Bank of Russia

BANKING SUPERVISION REPORT 2018

MOSCOW
2019

Contents

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Foreword

Dear readers,

The Bank of Russia is pleased to present the Banking Supervision Report 2018.

Last year's performance of the banking sector points to its rising stability and growing opportunities to finance the economy.

Retail and corporate lending was on the rise. 2018 was a year of record growth in housing mortgage lending, and mortgage rates were at an all-time low in early autumn.

Overall, retail lending expanded faster than corporate lending. This suggests that banks consider corporate loans to be more complex and risky. Banks will have to learn to better understand business specifics in different sectors and project financing, especially in view of the transition of housing construction to bank financing in 2019.

Retail lending should not be the only driver for growth in banking business. The Bank of Russia has already launched measures to cool down this segment of lending in order to avoid a dangerous situation of household debt overhang.

Last year, we completed the transition to proportionate regulation in the banking system, and as of the beginning of 2019, there were 149 banks with a basic licence.

Although banks with a basic licence account for a small share of banking sector assets, the introduction of a new bank category should raise financial inclusion of small and medium-sized enterprises at a regional level. Therefore, indicators of this category of banks will be published and analysed separately starting from this issue of the Report.

In 2018, the Bank of Russia continued to pursue the policy of banking sector resolution. Last year, we revoked licences from 60 banks accounting for less than 1% of banking sector assets, which is lower than in previous years. This points to the fact that the clean-up process in the banking system is coming to an end and weak players have no considerable impact on the effectiveness of the banking sector as a whole.

Measures taken in the previous years helped curtail financing of bank owners' businesses and the use of schemes to conceal the real position of banks. Actors whose business was based on illegal operations were withdrawn from the banking sector. The overall volume of dubious transactions in the banking system is steadily reducing.

The incentive-based regulation measures, which the Bank of Russia is starting to apply, are aimed at further decrease of both lending to bank owners and merger and acquisition lending. The Bank of Russia continues to pay special attention to encouraging lending to small and medium-sized businesses. Positive shifts are already visible in this segment: lending is growing at a tangible pace, the quality of loan portfolio has improved, and interest rates on SME loans have been in decline.

In 2018, we completed the centralisation of banking supervision; this ensures faster supervisory decision-making and the application of uniform supervisory standards.

Our medium-term priority is to enhance competition in the banking sector. The Bank of Russia strives to create the most favourable conditions for banks that seek to offer the most advanced and high-quality services and products to their customers. To that end, we created the Faster Payments System and launched a remote biometric identification service last year.

Banks increased both capital and profits last year. The Bank of Russia will continue to develop regulation and supervision so that the resources accumulated by the banking system transform into the resources for growth of the Russian economy and public wellbeing.

Elvira Nabiullina
Bank of Russia Governor

I. Economic environment of the banking sector

I.1. MACROECONOMIC AND EXTERNAL CONDITIONS

I.1.1. EXTERNAL GLOBAL RISKS

In 2018, the world economic growth rate declined as business activity slowed in leading economies, volatility rose in emerging markets, and foreign trade tensions aggravated (in particular, between the US and China). According to the International Monetary Fund, the growth rate of the global GDP slowed down to 3.6%[1] in 2018 compared with 3.8% in 2017. That said, GDP growth in advanced economies fell from 2.4% to 2.2%, while emerging markets and developing countries registered a drop from 4.7% to 4.5%. In 2019, the global economy is expected to slow down further.

The US registered an improvement in the economy throughout 2018; in particular, the labour market continued to strengthen. In this environment, the US Federal Reserve System (Fed) continued to raise the federal funds rate (after four hikes in 2018, its target range reached 2.25–2.50%). However, by the end of the year, as the US Treasury bond yield curve started to invert, concerns increased that US economic growth might turn to a slowdown (in the past, such developments came before recession). Macroeconomic indicators deteriorated in December 2018: the ISM Manufacturing Index declined considerably (by 4.5 points, to 54.3 points) while inflation (the CPI Index) came in at 1.9% in annual terms, falling below the 2% target for the first time since 2017. In December 2018, volatility also rose in the US stock market (the S&P 500 Index dropped by 9%). This is associated with the fact that the US Fed made fewer adjustments to the number of rate hikes in 2019 that the market had expected (the number of rate hikes was reduced from three to two) despite the risks of a slowdown of economic growth in the US. Less optimistic estimates of corporate profits, escalating foreign trade tensions and a temporary suspension of federal budget financing in late December 2018 also had a negative effect on the US economy.

The euro area experienced a more tangible decline in the GDP growth rate in 2018, to 1.8%[2] from 2.4% in 2017. The Markit PMI Manufacturing Index fell throughout the year to total 51.4 points in December 2018 compared with 60.6 points in December 2017. The annual rate of consumer price growth came in at 1.5% in December 2018 compared with 1.4% in December 2017 (meanwhile, the inflation target of the European Central Bank (ECB) is set at the level 'slightly below 2%'). Lending to non-financial organisations in the euro area accelerated somewhat (the annual growth rate increased to 2.8% in December 2018 from 1.9% in December 2017). As it was previously planned, the ECB stopped asset purchases in December 2018. However, the ECB noted that incentives were needed to support domestic demand in the euro area and confirmed that it held open the possibility of adjusting its monetary policy tools, if necessary. In 2018, the economy of the euro area was negatively affected by geopolitical factors (including a no-deal Brexit), rising protectionism in the US (the introduction of import duties for steel and aluminium since 1 June 2018), and worsening in emerging markets (including a slowdown in China's economic growth). Furthermore, problems emerged in certain countries of the euro area (e.g. the approval of budget parameters in Italy).

As the cost of borrowing in the US increased, emerging market economies faced capital outflow and a rise in volatility in financial markets in 2018. The aggravated tensions in global trade also had a negative effect on investor sentiment. Volatility rose in the period between April and August 2018: the average level of the total risk premium (five-year CDS)[3] increased by 66 bp, while the average spread

[1] Assessment of the International Monetary Fund as of April 2019.

[2] Eurostat assessment as of 7 March 2019.

[3] The indicator is calculated for 10 countries: Brazil, China, South Africa, Turkey, Indonesia, the Philippines, Malaysia, Mexico, Peru, and Chile.

between emerging market sovereign bond yield and US Treasury bond yield rose by 67 bp. However, this rise in volatility was lower than in the period when the US announced quantitative easing tapering (from 10 May 2013 to 24 June 2013, and similar indicators increased by 93 bp and 109 bp respectively). Volatility grew considerably in certain countries with accumulated structural imbalances (current account deficit, budget deficit, and high foreign exchange debt). Concerns about the risks of national currency depreciation and inflation risks forced central banks of certain countries to raise interest rates (Argentina, Turkey, Indonesia, Mexico, and the Philippines) and conduct foreign exchange interventions (Indonesia, Brazil, and India).

In contrast with most emerging market economies, China conducted an accommodative policy to bolster economic growth. The People's Bank of China downgraded required reserve ratios for all banks on several occasions, while the public authorities also implemented a number of fiscal measures. In this environment, yields on 10-year government bonds dropped in 2018 by 59 bp, to 3.3%. Nevertheless, China's GDP growth rate slowed down to the 28-year low of 6.6% in 2018 (compared with 6.9% in 2017). The increased trade tensions with the US led to a tangible stock market downturn in China (the Shanghai Composite Index dropped by 24.6% in 2018). The ongoing expansion of shadow banking and high debt burden remain among the key risks for the country's financial stability.

Russia also saw a volatility hike in the financial market, among other things, amid a publication of bills on sanctions against Russia and risks of restrictions on operations with Russian sovereign debt. The premium on Russia's five-year sovereign CDS rose in 2018 by 35 bp, the 153 bp (in the ten key emerging market economies, it increased on average by 53 bp, to 150 bp). The share of non-residents' investments in federal government bonds (OFZ) shrank over the year from 33.1% to 24.4%. Ruble volatility indicators were considerably lower in 2018 than in 2014–2015. During the periods of elevated volatility in 2018, the Russian financial market stabilised and did not require the regulators to intervene. Stability in the FX market was supported by extensive sale of foreign exchange revenues by exporters and a temporary suspension of fiscal rule-based foreign currency purchases by the Bank of Russia (until the end of 2018). Stabilisation of the Russian financial market was also helped by the Bank of Russia's decision to raise the key rate in September and December 2018 to 7.75%.

Russia's resilience to external threats was overall supported by stable macroeconomic conditions (current account surplus, budget surplus, low public debt, high level of foreign currency reserves, price and financial stability). Furthermore, the fiscal rule helped reduce the dependence of the economy on the oil market. In October-December 2018, oil prices plunged (the Brent crude price dropped by 35%) amid an extensive increase in shale oil production in the US and concerns over the decline in global demand. However, the price downturn had no considerable effect on the ruble exchange rate (during this period, the ruble depreciated against the US dollar by 5.5%[1]).

I.1.2. MACROECONOMICS

In 2018, GDP grew by 2.3% (1.6% in 2017) in spite of the unstable external economic conditions and tightening sanction rhetoric against Russia. Growth was largely attributed to the expansion of goods and services exports. The labour market remained stable. Unemployment continued to contract in 2018; its 4.8% average annual rate is an all-time low. The monthly average real wage increased in 2018 by 6.8% compared with the 2017 figure, while real disposable income rose by 0.3%[2].

The expansion of investment activity slowed down in 2018 due to a rise in general economic uncertainty associated with, among other things, the rising sanction pressure and a slight depreciation of the ruble. Fixed capital investment increased in 2018 by 4.3% year on year (in 2017, by 4.8%).

Industrial production grew by 2.9% in 2018 compared with 2.1% in 2017. The production activity was largely determined by the expanding external demand that boosted oil, gas and coal production, and import substitution. In 2018, the growth rate in mining and quarrying was higher than the average rate in industrial production and came in at 4.1%.

[1] Bloomberg quotations.

[2] Adjusted for a one-time payment in 2017.

The expansion of domestic (consumer and investment) demand also helped accelerate growth in industrial production. Retail sales increased in 2018 by 2.6% year on year. The decline in unemployment and the increase in real wages supported consumer demand. Accelerated growth of real wages was largely associated with the increase in remuneration in the social and cultural sector in accordance with the Russian President's May decrees signed in 2012.

In January 2018, inflation hit a record low of 2.2% and held below 4% in the first half of 2018 ranging between 2.2% and 2.4%. However, proinflationary risks started to increase in the second and third quarter. This was associated with a certain weakening of the ruble amid deteriorating external conditions, the decision of the Russian Government to raise the base VAT rate from 18% to 20% from 1 January 2019, which affected price expectations, and a tangible rise in domestic prices of petroleum products on the back of the increase in global prices and an upward revision of excise taxes. These developments and the supply-demand rebalancing in certain food markets reversed inflation dynamics in the middle of the year; as of the end of 2018, inflation came in at 4.3% (in 2017, 2.5%) still holding near the target level.

These factors also raised inflation expectations of households and businesses which had been on a downward trend since 2016.

In the middle of the year, the Bank of Russia suspended monetary policy easing that lasted for nearly three years (there were two key rate cuts in early 2018, on 9 February 2018 and 23 March 2018) to raise the key rate by 25 bp in September and December (from 7.25% to 7.5% p.a. and to 7.75% p.a. respectively).

The pre-emptive key rate hike aimed at preventing inflation from sustainable anchoring at a level above the Bank of Russia's monetary policy target and helped maintain positive real interest rates on deposits, which supported the attractiveness of savings and balanced growth in consumption.

I.2. FINANCIAL MARKETS

I.2.1. MONEY MARKET

In 2018, interest rates on ruble assets continued to form near the Bank of Russia key rate with a small negative spread in different overnight segments of the money market due to the ongoing considerable structural liquidity surplus in the banking sector.

In the unsecured segment of the interbank market, the average absolute deviation of RUONIA from the key rate was 29 bp as of the year-end (in 2017, 26 bp).

In the FX swap segment, implied ruble rates were usually lower than ruble rates in the interbank and repo segments due to banks' demand for FX liquidity. In certain days, demand for foreign exchange rose, and following a change in swap points banks carried out USD/RUB buy/sell FX swap transactions with the Bank of Russia. In 2018, such operations were conducted during 24 days. On the other hand, USD/RUB and EUR/RUB sell/buy FX swap transactions with the Bank of Russia were conducted during 26 days.

I.2.2. FOREIGN EXCHANGE MARKET

By the end of 2018, the ruble depreciated by 20.66% against the US dollar, to ₽69.47 per US dollar, and by 15.4% against the euro, to ₽79.46 per euro (as of 31 December 2018). At the beginning of the year, the ruble's exchange rate volatility and oil price elasticity held close to their lowest readings since early 2014, while Russia's country risk premium (CDS) dropped to the lowest level since 2008. This was assisted by global growth in demand for assets of emerging market economies and high oil prices. In February, as volatility rose in global stock markets, the ruble was supported by the upgrading of Russia's sovereign credit rating to an investment grade. The CDS spread contracted and held close to the readings of higher-rated emerging market economies (e.g. Mexico or Indonesia).

Geopolitical tensions, the imposition and discussion of sanctions against Russia, monetary policy tightening in the US, and local developments in individual countries caused ruble depreciation in certain periods of 2018 due to, among other things, a considerable decrease in non-residents' investments in OFZs.

In order to curtail the increased volatility in financial markets amid considerable changes in external conditions, the Bank of Russia decided to temporarily suspend fiscal rule-based foreign currency purchases from 23 August 2018 until the end of the year. This decision coupled with the key rate hike in September 2018 and certain stabilisation of external conditions (the recovery in demand for emerging market assets and the easing of sanction rhetoric against Russia) helped stabilise the Russian financial market. In these circumstances, a drop in oil prices in November and intermediate dividend payments by Russian companies in December had a minor effect on the ruble exchange rate.

The oil price elasticity of the ruble exchange rate remained low thanks to the fiscal rule and a considerable effect on the exchange rate in 2018 of the factors unrelated to commodity markets (global risk appetite, monetary policy in major countries, and uncertainty over the sanctions).

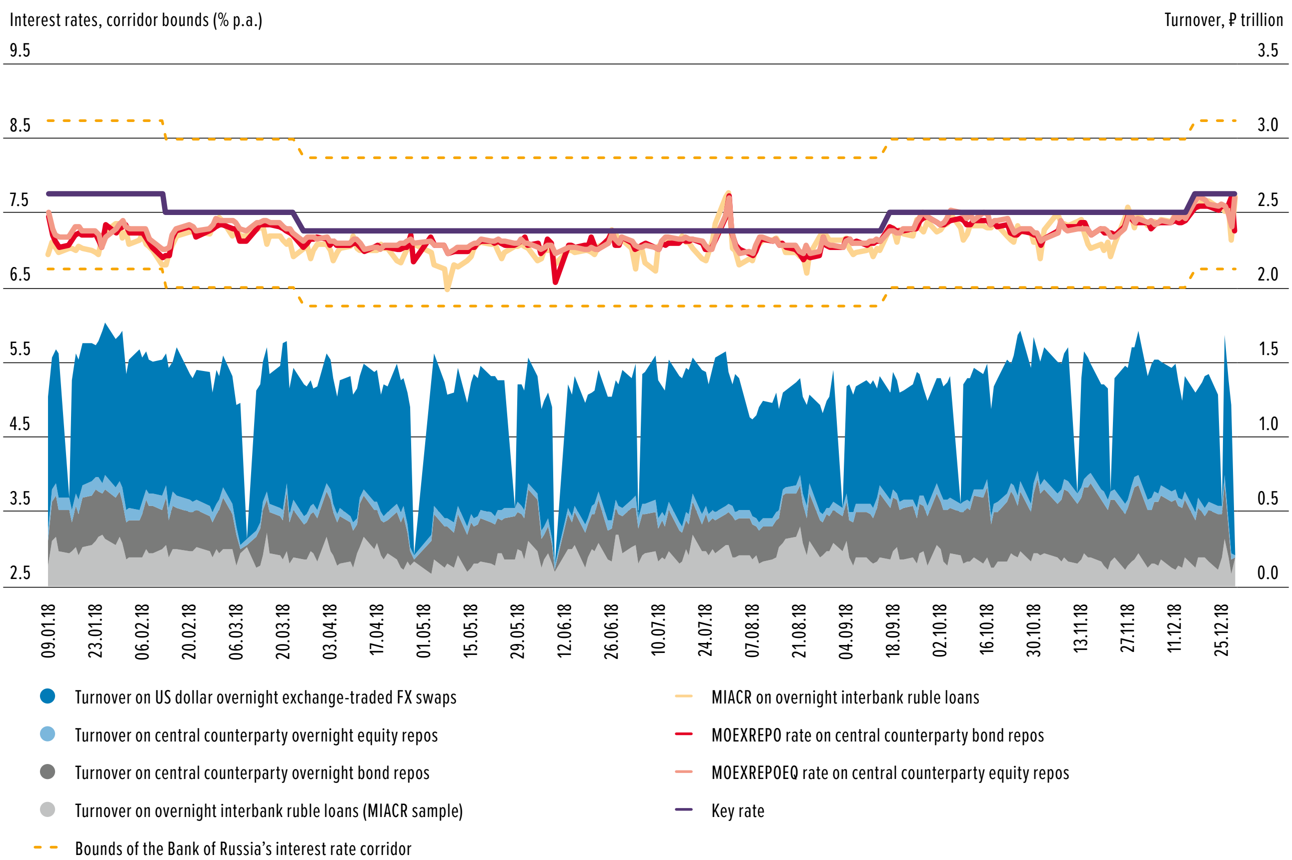
I.2.3. CORPORATE SECURITIES MARKET

In early 2018, the state of the corporate bond market improved amid low inflation and key rate cuts in February and March 2018. However, the situation deteriorated considerably from 2018 Q2. This was largely associated with a tighter sanction rhetoric against Russia, which, in turn, reduced foreign investors' demand for Russian assets, weakened the ruble, and increased government bond yields. These factors had a negative effect on the corporate bond market.

