264	-1.9	346	314	10.2
Other expenses	6,333	5,204	21.7	5,654	4,566	23.8	307	296	3.8	372	342	8.8
Profit (loss) before taxes	2,278	2,509	-9.2	2,072	2,290	-9.5	82	113	-27.2	123	105	16.6
Current profit tax	390	344	13.5	342	298	14.7	20	19	2.7	28	26	7.7
Net profit (loss)	1,751	2,003	-12.6	1,587	1,831	-13.3	65	92	-29.2	99	81	22.2

Table 17. Banking Sector Capital Structure, %[1]

Indicators	1 January 2014	1 April 2014	1 July 2014	1 October 2014	1 January 2015
1. Capital growth factors	**116.1**	**114.6**	**113.8**	**114.7**	**117.8**
1.1. Authorised capital	21.7	21.3	21.0	23.9	24.1
1.2. Share premium	19.1	18.7	18.7	18.2	17.9
1.3. Profit and funds of credit institutions	47.8	48.0	47.9	48.1	47.4
1.4. Subordinated loans received	24.4	23.5	23.0	21.6	25.5
1.5. Revaluation surplus	3.1	3.1	3.1	2.9	2.8
1.6. Other factors	0.0	0.0	0.0	0.0	0.0
2. Capital reducing factors	**16.1**	**14.6**	**13.8**	**14.7**	**17.8**
2.1. Losses	1.6	2.4	1.7	2.0	4.4
2.2. Intangible assets	0.2	0.2	0.2	0.2	0.2
2.3. Own shares (stakes) bought out	0.0	0.0	0.0	0.0	0.0
2.4. Sources of capital formed from improper assets	0.1	0.1	0.1	0.1	0.1
2.5. Subordinated loans issued	1.1	1.4	1.4	1.7	1.9
2.6. Bank share(stakes) portfolio	12.9	10.5	10.2	10.5	10.1
2.7. Other factors	0.2	0.0	0.2	0.2	0.9
Capital, total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[1] *Calculated using bank reporting Form 0409123 (as of 1 January 2014 – Form 0409134).*

Table 18. Categorised indicators on credit institutions ranked by capital value

Credit institutions by capital value	Number of credit institutions		Return on equity[1], %		Return on assets[1], %	
	1 January 2014	1 January 2015	1 January 2014	1 January 2015	1 January 2014	1 January 2015
Up to 300 million rubles	240	61	-4.4	-906.1	-0.9	-39.1
300 million rubles to 500 million rubles	176	271	9.0	11.8	1.6	2.4
500 million rubles to one billion rubles	140	133	11.7	3.6	1.8	0.5
One billion rubles to three billion rubles	183	185	11.1	3.1	1.6	0.4
Three billion rubles to five billion rubles	61	54	13.1	8.4	1.9	1.2
Five billion rubles to ten billion rubles	41	45	12.8	11.1	1.6	1.5
Ten billion rubles and over	82	85	16.1	10.5	2.0	1.2
Total for banking sector	**923**	**834**	**15.2**	**7.9**	**1.9**	**0.9**

[1] *For 12 months preceding the reporting date.*

Table 19. Quantitative and qualitative characteristics of supervisors of the Bank of Russia head office and regional branches

Name of unit	Total number of employees as of 1 January 2015 (excluding employed under fixed-term contract and part-timers)	Including							
		age			education		duration of work in banking system		women
		under 30 y.o.	50+ y.o.	of whom women aged 55+ y.o. and men aged 60+ y.o.	higher education	secondary vocational training	up to 3 years	15+ years	
Head office									
Credit Institutions Licensing and Financial Rehabilitation Department	136	12	41	14	133	3	10	84	102
Banking Supervision Department	131	21	41	20	130	1	30	59	78
Banking Regulation Department	77	16	24	9	76	1	19	26	57
Bank of Russia Chief Inspection	1,615	293	320	102	1,586	13	260	763	937
Financial Monitoring and Foreign Exchange Control Department	101	13	27	7	98	1	12	48	62
Systematically Important Banks Supervision Department	84	20	13	4	83	-	18	41	53
Head office, total	**2,144**	**375**	**466**	**156**	**2,106**	**19**	**349**	**1,021**	**1,289**
Regional branches									
Division (Section) for Licensing of Credit Institutions	230	42	52	15	226	4	18	132	203
Division (Section, Sector) for Banking Supervision	1,623	247	360	100	1,593	18	141	959	1,315
Division (Section, Sector) for Systematically Important Banks Supervision	163	65	12	6	160	2	28	50	131
Financial Monitoring and Foreign Exchange Control Division (Section, Sector)	878	145	158	26	864	7	118	474	600
Regional branches, total	*2,894*	*499*	*582*	*147*	*2,843*	*31*	*305*	*1,615*	*2,249*
Bank of Russia, total	**5,038**	**874**	**1,048**	**303**	**4,949**	**50**	**654**	**2,636**	**3,538**