In 2018 Q1, issuing activity was higher than in the same period of 2017, but it contracted abruptly after the imposition of sanctions in April, and the total annual securities placement by corporate issuers was lower than in 2017. Throughout 2018, a total of 275 new corporate bond issues worth ₽1,620.9 billion were placed (in 2017, 251 issues worth ₽2,880.0 billion).

RATES AND TURNOVER ON OVERNIGHT TRANSACTIONS IN THE RUBLE MONEY MARKET

Figure 1.1



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

Corporate bond yields (the IFX-Cbonds index[1]) reached the lowest readings since September 2011 to largely grow during the rest of the year along with OFZ yields. Overall, corporate bond yields rose by 109 bp, to 9.14% p.a., in 2018.

The market portfolio of corporate bonds traded in the domestic market grew in 2018 by 4.5% against the end of 2017, to ₽11.9 trillion at face value. The portfolio growth rates were the lowest since at least 2011 (earlier statistics are unavailable). Broken down by sectors, securities of credit institutions and financial organisations accounted for the largest segment in the portfolio; in 2018, their share increased from 39.0% to 39.5%.

The turnover of secondary trading of corporate bonds on the Moscow Exchange in 2018 decreased by 29.5% against 2017, to ₽2.8 trillion.

In contrast to the corporate bond market, the situation in the stock market was more favourable. Despite negative external factors, the MOEX Index continued to rise increasing by 12.3% in 2018, mostly due to the rise in exporters' shares. At the same time, the US dollar RTS index dropped by 7.4% in 2018 on the back of the ruble's weakening. In the period under review, the stock market capitalisation increased by 11.4% while the trading turnover added 17.9%.

I.2.4. BANK OF RUSSIA OPERATIONS TO REGULATE BANKING SECTOR LIQUIDITY

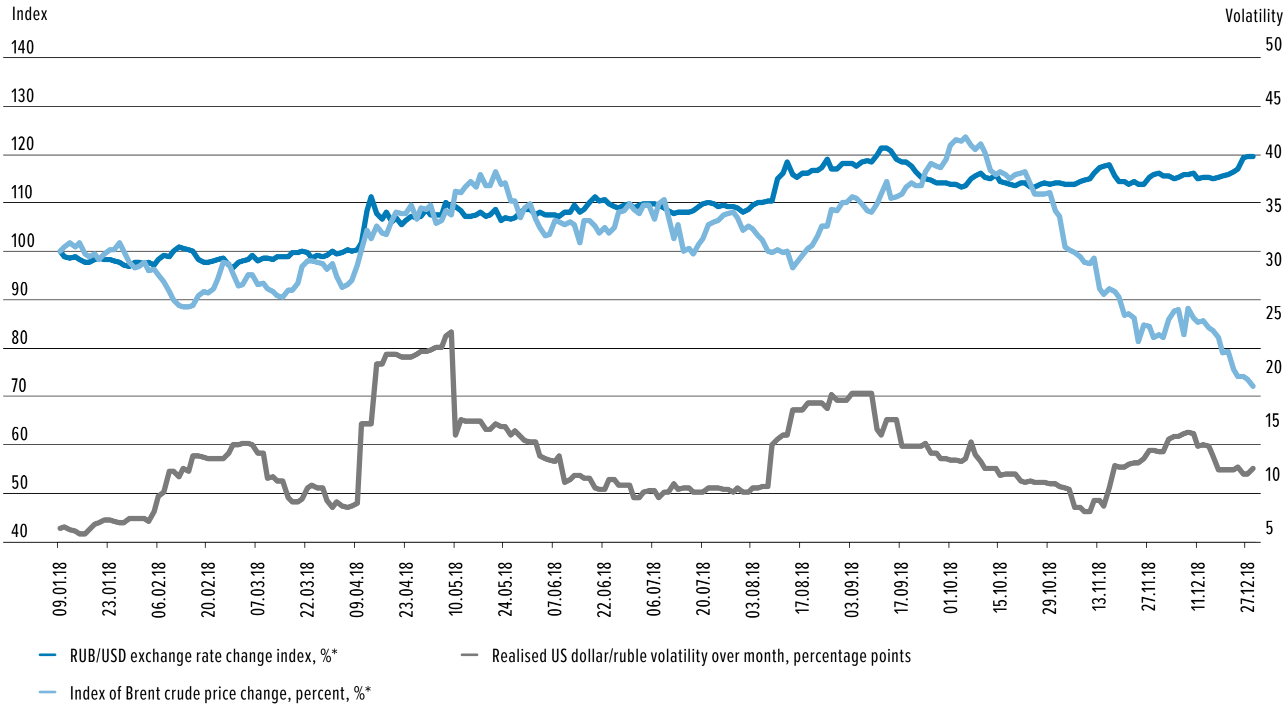
In 2018, the banking sector continued to operate amid a structural liquidity surplus. Meanwhile, it reduced in the second half of the year as a result of, among other things, the suspension of fiscal rule-based foreign currency purchases in the domestic market by the Bank of Russia from 23 August 2018.

The Bank of Russia raised required reserve ratios for foreign exchange liabilities of credit institutions by 1 pp from 1 August 2018, as part of measures aimed at reducing the share of foreign currency operations in banks' balance sheets: on liabilities to households – to 7.00%; on liabilities to non-resident legal entities and on other liabilities – to 8.00%.

Amid a liquidity surplus and its uniform distribution across the banking sector, credit institutions' de-

RUBLE EXCHANGE RATE AND ITS VOLATILITY IN 2018

Figure 1.2



* Indicators as of 9 January 2018 equal 100%.

Source: Thomson Reuters.

[1] An indicator of the effective corporate bond yield calculated by Cbonds.ru news agency.

mand for standing refinancing instruments was lower in 2018 than in the previous year: credit institutions' average debt to the Bank of Russia on secured loans, repos and FX swaps totalled ₽108 billion (in 2017, ₽207 billion).

In order to absorb excess liquidity and hold money market rates near the key rate, the Bank of Russia conducted weekly one-week deposit auctions at the rate that was close to the key rate. Monetary funds raised by the Bank of Russia at one-week deposit auctions totalled on average ₽2.2 trillion in 2018 (in 2017, ₽0.8 trillion).

In 2018, the Bank of Russia used fine-tuning operations to prevent considerable fluctuations of money market rates. In 2018, the Bank of Russia conducted 49 fine-tuning deposit auctions and absorbed on average approx. ₽540 billion.

The value of average standing deposits placed with the Bank of Russia in 2018 was stable at ₽197 billion (in 2017, ₽195 billion).

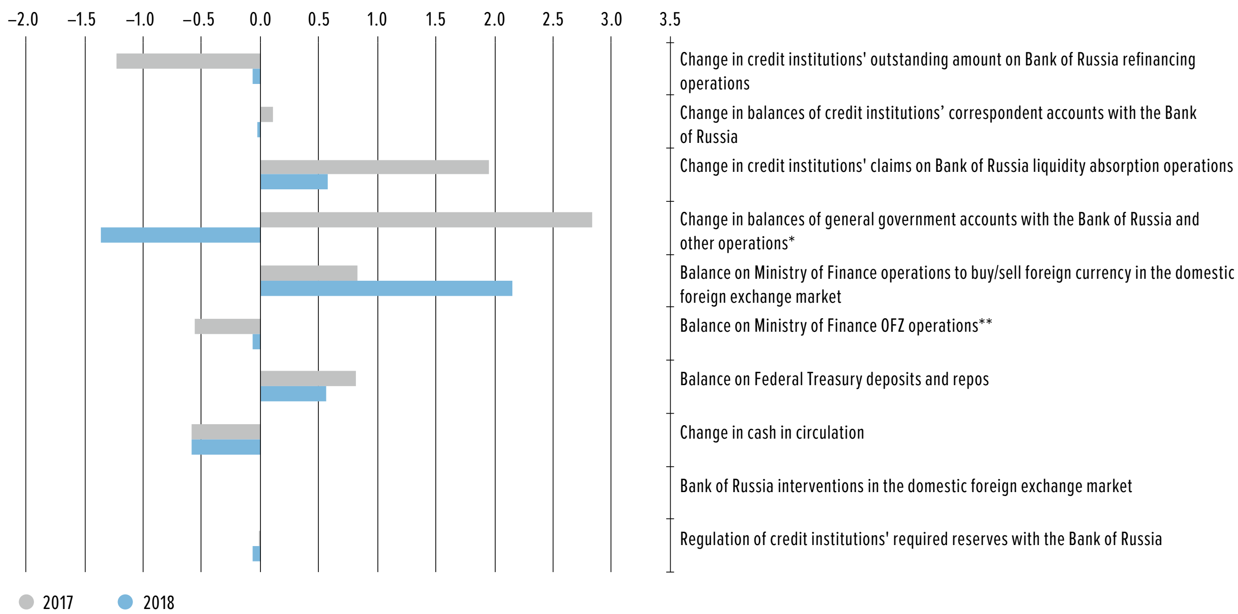
In 2018, banks increased their investments in Bank of Russia coupon bonds (coupon OBRs) which are also used to absorb liquidity. As of 1 January 2019, OBRs in circulation at par value with the coupon yield factored in totalled ₽1.4 trillion (as of the beginning of 2018, ₽0.4 trillion).

Credit institutions contracted their demand for specialised refinancing instruments amid the ongoing liquidity surplus thanks to the easing of monetary conditions in the first half of the year and earlier.

The Bank of Russia improved deposit and credit operation procedures. From 17 May 2018, changes have been made to the regulatory framework for Bank of Russia deposit operations, while the policy toolkit preserved only deposit auctions and overnight deposit standing facilities. Meanwhile, significant simplifications were made to the procedures for concluding deposit agreements, conducting overnight deposit operations (among other things, through the cancellation of the exchange of orders), and credit institutions' participation in deposit auctions. From 1 October 2018, the Bank of Russia revised the regulatory base governing the procedure for extending secured loans, and terminated lend-

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

Figure 1.3



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

** Coupon payments factored in.

ing in accordance with Regulations Nos. 236-P[1] and 312-P[2]. Also, the regulator approved changes aimed at curtailing paperwork associated with deposit and credit operations.

In 2018, the Bank of Russia revised the time limits for settlements on its operations. From 16 July 2018, the Bank of Russia makes deposit operation repayments until 09:00 local time, loans (other than overnight loans) are repaid from 16:00 until 17:00 local time. Previously, repayments were made within one transaction day. If a credit institution wants to use the released collateral to obtain a new loan the same day, the loan repayment at the request of the credit institution should be carried out either during a preliminary session of the Bank of Russia payment system or from 10:00 until 11:00 local time (based on the credit institution's request forwarded to the Bank of Russia on a day preceding the date of loan repayment).

[1] Bank of Russia Regulation No. 236-P, dated 4 August 2003, 'On the Procedure for Extending Bank of Russia Loans to Credit Institutions against the Collateral (Blocking) of Securities'.

[2] Bank of Russia Regulation No. 312-P, dated 12 November 2007, 'On the Procedure for Extending Bank of Russia Loans Covered by Assets or Guarantees to Credit Institutions'.

II. Russian banking sector

II.1. MACROECONOMIC IMPORTANCE OF THE BANKING SECTOR

The banking sector's macroeconomic importance increased considerably in the past two decades and currently it plays a central role in the system of financial intermediation. Thus, at the beginning of 2000, the banking sector assets to GDP ratio totalled a mere 32.6%, whereas as of the 1 January 2019, this indicator almost tripled to reach 90.6%.

As of the end of 2018, the banking sectors' total assets increased from ₽85 trillion to ₽94 trillion thanks to growth in ruble assets from ₽66 trillion to ₽73 trillion, and in FX assets from ₽19 trillion to ₽21 trillion. The increase in the ruble equivalent of FX assets resulted from the US dollar's appreciation against the ruble, whereas FX assets shrank in dollar terms from $330 billion to $304 billion.

The banking sector's growth indicators were affected by the ruble exchange rate movements, as well as licence revocations and cancelling of some credit institutions (except for reorganisation-related licence cancelling). Consequently, to enable a more accurate presentation of key banking sector performance indicators, this analytical document reflects the growth rate adjusted for FX revaluation for credit institutions in operation as of 1 January 2019 (including banks reorganised throughout the year).

As a result, the banking sector's total assets increased by 6.9%. Nevertheless, the banking sector assets to GDP ratio declined form 92.5% to 90.6% due to fast GDP growth in 2018, which exceeded the forecast of Russia's Ministry of Economic Development.

The ratio of the banking sector's capital to GDP also dropped by 0.3 pp over the year and reached 9.9% as of 1 January 2019. That said, capital increased in 2018 by 9.9% to ₽10.3 trillion.

In the sources of credit institutions' resource base, the share of corporate deposits and accounts (other than funds raised from credit institutions) increased in 2018 from 29.2% to 29.8% of total liabilities, while the liabilities to GDP ratio (27.0%) remained unchanged. As households gradually shift from a savings behaviour model to consumption, the share of deposits in banks' liabilities contracted over the year from 30.5% to 30.2%, while the household deposits to GDP ratio dropped from 28.2% to 27.4%. At the same time, the share of funds credit institutions borrowed from the Bank of Russia in banks' liabilities rose from 2% to 3%.

Total loans extended to non-financial organisations and households increased in 2018 by 10.7%, while the ratio between such loans and GDP went up from 46.0% to 46.5% largely because banks expanded their retail loan portfolio.

II.2. BANKING OPERATIONS

In 2018, as the economic activity recovered and consumer demand expanded, fast growth was registered in both retail (more intensive) and corporate lending. At the same time, the attractive level of real deposit rates facilitated funds inflow to banks from households and businesses. A certain deceleration in deposit growth was associated with households' gradual shift from a saving behaviour model to consumption.

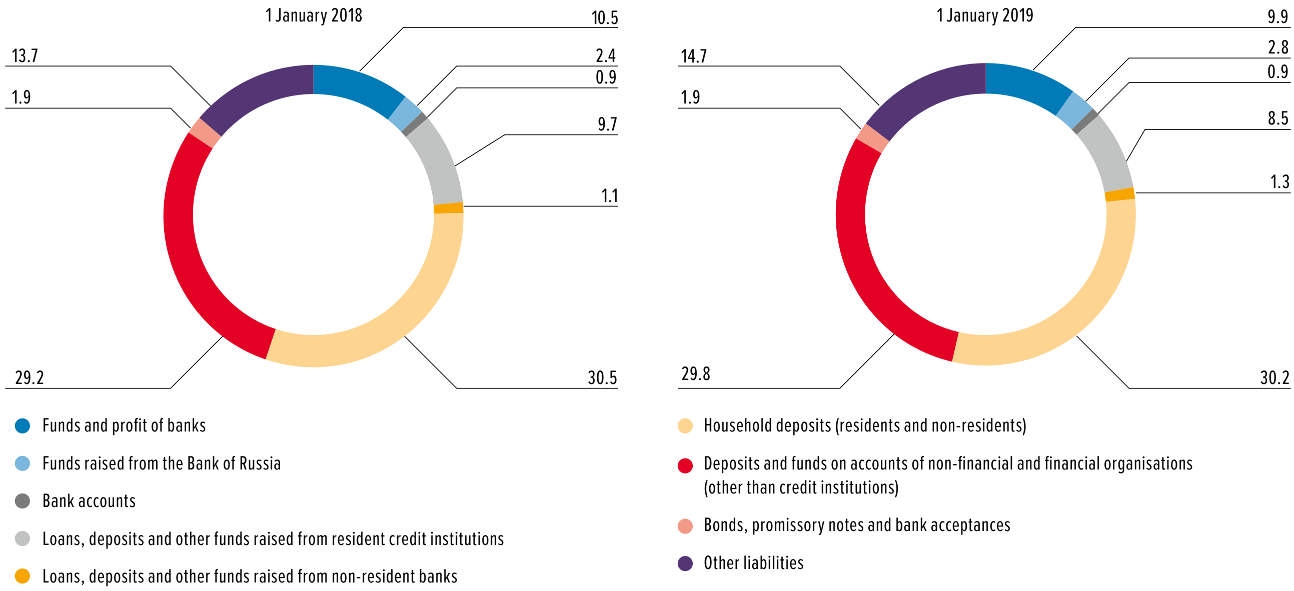
II.2.1. FUNDING AND BORROWED FUNDS STRUCTURE

The funding of the banking sector in 2018 was fairly balanced: as economic agents retained trust in the banking sector, funds were mostly raised from household deposits and corporate deposits and accounts. The share of corporate deposits and accounts increased somewhat over the year (Figure 2.1).

The Bank of Russia's efforts resulted in further dedollarisation of key balance-sheet items. The banking sector's FX liabilities (in US dollar terms) shrank by 6.9% in 2018, but their share in total banking sec-

BANKING SECTOR LIABILITIES (%)

Figure 2.1



tor liabilities expanded to 22.1% (as of 1 January 2018, 21.8%) due to the exchange rate dynamics[1].

In 2018, Russian banks still had limited access to foreign funding sources. This encouraged banks to increase the use of internal resources. Household deposits made up the bulk of bank liabilities – 30.2% as of 1 January 2019, while deposits and accounts of corporates (other than banks) accounted for 29.8%. A similar ratio was observed a year earlier – 30.5% and 29.2% respectively.

The dynamics of interest rates on household deposits were largely determined by inflation movements and monetary policy decisions. As a result, interest rates on ruble-denominated household deposits for more than one year increased in the reporting period from 6.4% p.a. in December 2017 to 6.8% p.a. in December 2018, despite a decline in the middle of the year.

Attractive interest rates helped increase total household deposits[2] in 2018 to ₽28.5 trillion (+6.5%). As a result of the exchange rate dynamics, their FX component rose from 20.6% to 21.5%.

Foreign-controlled banks[3] registered a considerable increase in deposits (+11.9%) (Table 2.1). Deposits continued to grow steadily in medium and large private banks (+10.1%) and state-controlled banks (+7.5%). A considerable drop in household deposits was registered in banks under resolution (-13.3%).

Banks with a basic licence account for a minor share of the deposit market (less than 1%); their operations had no tangible effect on the overall dynamics.

A slowdown in deposit growth from 10.7% to 6.5% in 2018 was associated with two factors:

• a gradual shift in households' behaviour model accompanied with a shrinkage of household savings in the structure of money income use from 8.1%

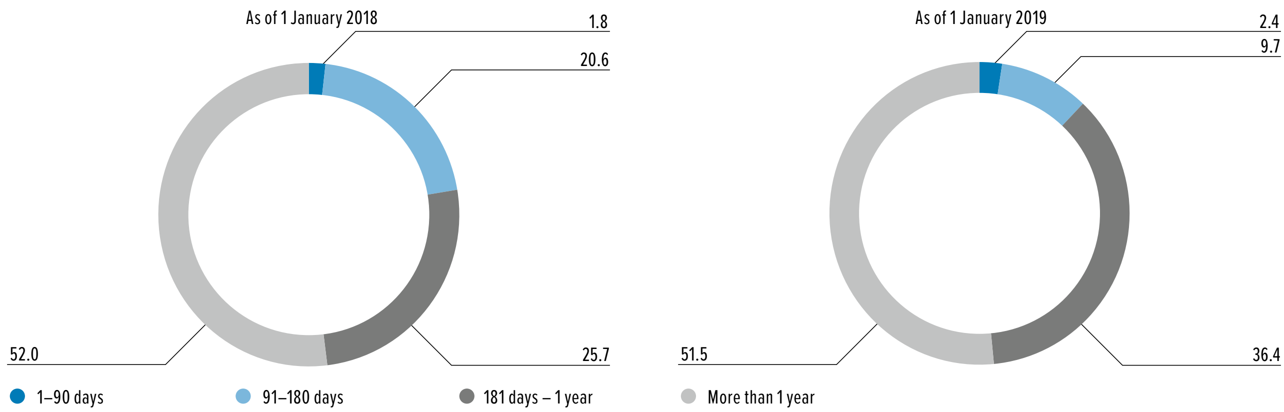
[1] In 2018, the USD/RUB exchange rate rose from ₽57.6002 to ₽69.4706 per US dollar (+20.6%).

[2] Here and elsewhere, including savings certificates.

[3] In order to explore the banking business and assess the impact of such factors as ownership, capital and resolution measures, the Bank of Russia analysed the following clusters of credit institutions: state-controlled banks (directly or indirectly controlled by the Government or the Bank of Russia); foreign-controlled banks – banks directly or indirectly controlled by foreign legal entities and foreign nationals (other than banks where ultimate beneficiaries are Russian individuals and legal entities), and banks where the direct or indirect (through third parties) share of foreign legal entities and foreign nationals who are the ultimate owners of shareholders (participants) of the bank exceeds 50% of the total number of voting shares (stakes) in the bank; private banks with capital of more than ₽1 billion; banks with a basic licence; banks under resolution (through the State Corporation Deposit Insurance Agency (DIA) and Fund of Banking Sector Consolidation Asset Management Company LLC, (FBSC AMC Ltd.)); non-bank credit institutions (NCI). For a more accurate estimation of performance of clustered banks, the calculations were based on the bank classification as of 1 January 2019.

DEPOSITS BY MATURITY,%

Figure 2.2



HOUSEHOLD DEPOSITS BY BANK GROUP*, %

Table 2.1

Bank groups	Group's share in total deposits of the banking sector		Share of household deposits in liabilities of the bank group	
	1 January 2018	1 January 2019	1 January 2018	1 January 2019
State-controlled banks	67.8	68.4	34.9	34.8
Foreign-controlled banks	9.3	10.0	25.8	25.9
Medium and large private banks	14.2	14.5	31.6	32.4
Banks with a basic licence	0.5	0.5	39.3	38.9
Banks under resolution	8.2	6.6	20.2	18.9
Non-bank credit institutions	0.0	0.0	0.1	0.0

* Here and elsewhere, calculations were made for credit institutions in operation as of 1 January 2019 to enable a more accurate estimation of banks' performance.

in 2017 to 5.6% in 2018, largely due to consumer spending and mandatory payments whose shares rose by 1.2 pp and 1.0 pp respectively[1];

- a rise in households' interest in alternative investment (real estate, stock market).

Deposit maturity structure changed in 2018[2]. Deposits for six months to one year showed the fastest growth among short-term deposits (for less than one year): their share in total household deposits increased by 10.7 pp, whereas the share of deposits for 90 to 180 days contracted by 10.9 pp (Figure 2.2). Long-term deposits (for more than one year) continue to account for more than a half of total deposits; however, their share[3] contracted in 2018 by 0.4 pp.

In 2018, the share of deposits which exceed the deposit insurance indemnity (₽1.4 million) increased from 40.8% to 42.6% (Figure 2.3).

Most household deposit accounts were opened for the amount up to ₽100,000. The share of deposits with such balance in total deposit decreased in 2018 by 0.2 pp to total 93.6% as of 1 January 2019. Deposits for ₽100,000 to ₽1 million accounted for the bulk of other deposits (Figure 2.4).

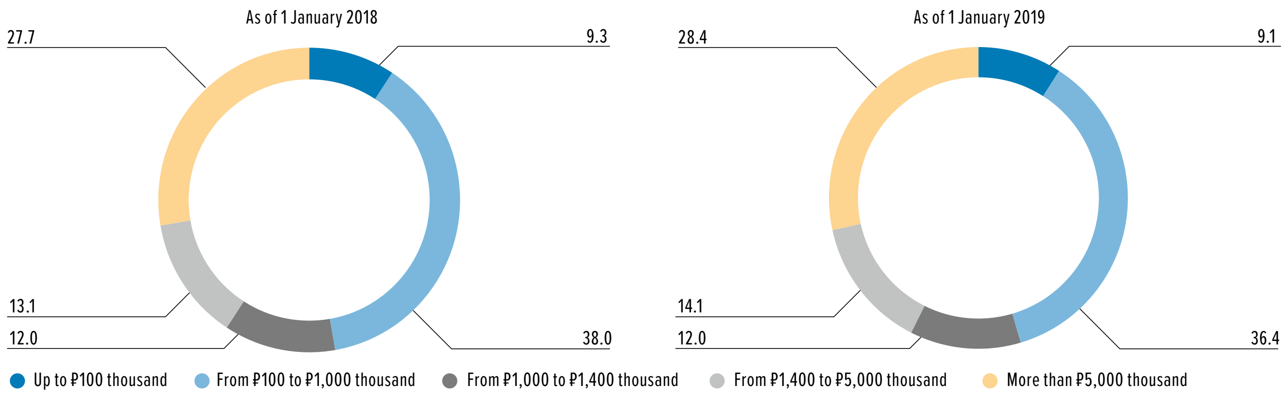
Similar to interest rates on household deposits, the weighted average interest rate on ruble deposits of non-financial organisations for more than one year changed insignificantly in 2018 (Figure 2.5), though its intra-year fluctuations were associated with factors which affect the cost of financial assets.

[1] Data by the Federal State Statistics Service.

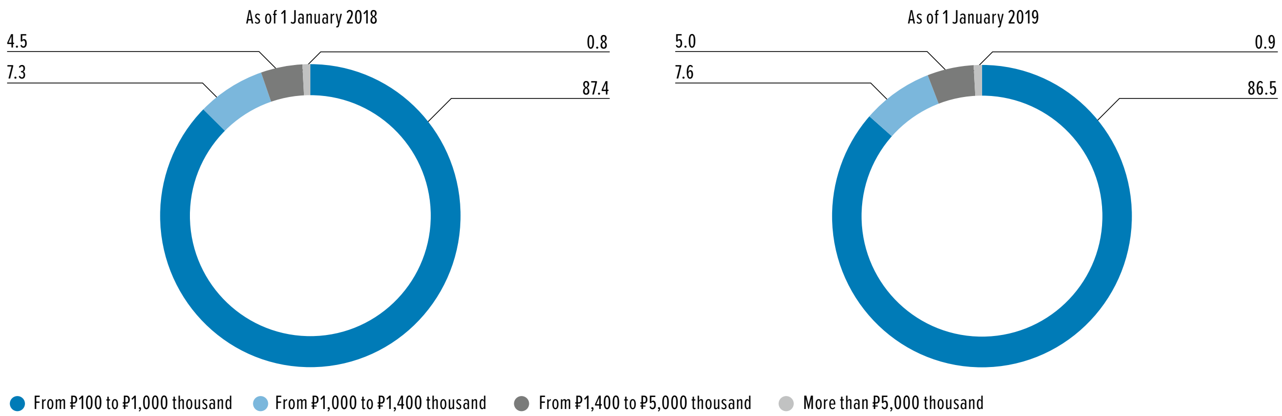
[2] The analysis is based on monthly Reporting Form 0409101 'Trial Balance Sheet on the Accounting Records of a Credit Institution'.

[3] Shares are calculated net of sight deposits and funds for which there is no maturity information available.

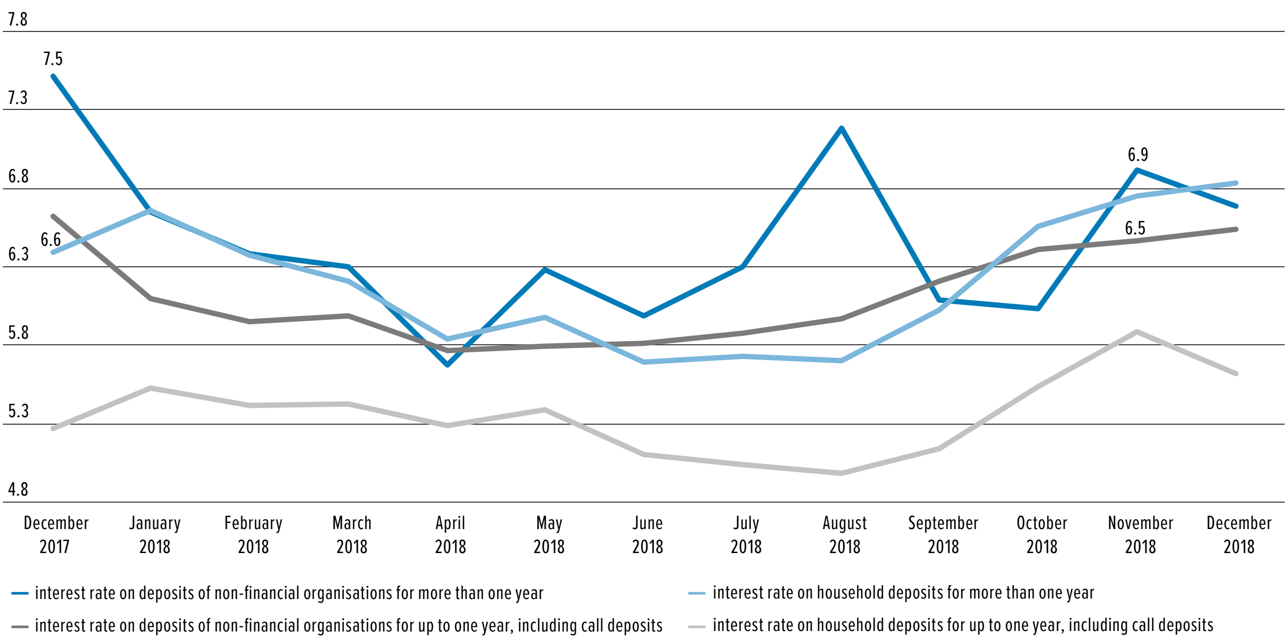
HOUSEHOLD DEPOSITS BY BALANCE AMOUNT, SHARE OF TOTAL DEPOSITS, % *Figure 2.3*



HOUSEHOLD DEPOSITS BY NUMBER OF ACCOUNTS (NET OF ACCOUNTS AND DEPOSITS UNDER ₽100 THOUSAND), SHARE OF TOTAL ACCOUNTS, % *Figure 2.4*

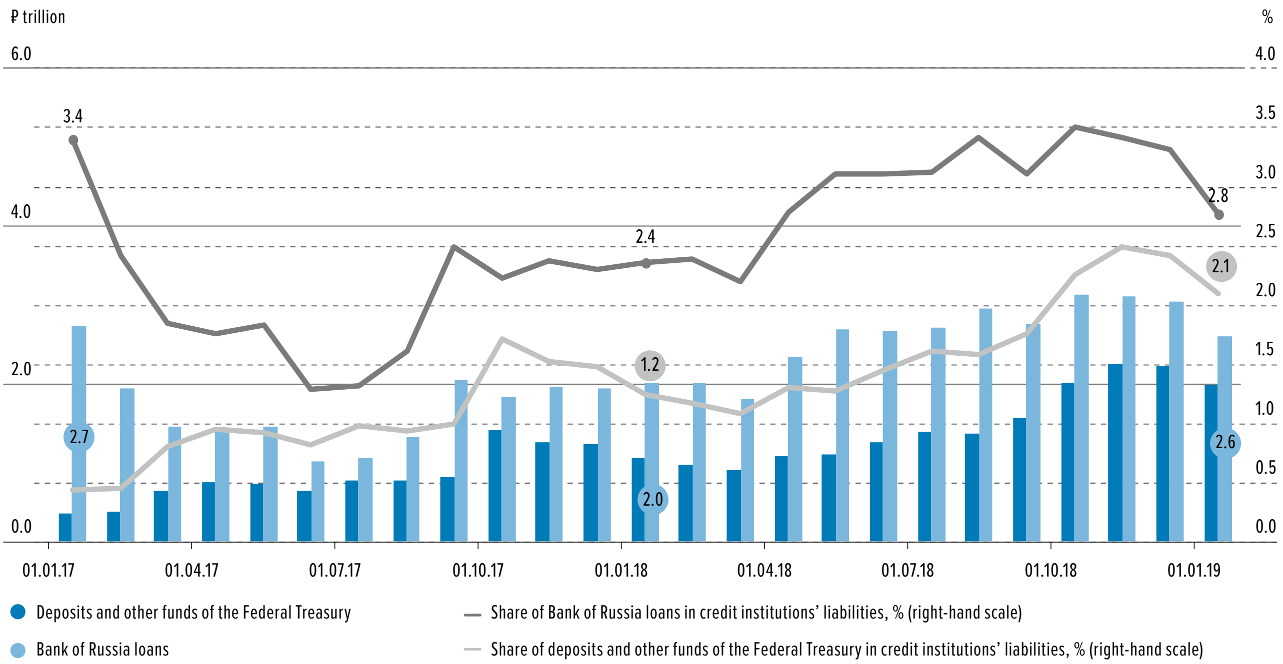


WEIGHTED AVERAGE INTEREST RATES ON RUBLE DEPOSITS OF NON-FINANCIAL ORGANISATIONS AND HOUSEHOLDS, % *Figure 2.5*



LOANS EXTENDED BY THE BANK OF RUSSIA, DEPOSITS AND OTHER FUNDS OF THE FEDERAL TREASURY

Figure 2.6



DEPOSITS AND FUNDS ON ACCOUNTS OF NON-FINANCIAL AND FINANCIAL ORGANISATIONS (OTHER THAN CREDIT INSTITUTIONS), BY BANK GROUP

Table 2.2

Bank groups	Group's share in total deposits and funds on accounts of non-financial and financial organisations of the banking sector		Share of deposits and funds on accounts of non-financial and financial organisations in liabilities of the bank group	
	1 January 2018	1 January 2019	1 January 2018	1 January 2019
State-controlled banks	62.5	62.4	30.9	31.2
Foreign-controlled banks	12.6	13.2	33.8	33.8
Medium and large private banks	14.7	14.6	31.5	32.1
Banks with a basic licence	0.4	0.3	27.5	26.9
Banks under resolution	8.7	7.3	20.5	20.6
Non-bank credit institutions	1.1	2.1	9.4	14.2

The rise in economic activity and the level of deposit rates increased total corporate deposits and accounts by 6.0% in 2018 (in 2017, 4.8% growth). As of 1 January 2019, funds of non-financial organisations[1] reached ₽28.0 trillion.

In 2018, corporate deposits and accounts showed the highest growth pace in foreign-controlled banks (+11.9%) and medium and large private banks (+6.6%).

Corporate funds raised by state-controlled banks demonstrated less pronounced growth (+4.6%).

Funds raised by credit institutions through the issue of bonds increased in 2018 by 9.4%, to ₽1.3 trillion. The share of this source in banking sector liabilities did not change over the year (1.4%). The volume of promissory notes and bank acceptances issued by credit institutions rose by 0.5% over the year, and their share in bank liabilities was insignificant (0.5% as of 1 January 2019).

Credit institutions' borrowings from the Bank of Russia rose pronouncedly (by 29.4%), as individual major market participants received large overnight loans as part of liquidity management and the share of these funds in bank liabilities increased (Figure 2.6).

[1] Deposits and funds on accounts of financial and non-financial organisations (other than credit institutions).

As the Federal Treasury (FT) resumed operations to place temporarily available budgetary funds in banking sector liabilities, the share of FT deposits and other funds rose from 1.2% to 2.1%.

Interbank loans extended to resident banks dropped by 8.4% (in 2017, grew by 14.8%); the portfolio of interbank loans to non-residents shrank even more considerably by 16.5% (in 2017, contracted by 7.7%). A structural liquidity surplus remains the main factor affecting the drop in banks' demand for interbank loans.

II.2.2. FUND PLACEMENT AND ASSET STRUCTURE

In 2018, banking sector assets increased by 6.9% (in 2017, by 9.0%), to ₽94.1 trillion. Their structure changed insignificantly over the reporting period (Figure 2.7).

Similar to liabilities, the process of dedollarisation continued in assets. Credit institutions' FX assets (in US dollar terms) shrank by 7.6% in 2018; however, their share in total assets remained virtually unchanged at 22.4% (as of 1 January 2018, 22.3%).

In 2018, state-controlled banks accounted for the bulk of total banking sector assets (59.5%) (as of 1 January 2018, 59.1%). The share of foreign-controlled banks went up from 10.9% to 11.7%. At the same time, the share of banks under resolution dropped from 12.3% to 10.6%.

The share of non-bank credit institutions (NCIs) increased by 0.8 pp to 4.4%. The share of medium and large private banks changed insignificantly and came in at 13.5%.

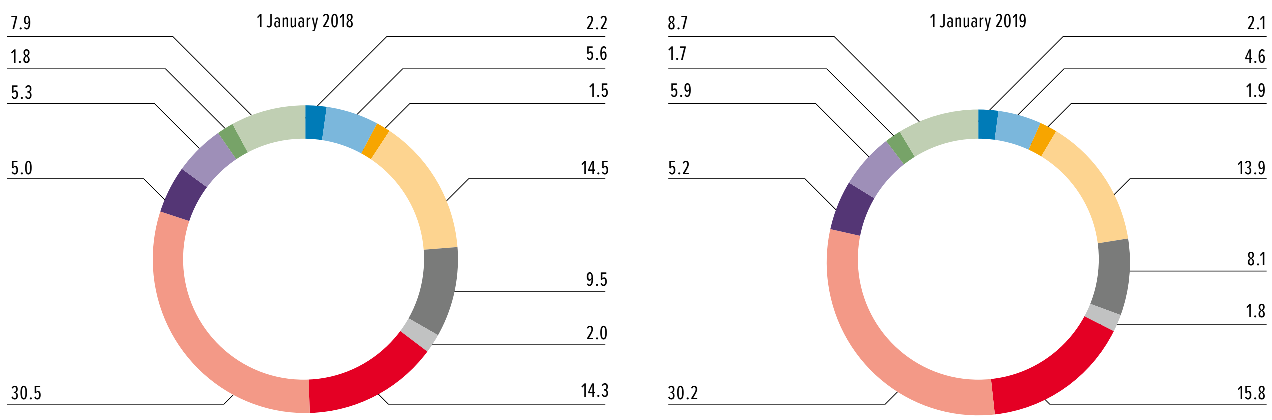
Bank assets grew modestly amid the corporate sector's moderate demand for loans. Nevertheless, positive dynamics emerged in 2018 in both retail and corporate lending (Figures 2.8 and 2.9) on the back of rising production and consumption. The total portfolio of loans to non-financial organisations and households grew in 2018 by 10.7% (in 2017, by 6.2%), to ₽48.3 trillion, while the share of such loans in bank assets increased from 49.7% to 51.3%. Non-financial organisations' outstanding loans increased in 2018 by 5.8% (in 2017, by 3.7%), to ₽33.4 trillion.

State-controlled banks extensively lent to the corporate segment of the market. In 2018, state-controlled banks increased loans to non-financial organisations by 9.0%. In contrast, the corporate loan portfolio of large and medium private banks shrank by 5.9%. Foreign-controlled banks were less engaged in lending to the Russian economy. The corporate loan portfolio of this group of banks added 6.6%.

Table 2.3 shows the structure of the corporate lending market by bank group in 2018.

BANKING SECTOR ASSET STRUCTURE (%)

Figure 2.7



- Money, precious metals
- Account balances with the Bank of Russia
- Balances in correspondent accounts with credit institutions
- Securities
- Loans, deposits, and other placed funds provided to resident credit institutions
- Loans, deposits, and other placed funds provided to non-resident banks
- Loans and other funds provided to resident and non-resident households
- Loans and other placed funds provided to resident non-financial institutions
- Loans and other placed funds provided to non-resident legal entities (other than banks)
- Loans and other placed funds provided to financial organisations (other than banks)
- Fixed assets and intangible assets
- Other assets

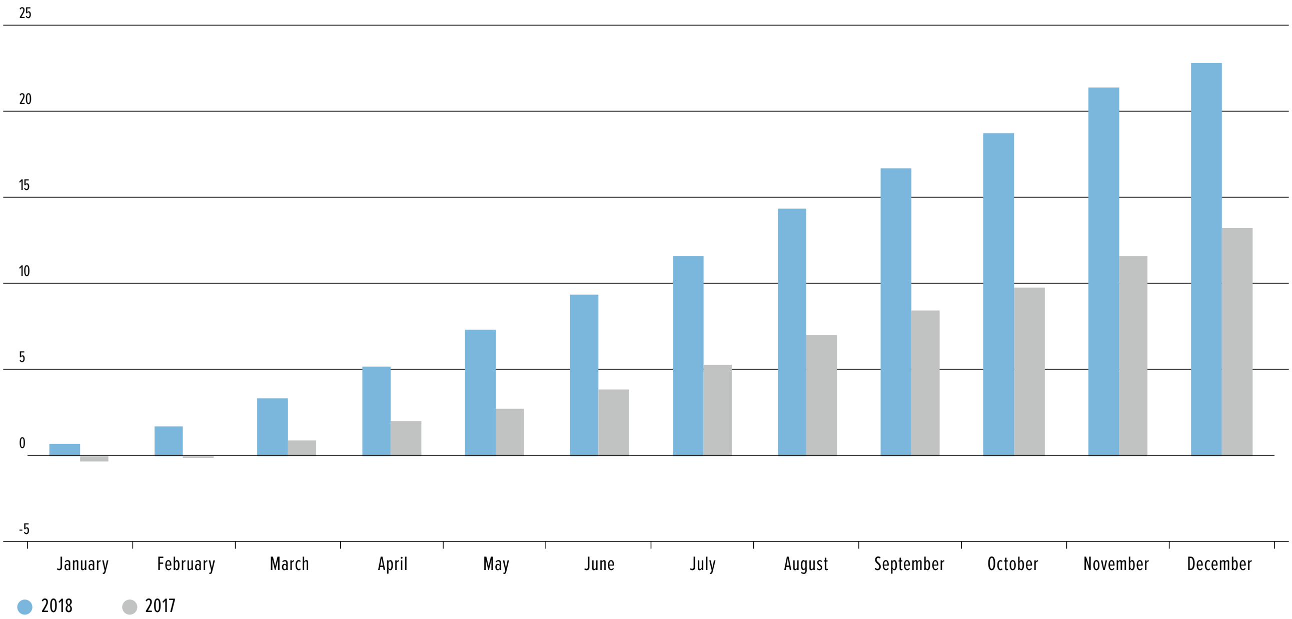
In 2018, the dynamics of bank lending to key sectors of the economy were positive.

As expected, growth in outstanding loans to transportation and communications companies was the most significant (+32.8%). After moderate lending to this segment in the previous years (-6.3% in 2015; -0.4% in 2016; and +10.5% in 2017) considerable growth rates were achieved in 2018 thanks to, among other things, the replacement of foreign loans with ruble-denominated loans from Russian banks, and long-term investment programmes implemented in this sector.

Agriculture came second by lending growth rate in 2018 (+15.9%). Positive lending dynamics in this sector was growing in the past four years (+3.2% in 2015; +8.8% in 2016; and +9.2% in 2017). The ac-

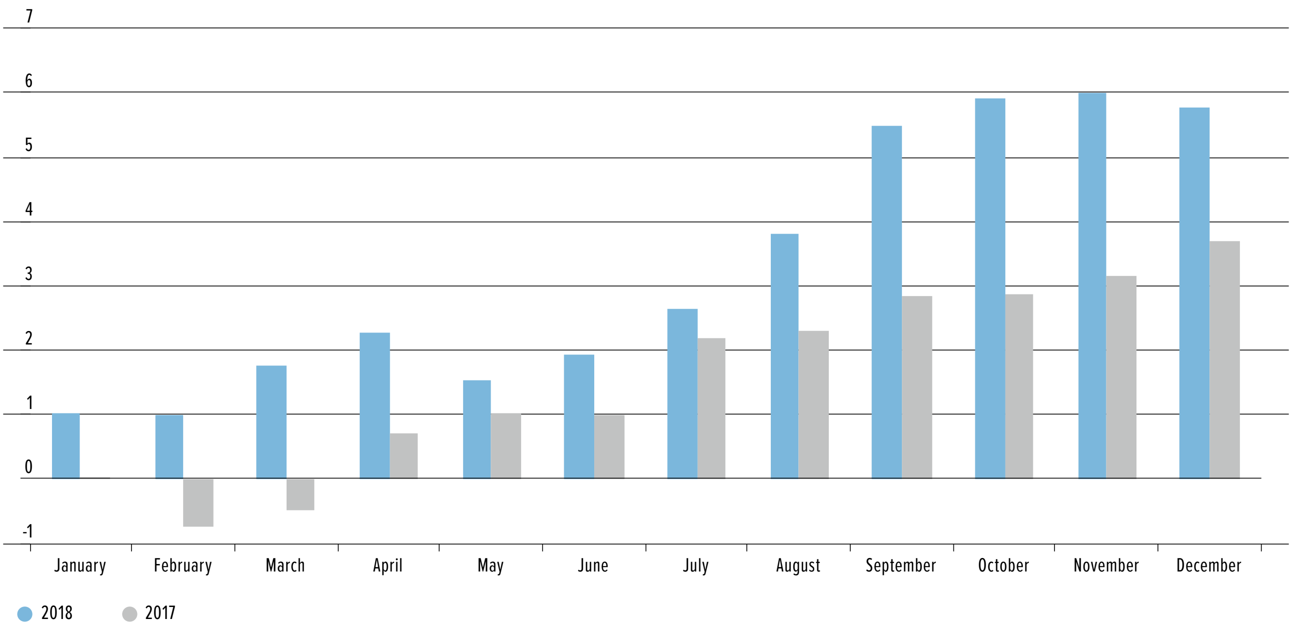
GROWTH OF HOUSEHOLD LOANS IN 2017–2018, %

Figure 2.8



GROWTH OF LOANS TO NON-FINANCIAL ORGANISATIONS IN 2017–2018, %

Figure 2.9



celeration in lending to agricultural producers was largely attributed to import substitution and various subsidy schemes. In 2018, livestock (cattle and pork) and dairy production grew pronouncedly; the share of imports in these segments have shrunk considerably in recent years.

The trade sector is the last of the top three sectors with the highest lending growth pace (+14.0% in 2018). The high indicators are largely explained by the low base effect (the loan portfolio shrank in the previous years), growth in household consumption driven by the expanding retail lending, and stabilisation of household incomes.

Lending to the mining and quarrying sector demonstrated high growth rates of 10.0% in 2018 as its performance steadily increased: the industrial production index in mining and quarrying came in at 104.1% (107.0% in coal production). Manager surveys[1] suggest that factors that curb growth in the sector' performance changed somewhat. The first of them remains economic uncertainty, and the second is depreciation and lack of equipment (instead of insufficient demand in the domestic market).

Lending to electricity, gas and water supply increased at a moderate rate (+4.5% in 2018) amid positive production dynamics (last year's industrial production indices rose: 101.6% (electricity supply, etc.) and 102.0% (water supply and disposal).

Lending to the construction sector was unstable: growth in the first nine months of 2018 (+11.2%) gave way to a decline in outstanding loans at the end of the year; as of the year-end lending in this sector increased by mere 2.1%. In 2018, the situation in the sector was mixed: finished construction works increased (+5.3% in 2018 vs 2017 in comparable prices); however, commissioned housing contracted to the lowest readings since 2014 (in terms of both the number of commissioned buildings and space of finished buildings).

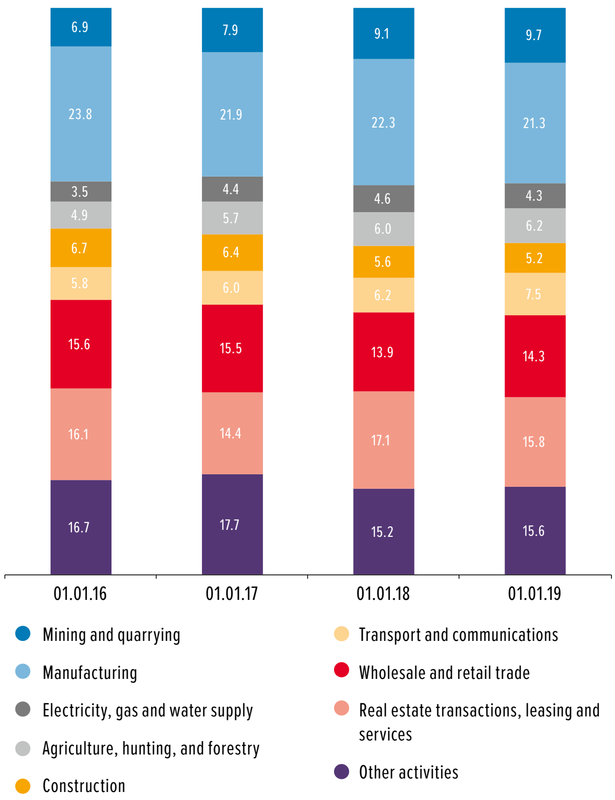
After strong growth in the first ten months of 2018 (+6.1%), lending to the manufacturing sector dropped in November (-3.3%) and December (-1.2%). The final result was significantly lower than in 2017 – 1.7% growth as of the year-end. The leading PMI in manufacturing demonstrated unstable dynamics in 2018: in the period from May until August it held below 50 points; then in rose somewhat at the year-end to total 51.7 points in December.

The share of FX loans in total loans to non-financial organisations declined from 29.7% to 28.8% in 2018. This is explained by the reduction in the share of FX transactions encouraged by regulatory measures. Credit institutions registered a decrease in the share of the FX component in most sectors except for construction, forestry and agricultural, and mining and quarrying companies. This component reduced most pronouncedly in companies engaged in operations with real property, leasing and services (form 28.8%

LOANS TO NON-FINANCIAL ORGANISATIONS IN TOTAL LOANS TO THE BANKING SECTOR, BY BANK GROUP, % *Table 2.3*

Bank groups	1 January 2018	1 January 2019
State-controlled banks	70.5	72.8
Foreign-controlled banks	9.8	10.1
Medium and large private banks	10.7	9.3
Banks with a basic licence	0.3	0.3
Banks under resolution	8.7	7.5

SECTORAL STRUCTURE OF THE BANKING SECTOR'S CORPORATE LOAN PORTFOLIO, % *Figure 2.10*



[1] Data from monthly surveys of the Federal State Statistics Service.

to 24.6%), and transport and communications companies (from 16.1% to 12.0%). Manufacturing companies also posted a tangible decrease in outstanding FX loans from 27.9% to 25.9% (Figure 2.11).

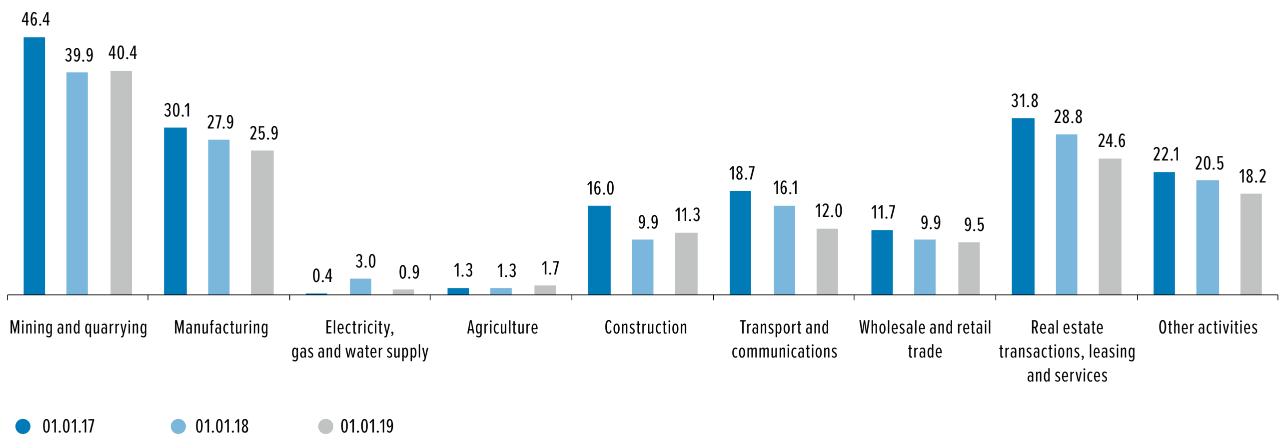
Throughout 2018, interest rates on loans to non-financial organisations posted mixed dynamics without any particular trend. The weighted average interest rate on ruble loans for more than one year rose from 8.6% p.a. in January to 9.2% p.a. in December 2018 (Figure 2.12).

Interest rates on loans to small and medium-sized enterprises (SME) were higher than those on corporate loans in 2018; however, there was a trend towards the convergence of these rates. For loans with maturities of more than one year, the excess of interest rates for SMEs over those for non-financial organisations on the whole decreased from 2.7 pp to 0.9 pp.

In 2018, SME lending continued to expand: the total value of loans to SMEs rose considerably

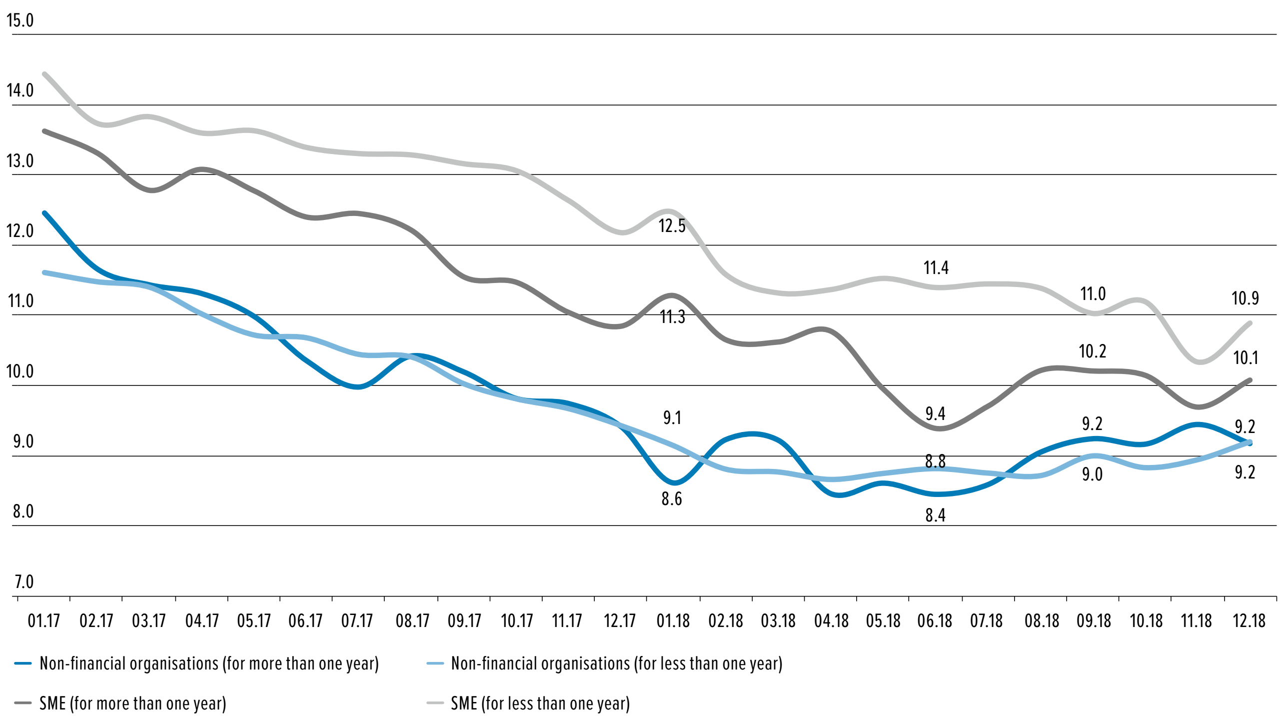
SHARE OF OUTSTANDING CORPORATE FX LOANS BY ECONOMIC ACTIVITY, %

Figure 2.11



WEIGHTED AVERAGE INTEREST RATES ON RUBLE LOANS TO NON-FINANCIAL ORGANISATIONS, % p.a.

Figure 2.12



(by 11.4%). Outstanding bank loans to SMEs increased by 4.2%, to ₽4.2 trillion as of 1 January 2018.

Outstanding household loans increased in 2018 by 22.8% (in 2017, by 13.2%), to ₽14.9 trillion (Table 2.4), and accounted for around half of growth in the loan portfolio of the banking sector. As of 1 January 2019, this lending segment accounted for 15.8% of banking sector assets. The share of FX loans in the retail portfolio was minor (0.7%).

The dynamics of the retail loan portfolio, whose growth outpaced that of income and wages, increased households' debt burden.

Mortgage lending was the most dynamic line of retail operations: outstanding housing mortgage loans (HMLs) increased in 2018 by 23.1%, to ₽6.6 trillion (in 2017, by 16.2%). HMLs extended in 2018 exceeded those issued in 2017 by 35% in quantitative terms and by 49% in monetary terms: in 2018, credit institutions extended 1,472,000 new HMLs worth ₽3.0 trillion (compared with 1,087,000 new loans worth ₽2.0 trillion in 2017). The volume of HMLs extended in 2018 was the highest in the history of the Russian market of mortgage lending. This was the result of, primarily, the decrease in average annual interest rates, and the government programme for subsidising interest rates for certain categories of borrowers[1].

HOUSEHOLD LOANS BY BANK GROUP, % *Table 2.4*

Group of credit institutions	Share of the bank group in total household loans of the banking sector		Share of household loans in assets of the bank group	
	1 January 2018	1 January 2019	1 January 2018	1 January 2019
State-controlled banks	68.1	69.4	16.5	18.5
Foreign-controlled banks	14.5	14.2	19.1	19.3
Medium and large private banks	12.2	11.7	12.8	13.7
Banks with a basic licence	0.3	0.3	10.8	10.8
Banks under resolution	4.9	4.4	5.7	6.6
Non-bank credit institutions	0.0	0.0	0.0	0.0

HML dynamics by currency

Ruble loans were the main driver of growth in HMLs: in 2018, the portfolio of ruble loans increased by 23.6%, to ₽6.5 trillion (the share in total housing mortgage loans is 99.2%). The number of ruble loans issued over the year rose by 35.4% to 1.5 million loans. The weighted average interest rate on ruble HMLs in the reporting year dropped from 9.9% in January to 9.6% in December.

The issue of mortgage loans denominated in foreign currency has almost stopped in the past two years: in 2018, only 12 loans for a total amount of $5.9 million were issued (in 2017, 11 loans for a total amount of $9.4 million) (Figure 2.13). The share of FX HMLs, with acquired claims factored in, decreased from 1.2% as of 1 January 2018 to 0.8% as of 1 January 2019.

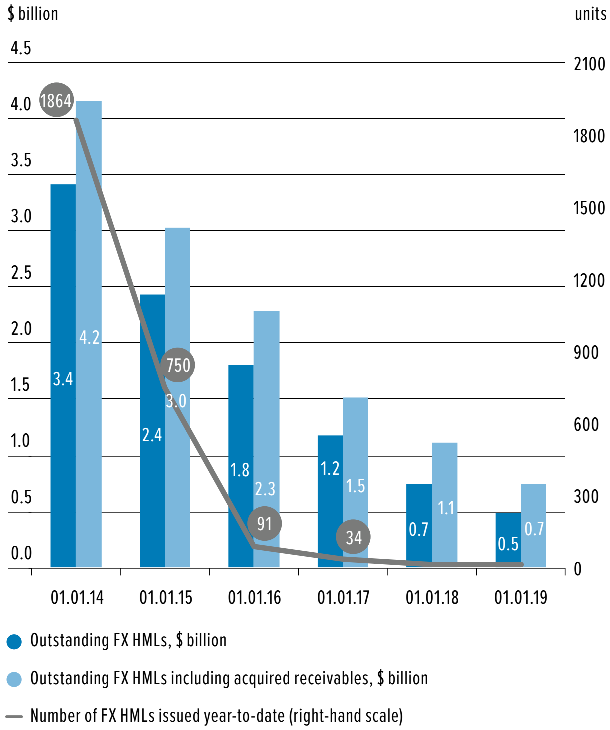
The 2018 dynamics of unsecured consumer loans (UCLs) (+22.8%) shows that the revival in this lending segment registered in 2017 gave way to a more extensive portfolio increase. In 2018, the UCL growth exceeded the 2014 level, which was considerably lower than the readings observed in 2012–2013. Growth in unsecured consumer lending in the second half of 2018 was paired with a fast increase in non-food trade turnover. This may be associated with, among other things, a rise in households' inflation expectations amid the ruble's weakening, the announcement of the VAT hike, the rise in petrol prices, and the purchases of durable goods which were previously delayed.

Car loans increased in 2018 by 15.4%, to ₽817 billion (5.5% of the retail portfolio). The auto lending trends of the past two years point to a recovery and development in this segment of the credit market after a three-year slump. According to data by the National Credit History Bureau (NCHB), the number of car loans issued in 2018 almost reached the 2014 pre-crisis level (801,000 compared with 823,000).

[1] Resolution of the Government of the Russian Federation No. 1711, dated 30 December 2017, 'On the Approval of Rules for Providing Subsidies from the Federal Budget to Russian Credit Institutions and the Joint-stock Company DOM.RF to Reimburse the Unearned Income from Extended (Acquired) Housing (Mortgage) Loans to Russian National who Have Children'.

In 2018, rates on retail loans for more than one year continued to go down (Figure 2.14) having fallen to 12.5% p.a. by December. Auto lending was the only segment of retail lending that posted rate growth. Following the termination of government subsidies of interest rates on car loans, interest rates rose by 3.1 pp in January 2018, to 14.5%.

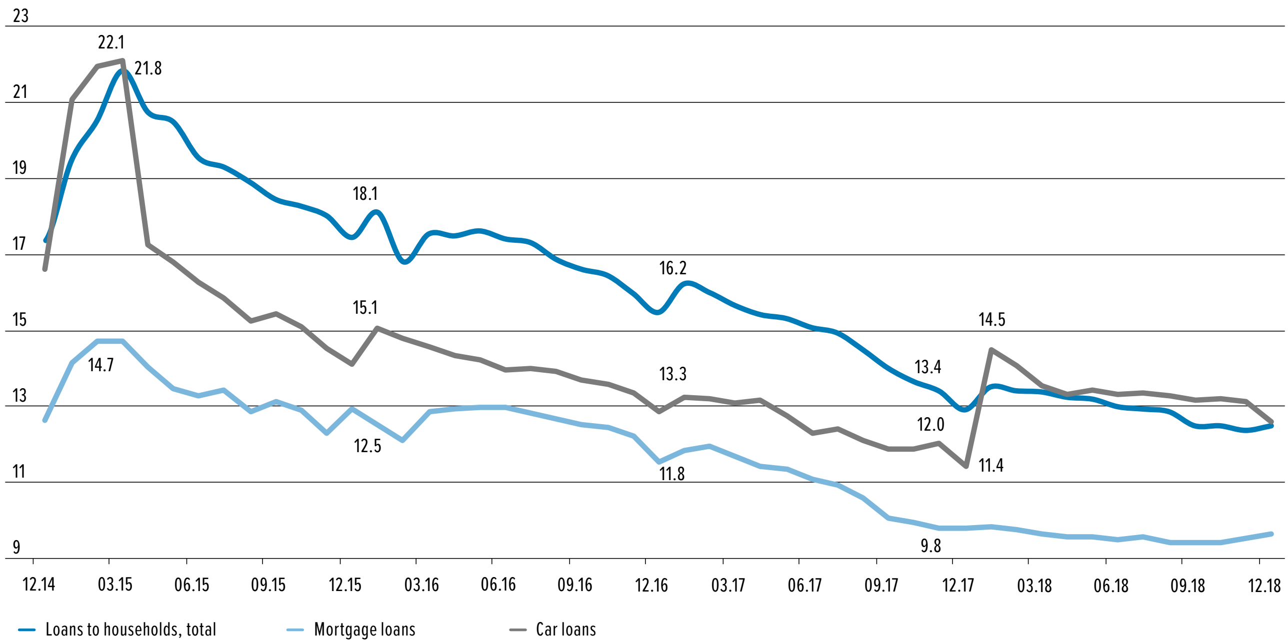
OUTSTANDING FX HMLS (INCLUDING ACQUIRED RECEIVABLES DUE) AND HMLS ISSUED YEAR-TO-DATE *Figure 2.13*



Credit institutions' securities portfolio expanded in 2018 by 2.4%, to ₽13.1 trillion (in 2017, by 9.7%); however, its share in banking sector assets shrank from 14.5% to 13.9%. Debt investment still accounted for the bulk (82.9%) of this portfolio, having increased to ₽10.9 trillion (+4.4%). Meanwhile, amid a more considerable increase in banks' debt investment compared with growth in the composite bond index of the Moscow Exchange (+2.7% in 2018), growth of the debt securities portfolio is attributed to a real hike in investment in this instrument rather than revaluation. About 17% of debt securities were transferred without derecognition (repo) as of the end of 2018.

As of 1 January 2019, investments of the banking sector in federal government bonds totalled ₽4.3 trillion, of which ₽3.2 trillion were held on banks' balance sheets (except for repos). It is of note that banks extensively use OFZ in repo transactions. Compared with the beginning of 2018, a trend emerged towards a further increase in such operations. As of early 2019, securities worth ₽1.1 trillion[1] were submitted under repo transactions compared

WEIGHTED AVERAGE INTEREST RATES ON HOUSEHOLD RUBLE LOANS MATURING IN MORE THAN ONE YEAR, % p.a. *Figure 2.14*



[1] Market value of portfolios according to Reporting Form 0409711 'Securities Report'.

with ₽0.7 trillion as of the beginning of 2018 (with virtually unchanged OFZ investments of ₽4.2 trillion as of 1 January 2018).

In 2018, credit institutions considerably increased their investments (from ₽0.4 trillion to ₽1.4 trillion) in Bank of Russia coupon bonds almost 100% of which are held on banks' balance sheets.

Investments in corporate bonds remained virtually unchanged in 2018 at ₽5.3 trillion, of which ₽4.6 trillion were held on banks' balance sheets (except for repos) and ₽0.8 trillion were transferred without derecognition.

As of 1 January 2019, state-controlled banks and medium and large private banks were the main debt holders accounting for 50.2% and 23.9% of the banking sector's debt purchases.

Banks' participation in capital of subsidiary and affiliated joint-stock companies shrank by 7.6%, to ₽1.6 trillion (in 2017, it increased by 13.0%). The share of this indicator in the structure of securities investment reduced from 14.2% to 12.3%.

Equity investment declined by 0.5% in the reporting period (in 2017, it grew by 41.8%). As of the end of 2018, equity investment amounted to ₽494 billion, and its share in the securities portfolio shrank from 3.9% to 3.8%.

Receivables on loans to non-resident banks contracted by 8.4% with their share in banking sector assets shrinking from 9.5% to 8.1%. Interbank loans[1] with non-resident banks reduced by 16.5% with their share in assets falling from 2.0% to 1.8%.

The total portfolio of interbank loans decreased by 9.8% in 2018 (in 2017, grew by 10.0%) and as of year-end receivables on these loans totalled ₽9.3 trillion. The share of interbank loans in the banking sector assets contracted over the year from 11.5% to 9.9%.

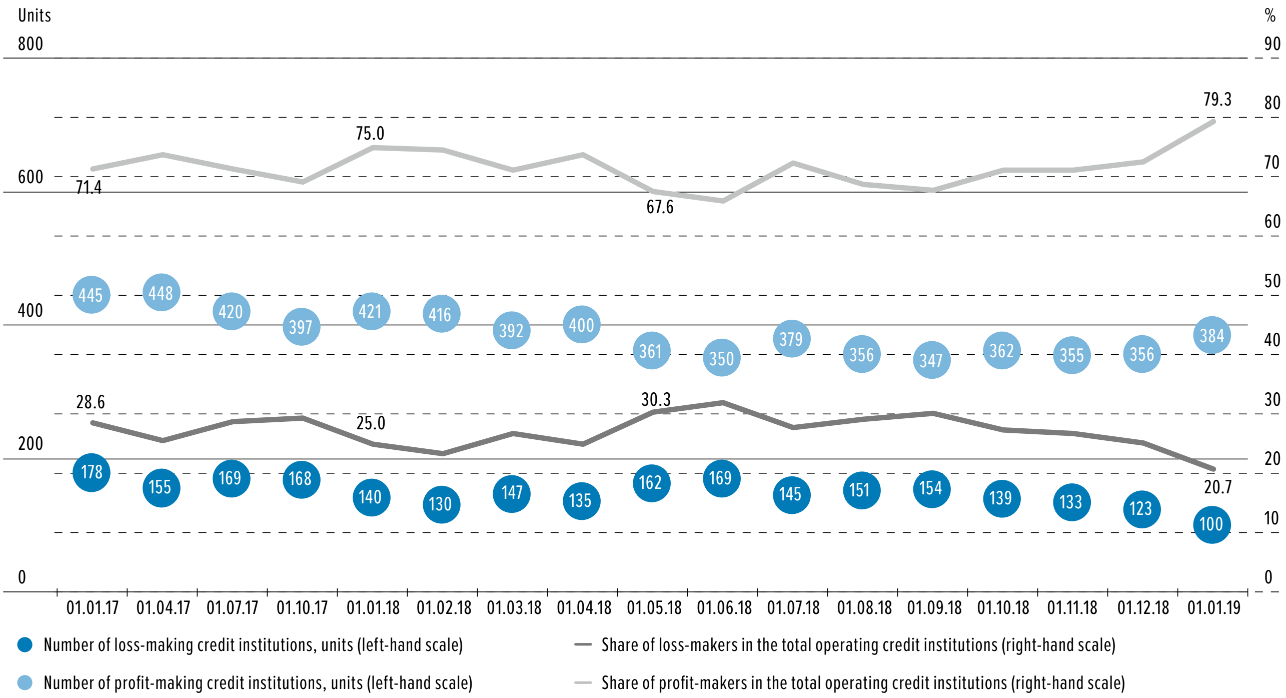
II.2.3. FINANCIAL PERFORMANCE OF CREDIT INSTITUTIONS

II.2.3.1. Financial performance of the banking sector

In 2018, the banking sector gained ₽1.34 trillion in profit, which exceeded the 2017 result (₽790 billion) by a factor of 1.7.

This financial result was affected by the performance of banks under resolution involving the Fund of Banking Sector Consolidation. Banking sector

PROFIT- AND LOSS-MAKING CREDIT INSTITUTIONS* *Figure 2.15*



* Profit/loss is calculated year to date.

[1] Interbank loans mean loans, deposits and other funds placed (raised) in the interbank market, including repos.

profit exclusive of these banks would have totalled ₽1.8 trillion in 2018.

Most credit institutions posted profit in 2018: the share of profit-making credit institutions rose from 75% to 79% compared with 2017. As many as 384 credit institutions registered profit of ₽1.9 trillion in total (in 2017, 421 credit institutions and ₽1.6 trillion respectively).

As many as 100 credit institutions, 21% of banks in operation as of 1 January 2019, posted losses in the amount of ₽575 billion, whereas in 2017, 140 credit institutions (25% of banks in operation as of 1 January 2018) registered ₽772 billion losses.

In 2018, approx. 93% (₽536 billion) of losses were registered in banks undergoing bankruptcy prevention measures, other eight banks, included in top 100 by assets, accounted for ₽26 billion losses.

Losses in 100 credit institutions resulted not only from sizeable additional provisions (+₽649 billion) but also operational ineffectiveness – only 27 out of 100 loss-making banks managed to offset operating expenses with current income.

Out of 100 credit institutions that registered losses in 2018, 29 banks were also loss-making in 2017 and 26 posted losses in 2016–2018. Most of these 55 credit institutions are outside the top 100 banks by assets.

The main contribution to the sector's financial result came from state-controlled banks (₽1.4 trillion), foreign-controlled banks (₽279 billion), and large and medium private banks (₽137 billion). In 2018, banks undergoing financial resolution suffered sizeable losses mainly associated with large additional loss provisioning; the total financial result of these banks came in at -₽458 billion. Total profit of banks with a basic licence amounted to ₽0.7 billion in 2018.

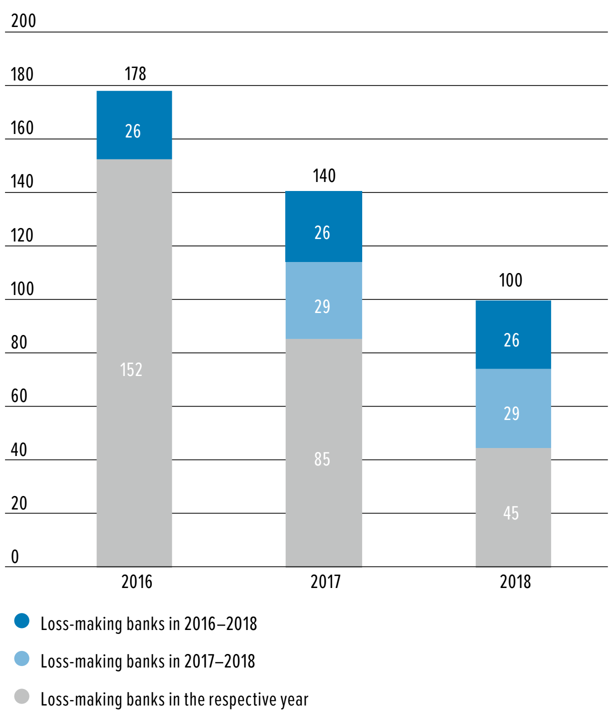
Systemically important credit institutions (SICI) gained ₽1.5 trillion in profits in 2018 which is considerably higher than in 2017 (₽918 billion). This financial performance resulted from growth in net interest income and was supported by contracting expenses on additional provisioning by SICIs undergoing financial resolution with the Bank of Russia's involvement.

As of year-end 2018, the return on assets of credit institutions stood at 1.5%, and the return on equity was 13.3% (a year earlier, 1.0% and 8.3% respectively).

State-controlled banks were the most profitable in 2018; the return on their assets stood at 2.6% and return on equity – at 19.6%. Foreign-controlled banks also posted high return (2.8% and 18.0% respectively) (Table 2.5).

Overall, 233 banks (48% of operating credit institutions) improved their return on assets throughout the year, and 222 banks (46%) improved their return on equity.

LOSS-MAKING BANKS *Figure 2.16*



PROFITABILITY RATIOS BY BANK GROUP, % *Table 2.5*

Bank groups	Return on assets		Return on equity	
	2017	2018	2017	2018
State-controlled banks	2.3	2.6	17.0	19.6
Foreign-controlled banks	2.4	2.8	14.7	18.0
Banks with a basic licence	0.1	0.2	0.7	1.1
Large and medium private banks*	1.2	1.2	9.5	9.0
Memo item: systemically important credit institutions	*1.7*	*2.6*	*13.5*	*19.6*

* Excluding banks under resolution.

The return on equity in 2018 shows that growth in this indicator is attributed to the increase in all capital factors (Table 2.6).

II.2.3.2. Financial performance structure of credit institutions

Despite the fact that growth in banking sector profit in the first half of 2018 was moderate compared with the same period of 2017, nearly all operational indicators improved considerably in the second half of the year.

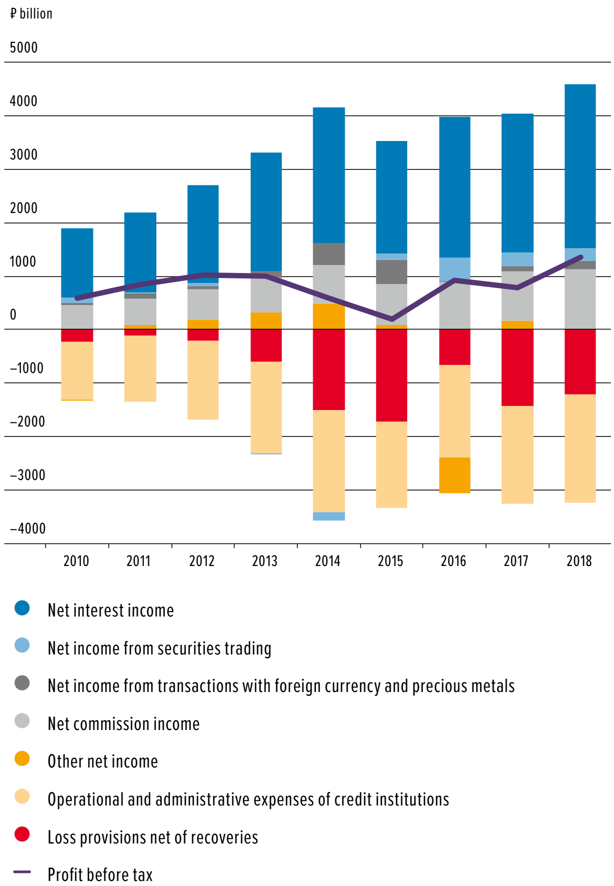
The main contribution to the financial result of the banking sector in 2018 came from rising net interest and commission income and shrinking expenses on loss provisions (mostly because banks under resolution completed their creation). Decreased net other income and income from securities trading had a constraining effect.

Table 2.7 and Figure 2.16 show the profit factors of credit institutions[1] in 2018.

Net interest income was the most significant item of financial result in all bank groups: it accounted for 67% of profit factors (in 2017, 64%).

In 2018, net interest income increased by 19% to ₽3.1 trillion (in 2017, it dropped by 2% compared with 2016). This indicator posted the highest reading in state-controlled banks (67%), banks with a basic licence (60%), and other banks (64%).

BANKING SECTOR PROFIT FACTORS *Figure 2.17*



The lowest reading was registered in banks under resolution (58%) and foreign-controlled banks (49%).

RETURN ON EQUITY STRUCTURE *Table 2.6*

	Equity multiplier (financial leverage)		Profit margin		Return-on-assets ratio		Return on equity
	Assets* / Capital*	×	Financial result / Total net income**	×	Total net income** / Assets*	=	Financial result / Capital*
2017	8.54		0.23		0.05		0.09
2018	8.94		0.29		0.05		0.14

* Average for the year.

** Total net income is the sum of net interest income, net income from securities trading, net income from transactions with foreign currency and precious metals, net commission income, and other net income (before loss provisions) less recoveries and maintenance costs of a credit institution.

[1] Based on Reporting Form 0409102 'Credit Institution Performance Statement'. Financial performance based on Form 0409102 differs from the indicators as per Reporting Form 0409101 'Trial Balance Sheet on the Accounting Records of a Credit Institution' for 2017 (₽785.1 billion and ₽789.7 billion as of 1 January 2018 respectively), mainly due to the difference in the number of reporting credit institutions. In certain cases the discrepancies between the total and the sum of components are due to the rounding of data.

The share of net interest income in total interest income rose from 45% in 2017 to 50% in 2018 on the back of interest income growth coupled with contraction in interest expense.

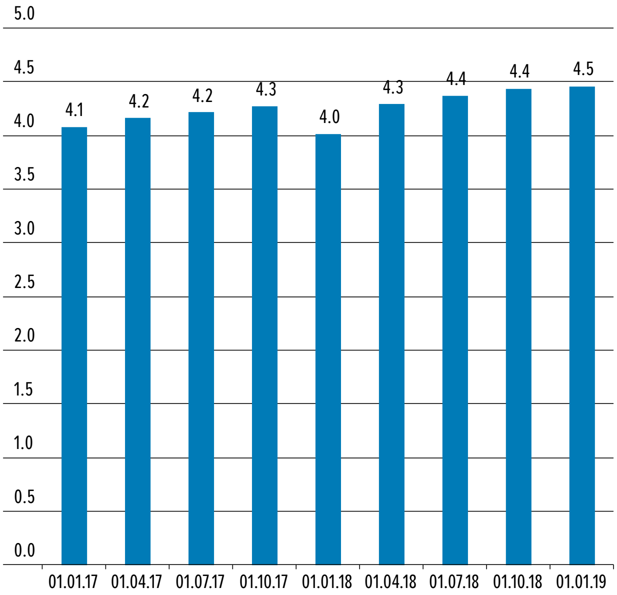
As of the end of 2018 Q4, net interest margin[1] stood at 4.5% (excluding non-bank credit institutions), which is higher than the 2017 Q4 reading (4.0%) mostly thanks to the increase in net interest income which outpaced growth in respective assets (Figure 2.18).

Net commission income[2] is the most stable income source less dependent on market conditions than other bank performance indicators. In 2018, it rose by ₽0.2 trillion or by 21.5% year on year, to ₽1.1 trillion (in 2017, by 4%), and its share in profit drivers increased from 22.9% to 24.5%. The share of net commission income in the structure of profit drivers was the most significant in banks with a basic licence (26%) and the lowest in banks undergoing financial resolution (11%). State-controlled banks and large and medium private banks registered almost similar share of net commission income in the structure of profit drivers (24% and 25% respectively).

Net income from securities trading reduced in 2018 by 13%, to ₽226 billion (it was gained mainly from securities buy/sell operations). This is in line with the trends which emerged in the market in 2018 mostly due to the new sanctions imposed against Russia in April and August 2018 (including the release of a ‘black list’ of Russian entrepreneurs). As a result, the exchange rate of the national currency plunged, major issuers reduced market placements, and shares of large companies dropped. Net income from securities trading accounted for 4.9% of profit drivers (in 2017, 6.4%).

Net income from securities trading accounted for the largest share (21%) of profit drivers in foreign-con-

NET INTEREST MARGIN IN 2017-2018 (EXCLUDING NON-BANK CREDIT INSTITUTIONS) *Figure 2.18*



FINANCIAL RESULT STRUCTURE *Table 2.7*

No.	Profit factors	2017, ₽ billion	2018, ₽ billion	Growth	
				₽ billion	%
1	Net interest income	2,593	3,079	486	18.7
2	Net income from securities trading	258	226	–33	–12.7
3	Net income from transactions with foreign currency and precious metals	92	157	65	70.2
4	Net commission income	926	1,125	199	21.5
5	Other net income	170	10	–161	–94.3
6	Operational and administrative expenses of credit institutions	1,821	2,044	223	12.3
7	Net additional provisions	1,433	1,206	–227	–15.8
8	**Total profit before tax**	**785**	**1,345**	**560**	**71.3**

[1] Margin is calculated as the ratio of net interest income for the last 12 months to the average chronological amount of interest-earning assets (loans, deposits, and other funds placed, including funds placed with the Bank of Russia; investments in debt and discounted promissory notes).

[2] Including commission income/expenses from interest income/expense bearing operations.

trolled banks, which reflects higher importance of operations in the securities markets in the structure of their business compared to other bank groups.

In 2018, banks raised effectiveness of foreign exchange transactions: net income from such operations rose by a factor of 1.7 or ₽65 billion, to ₽157 billion, mostly due to buy/sell operations (in 2017, this item increased by a factor of 2.7). The share of this item in the structure of the banking sector's profit drivers also rose from 2% to 3%.

Net income from foreign exchange transactions increased in all bank groups, except for state-controlled banks. State-controlled banks registered losses from these operations; these operations accounted for 1.8% of profit reducing factors (the previous year also registered losses and the share of these operations in profit reducing factors was 0.3%).

In 2018, net income from other operations contracted considerably from ₽170 billion in 2017 to ₽10 billion in 2018 (2% of profit factors). Banks under resolution made the main contribution to contraction in this item. They registered a decrease in income from write-offs of their liabilities and unclaimed payables, as well as in other income (including one-off income).

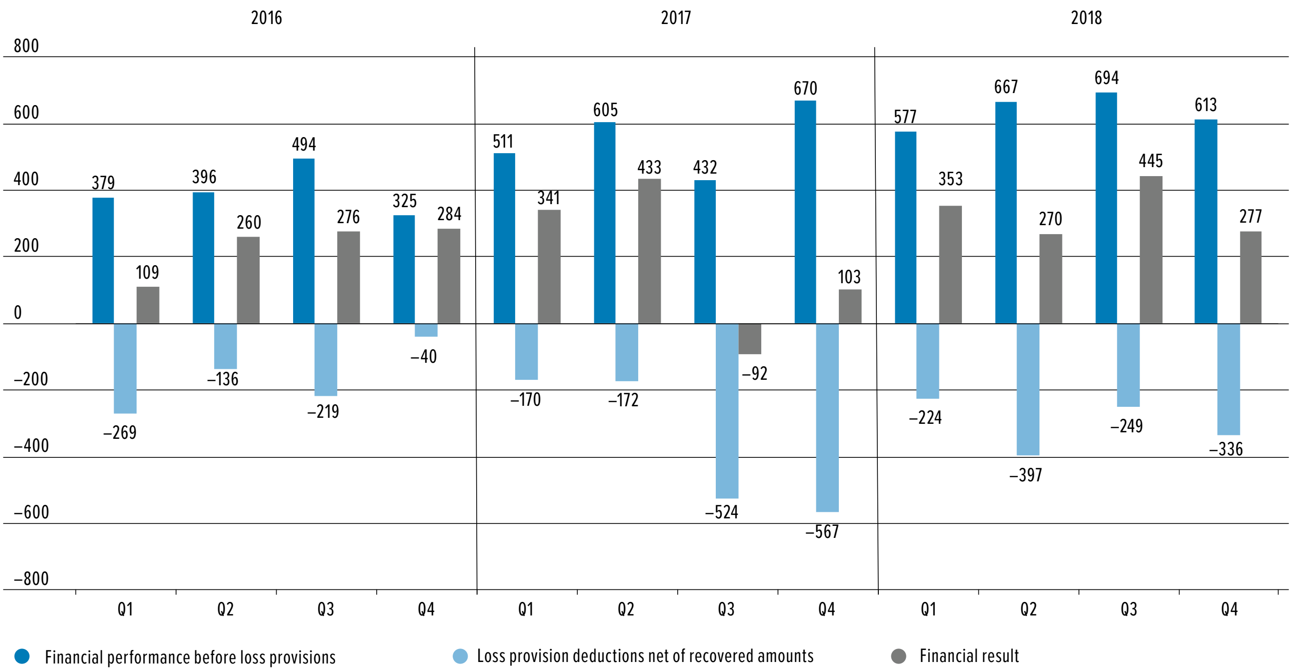
In 2018, administrative expenses of credit institutions grew both in the banking sector and in most groups of credit institutions by a total of 12%, to ₽2.0 trillion (63% of profit reducing factors). As much as 50% of these expenses are personnel expenses, which increased by 14% over the year.

These expenses accounted for the bulk of profit reducing factors in banks with a basic licence (95%) and other banks (72%), and held the lowest share in banks undergoing financial resolution (24%).

A positive shift emerged in the cost-to-income ratio[1]. This ratio reduced from 43.1% to 42.6% overall in the banking sector. The indicator varied by bank group. It was the lowest in state-controlled banks (36.6%) and showed positive dynamics in 2018 (39.2% a year earlier). Foreign-controlled banks improved their performance (46.1% in 2018 compared with 55.6% in 2017). The highest indicator was registered in banks with a basic licence (89.7%) where operating effectiveness deteriorated in the past year (83.3% a year earlier).

FINANCIAL PERFORMANCE OF THE BANKING SECTOR AND LOSS PROVISIONS*

Figure 2.19



* Quarterly growth of the indicators.

[1] The cost-to-income ratio is one of the most popular performance indicators of credit institutions.

The Bank of Russia's resolution of the banking sector is reflected in provisioning dynamics (Figure 2.19). In 2018, additional loss provisions decreased by ₽227 billion, to ₽1.2 trillion, to account for 37% of profit reducing factors compared with 44% in 2017. Such a tangible contraction was caused by the high base effect (additional loss provisioning in 2017 Q4 in major banks under resolution with the Bank of Russia's involvement). Banks under resolution factored out (including banks undergoing resolution with the involvement of the FBSC[1]), net additional loss provisions increased in 2018 by 45%, to ₽0.6 trillion.

Net additional loss provisions increased in all bank groups except for banks under resolution and banks with a basic licence. The share of provisions in profit reducing factors in these banks shrank from 70% to 64% and from 12% to 4% respectively.

The most significant increase in the share of provisions in the structure of profit reducing factors was registered in state-controlled banks (from 22% to 28%) and foreign-controlled banks (from 0.02% in profit factors in 2017 to 9% in profit reducing factors).

Thereby, Russian banks (other than banks under resolution and banks with a basic licence) continued to accumulate provisions despite the observed improvement in the quality of their loan portfolio, which may suggest that banks remain conservative in credit risk assessment.

In 2018, the banking sector's profit tax adjusted for deferred tax liabilities and deferred tax assets rose by 38% to ₽347 billion (in 2017, profit tax increased by 6% ₽251 billion). As of 1 January 2019, deferred taxes increased net tax expenses of the banking sector by ₽24 billion (in 2017, deferred taxes reduced net tax expenses by ₽55 billion).

II.3. INSTITUTIONAL ASPECTS OF BANKING SECTOR DEVELOPMENT

II.3.1. QUANTITATIVE CHARACTERISTICS OF THE BANKING SECTOR

In 2018, the number of operating credit institutions decreased by 77, to 484 banks (Figure 2.20). As many as 60 credit institutions had their licences revoked, 10 licences were liquidated due to bank restructuring, licences of other seven banks were cancelled because their shareholders (participants) decided on voluntary liquidation.

The number of bank branches also contracted by 181, to 709 units.

In 2018, major multibranch banks extensively expanded their remote (online) services and continued to optimise their internal structural divisions reducing their number by a total of 3,503 units (by 10.5%, due to the cut in the number of cash operations departments outside cash settlement centres from 3,033 to 1,068, operations offices from 7,743 to 6,015, and credit and cash offices from 1,972 to 1,918), to 29,783 units as of 1 January 2019 (as of 1 January 2018, 33,286 units). At the same time, the number of additional offices grew slightly from 20,263 to 20,499, and the number of mobile banking vehicles increased from 275 to 283.

The said changes resulted in a drop in the number of internal structural divisions per 100 thousand people from 22.7 as of the end of 2017 to 20.3 as of the end of 2018. To optimise their operations credit institutions have increasingly expanded their remote retail and corporate banking services (for details, refer to Subsection II.5).

As of 1 January 2019, **foreign capital** accounted for 12.4% of the **total authorised capital** of operating credit institutions, as calculated by the Bank of Russia in accordance with the procedure established in Article 18 of Federal Law No. 395-1 'On Banks and Banking Activities' (vs 12.9% as of 1 January 2018).

In 2018, growth was registered in key performance indicators of systemically important financial market infrastructures, in particular, the central counterparty (CCP, represented by Central Counterparty National Clearing Centre (JSC) (NCC)) and the central depository (represented by NCI JSC National Settlement Depository (NSD)).

[1] These banks continued to increase their net provisions in the first half of 2018 but less extensively (₽264 billion). In 2018 Q3, they registered net recovery of provisions (₽35 billion).

The cost of assets kept at the CCP increased by 12% to ₽50 trillion mostly due to the increase in the cost of deposited shares and growth in the number of serviced securities issues.

The volume of CCP trading rose by 5% to ₽716 trillion; the increase was caused by the rise in the volume of trading in the futures and repo market with CCPs with clearing participation certificate (CPC), among other things, thanks to the measures to develop these markets, and increase their liquidity and appeal for investors. These measures include:

- the launch of Liquidity Providers project;
- the completion of the Single Collateral Pool for All Markets project which allowed clearing participants to use a uniform collateral in the futures, stock and FX markets at the Moscow Exchange;
- the expansion of the list of tradable instruments and settlement foreign currencies.

The Liquidity Providers service allowed clearing participants to conclude off-exchange trades with the NCC as a CCP on foreign currency prices translated to the NCC by major international bank (liquidity providers).

In 2018, the Bank of Russia expanded the list of instruments in which centralised clearing participants may invest on the markets of the Moscow Exchange and the National Commodity Exchange.

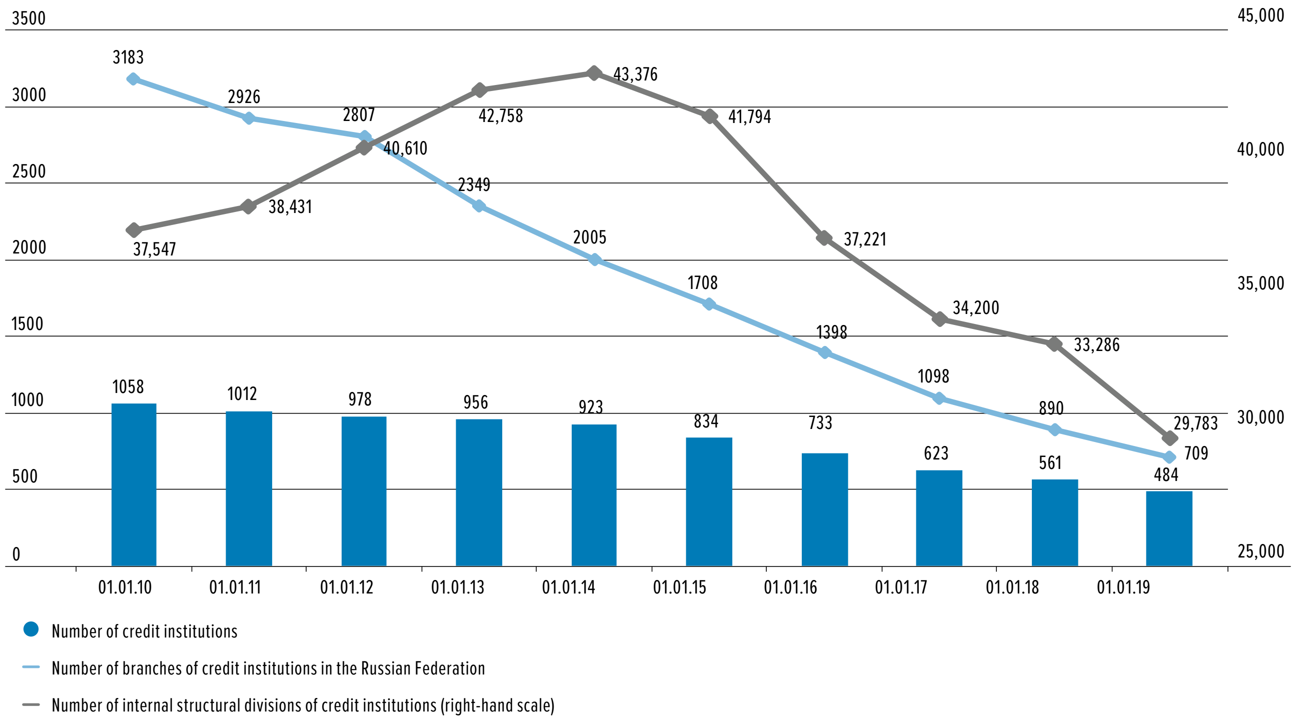
Credit institutions which participate in trading were allowed to settle in US dollars and euros on repos trades concluded with CCPs with CPC[1], and gained access to the CCP deposit market with the right to place rubles, US dollars and euros in deposits at market rates for exchange-traded repos.

In 2018, the Bank of Russia confirmed that NCC management quality was 'satisfactory' in accordance with Bank of Russia Ordinance No. 2919-U, dated 3 December 2012, 'On the Assessment of the Management Quality of a Credit Institution Acting as a Central Counterparty'.

In 2018, the NCC was rated by credit rating agencies. The international credit rating agency Fitch Ratings affirmed the NCC's long-term issuer default rating in foreign currency at BBB- with a positive outlook and the long-term issuer default rating in the national currency at BBB with a stable outlook. Analytical Credit Rating Agency (Joint-

NUMBER OF CREDIT INSTITUTIONS AND THEIR BRANCHES

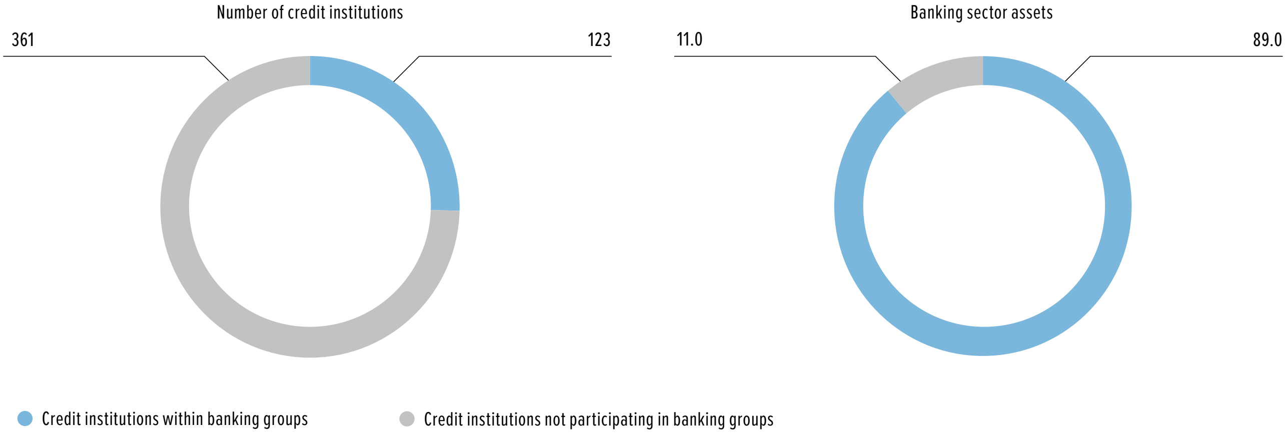
Figure 2.20



1 Previously, only ruble settlements were available.

BANK GROUPS

Figure 2.21



stock Company) affirmed the NCC's credit rating at AAA(RU) with a stable outlook.

In 2018, a number of important processes in the operations of the NCC was implemented: the development of repo collateral management services, introduction of e-voting at shareholder meetings, introduction of blockchain-enabled placement, purchase and sales of securities, and the launch of the Marketplace project and other digital products.

These innovations enhance the attractiveness of the domestic financial market, its transparency and competitiveness, and mitigate risks and costs market participants may face when operating in this market.

II.3.2. BANKING GROUPS AND BANK HOLDING COMPANIES

Banking groups

The effective law defines a banking group as an unincorporated association of legal entities under control or material influence of a parent credit institution.

As of end-2018, there were 86 banking groups[1] (90 groups a year earlier) that united 123 credit institutions accounting for 89.0% of the sector's assets as of 1 January 2019. Banking operations were primarily conducted by parent banks (accounting for 85.2% of the sector's assets). The number of participants in banking groups varied from two to 453 (including both financial and non-financial organisations). Most banking groups only consist of the parent bank (59 groups); 27 groups include two or more credit institutions. In is of note that consolidation processes were observed in banking groups: in 2018, the number of both banking groups and their participating credit institutions contracted. At the same time, the concentration of banking sector assets rose, pointing to the increase in the share of banking group participants in both banking sector assets and the number of credit institutions in the sector.

As a year earlier, the largest banking groups are represented by state-controlled banks; their banking groups consist of up to several hundred participants.

Bank holding companies

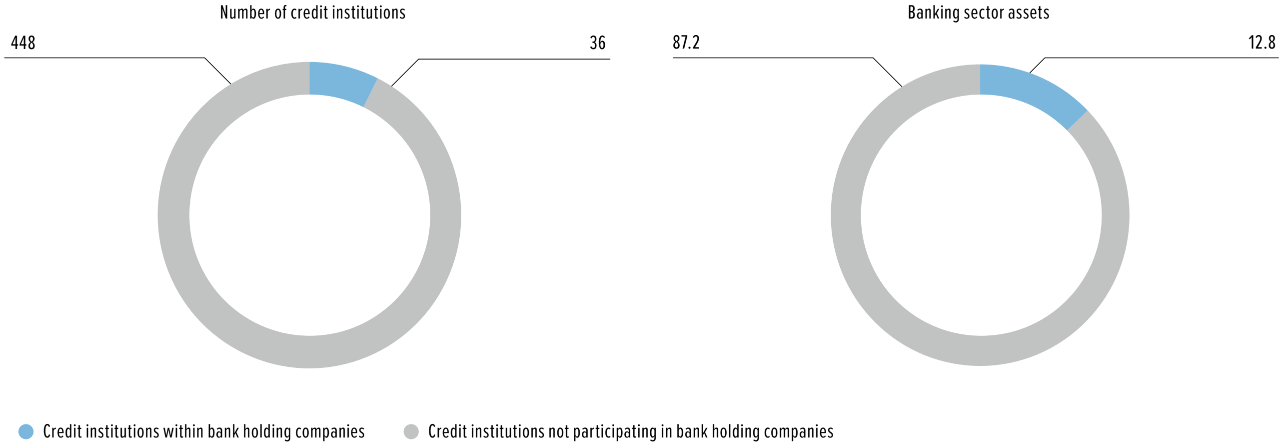
Bank holding companies play a significant role in the Russian financial market along with banking groups. The law defines them as unincorporated associations of legal entities including at least one credit institution controlled by the parent company (which is not a credit institution) and other legal entities if banking operations account for less than 40% of their activity (calculated with the use of the Bank of Russia's methodology[2] that factors in the share of income and assets of a credit institution(s) in the holding company's aggregate data).

[1] Based on Reporting Form 0409801 'Report on the Composition of Participants of a Banking Group and Investments of a Credit Institution in Shares of Unit Investment Funds'. Consolidated supervision applies to 81 banking groups (except for subgroups and groups with insignificant reporting data of their participants).

[2] The share of banking operations is calculated in accordance with Bank of Russia Ordinance No. 4618-U, dated 27 November 2017, 'On the Methodology for Calculating the Share of Banking Activities in the Overall Operations of a Bank Holding Company'.

BANK HOLDING COMPANIES

Figure 2.22



As of 1 January 2019, 30 bank holding companies operated in Russia (35 bank holding companies a year earlier). They united 36 credit institutions accounting for 12.8% of banking sector assets. The number of members of bank holding companies (both financial and non-financial organisations) ranged from two to 110. As of 1 January 2019, bank holding companies included 13 banking groups. Overall, consolidation processes intensified in 2018: we observed a decline in the number of both participant credit institutions of bank holding companies and bank holding companies; however, they accounted for almost the same share of banking sector assets as last year.

Most asset management companies of holding companies were registered in Russia and 10 asset management companies were registered abroad.

II.3.3. COMPETITION IN THE BANKING SERVICES MARKET

In 2018, the Bank of Russia took part in the implementation of measures of the Russian Government to build up competition in the banking services market[1] and unify requirements to credit institutions for placement of funds of the federal budget, government extra-budgetary funds, opening of bank accounts and placement of funds by certain categories of legal entities (strategic associations and strategic enterprises, state corporations (companies), issue of bank guarantees to ensure the delivery on third-party obligations to the government, and participation in concessional lending subsidy programmes[2].

It stipulates that credit institutions should comply with more than ten criteria to participate in 22 government programmes, information on which the Bank of Russia collects to post it on its website or submit to federal executive authorities.

As of the end of 2018, 16 out of 22 programmes assessed eligibility of credit institutions based on the bank credit rating[3] as the main competitive market criterion associated with the assessment of banks' financial stability.

The Bank of Russia proposed the use of softer requirements, up to the abolition of credit ratings, for credit institutions' participation in concessional lending subsidy programmes, when instead of placing funds the government partially compensates the unearned income from loans extended by banks at discounted rates to SMEs and the agricultural sector. The Bank of Russia believes that credit institutions could participate in these programmes as per their

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[1] For details of competition in the banking sector, refer to the joint report of the Bank of Russia and the Federal Antimonopoly Service of the Russian Federation (FAS) 'Competition on the Financial Market': http://www.cbr.ru/finmarket/development/competition/analytical_materials/.

[2] The event, together with other events in the banking sector, is included in the Action Plan (Road Map) to Develop Competition in the Russian Economy and to Make Natural Monopolies Competitive in 2018–2020 approved by Russian Government Directive No. 1697-r, dated 16 August 2018, and based on joint proposals of the Bank of Russia and FAS.

[3] Ratings assigned by credit rating agencies operating in compliance with Federal Law No. 222-FZ, dated 13 July 2015, 'On the Activity of Credit Rating Agencies in the Russian Federation, on Amending Article 76.1 of the Federal Law 'On The Central Bank of the Russian Federation (Bank of Russia)' and Invalidating Certain Provisions of Russian Laws'.

will, given that they accept the obligation to meet the requirements of programmes to encourage lending and have experience in lending to the respective borrower category.

As a result, the Russian Government simplified the criteria for selection of credit institutions to participate in the programme for subsidising interest rates on loans to SMEs which encouraged regional banks, including banks with a basic licence, to participate in the programme. Rough estimates suggest that more than 100 banks will meet the programme criteria compared with 15 initially approved credit institutions (data as of the end of 2018).

In 2018, amendments were introduced to the Programme for Encouraging Lending to SMEs that stipulates for the extension of Bank of Russia loans for up to three years secured by the guarantee of the JSC RSMB Corporation at a discounted interest rate to credit institutions which are Programme participants and have extended loans to SMEs. The amendments stipulate that systemically important credit institutions should not extend loans under the Programme from 1 January 2019. However, banks with a basic licence can participate in the Programme. The cooperation between the Bank of Russia and JSC RSMB Corporation increased the number of participant banks from 11 in 2016 to 44 in December 2018.

Requirements for credit institutions determined by Russian Government Resolution No. 697[1], dated 18 June 2018 (Resolution No. 697) apply when determining banks operating in the housing construction sector authorised to open settlement accounts of construction companies and escrow accounts. The requirements contain, among other things, a market criteria – credit rating.

As of the end of 2018, 60 banks met the requirements of Resolution No. 697 (loans to construction companies extended by these banks accounted for approx. 84% of total outstanding loans to construction companies extended by all banks).

In 2018 (as suggested by calculations based on the new methodology approved in 2018[2]), competition in the banking sector improved compared with the end of 2017. This is suggested by the following indicators:

– federal-level leaders in key segments of the banking sector as a whole have remained unchanged (as a rule, these is a couple of large federal banks), but in certain regions there is a trend toward an increase in the number of key players;

– the market activity indicator points to better prospects for leaders' competitors (GAP improved in 43 Russian constituent territories);

– the Russian average CBR-Composite indicator that characterises the level of competition dropped by 9% which points to positive dynamics (improvements are observed in 45 Russian constituent territories; the number of regions with a low level of competition decreased from 42 to 38 over the year).

For asset concentration, the share of the top-5 banks, an internationally used indicator, suggests that Russia occupies the medium range, which is typical of European countries; this indicator is closer to that of countries with advanced banking systems. Top-5 Russian credit institutions accounted for 60.4% of banking sector assets as of 1 January 2019 (as of 1 January 2018, 55.8%); this indicator is much higher in 16 EU countries[3]: the highest concentration is registered in Greece (97.0%), Estonia (90.3%), and Lithuania (90.1%); concentration is lower in 12 EU countries: Luxembourg (26.2%), Germany (29.7%), and Austria (36.4%).

The Herfindahl-Hirschman Index (HHI)[4] of banks' key performance indicators is also used to describe the level of competition in the banking sector. This index suggests that the concentration in the Russian banking sector increased compared with 2017. The concentration has remained at the medium level for assets and loans to resident non-financial corporations – 0.13 and 0.17 respectively, and has held at an all-time high of 0.23 for deposits, whereas retail

[1] Resolution of the Government of the Russian Federation No. 697, dated 18 June 2018, 'On the Approval of Criteria (Requirements) Which Authorised Banks and Banks Authorised to Open Escrow Accounts for Settlements under Agreements on the Participation in Equity Construction Should Meet in Accordance with the Federal Law 'On Participating in Shared-equity Construction of Apartment Houses and Other Real Estate and on Amending Certain Laws of the Russian Federation'.

[2] The joint analytical report 'Competition in the Financial Market' by the Bank of Russia and FAS: http://www.cbr.ru/finmarket/development/competition/analytical_materials/.

[3] Data by the European Central Bank.

[4] The Herfindahl-Hirschman Index is calculated as the sum of the squared unit weights of a certain indicator (assets, equity, loans, etc.) of credit institutions in the total volume of the banking sector. It shows the degree of the indicator's concentration on a scale ranging from 0 to 1.

loans showed a surge in the HHI to 0.21. The concentration of capital also rose, its index went up from 0.18 to 0.21.

II.3.4. BANKS WITH A BASIC LICENCE

In 2018, a transition period was completed during which banks with capital of less than ₽1 billion had to increase their capital to ₽1 billion to continue operations as banks with a universal licence or change their status to that of a bank with a basic licence.

In 2018, 152 basic licences were issued at credit institutions' requests. As of the year-end, there were 149 banks with a basic licence, of which 101 banks obtained basic licences in 2018 Q4.

102 out of 149 banks with a basic licence are regional banks.

Overall, the share of banks with a basic licence in banking sector key indicators is insignificant: they account for 0.4% of assets, 0.7% of capital, 0.3% of loans to non-financial organisations and households, and 0.5% of household deposits.

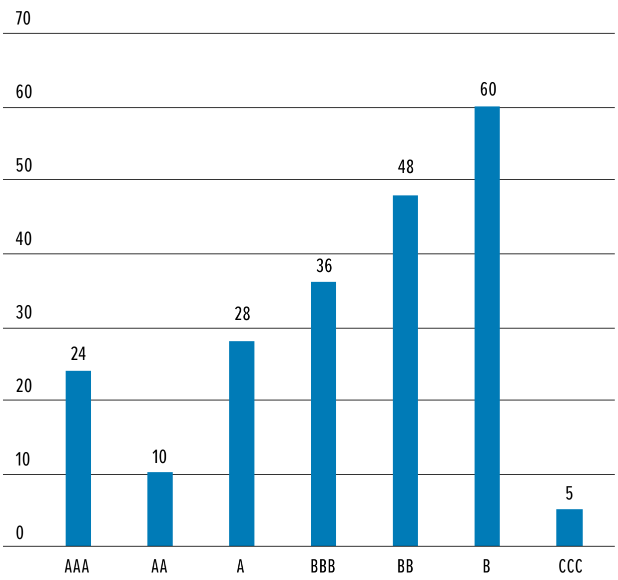
II.3.5. DEVELOPMENT OF REGIONAL BANKING

In 2018, the number of operating credit institutions reduced in most Russian regions: the number of regional banks[1] decreased from 277 to 239 (following the revocation of 31 licences, voluntarily liquidation of three credit institutions, and the reorganisation of two credit institutions[2]); 15 regional banks have been under financial resolution. The share of regional banks in banking sector total assets continued to reduce in 2018 (from 9.3% to 9.1%).

In 2018, the profitability of banking in Russian regions declined: regional banks registered losses of ₽227 billion (in 2017, profit of ₽55 billion). This resulted from a negative financial result of individual large banks under resolution; these banks factored out, regional banks were overall profitable in 2018 (they gained profit of ₽87 billion).

Capital adequacy of regional banks decreased in 2018 from 12.7% to 8.3%, which was also largely affected by banks under resolution (these banks factored out, capital adequacy of regional banks rose to 15.9%).

BANKS RATED BY RUSSIAN CREDIT RATING AGENCIES AS OF 1 JANUARY 2019, units *Figure 2.23*



As of the end of 2018, the aggregate index of the density of banking services[3] in most regions did not change substantially. Banking services are still most accessible in the Central Federal District (especially in Moscow), followed by the North-Western Federal District where banking services are highly accessible in Saint Petersburg. The index of the density of banking services remained unchanged in these regions in 2018.

The index increased somewhat in the Volga and Urals Federal Districts. Other regions registered a slight reduction of the index (see Table 5.2 of the Statistical appendix).

II.3.6. CREDIT RATINGS ASSIGNED TO CREDIT INSTITUTIONS ON THE NATIONAL RATING SCALE FOR THE RUSSIAN FEDERATION

Credit ratings assigned on the national rating scale for the Russian Federation[4] are applied to Russian rated entities if Russian law provides for the use of credit ratings by the public authorities of the Russian Federation and Russian constituent territories, local

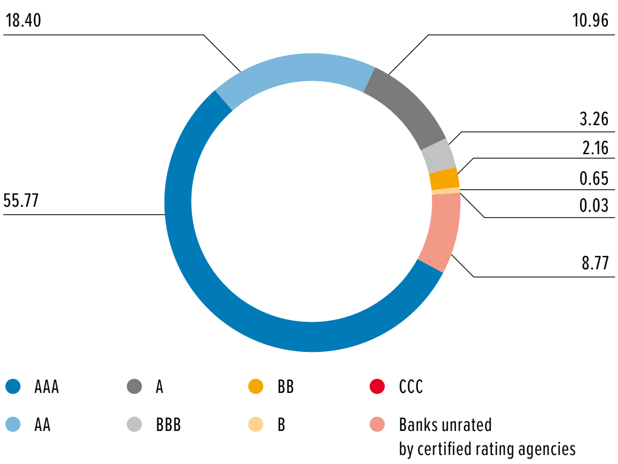
[1] Regional banks are banks registered outside Moscow and the Moscow Region.

[2] Another two credit institutions were re-registered in the Moscow region.

[3] The methodology used to calculate the index is explained in Section IV of this Report.

[4] The register of credit rating agencies contains information on two legal entities: Analytical Credit Rating Agency Joint-stock Company and Joint-stock Company Rating Agency Expert RA.

SHARE OF BANKS RATED BY RUSSIAN AGENCIES IN BANKING SECTOR ASSETS AS OF 1 JANUARY 2019 *Figure 2.24*



authorities or the Bank of Russia in accordance with Federal Law No. 222-FZ[1].

Currently, the Bank of Russia included in the register of credit rating agencies information on two national credit rating agencies – Analytical Credit Rating Agency Joint-stock Company and Joint-stock Company Rating Agency Expert RA[2].

Nearly a half of the operating credit institutions (211 out of 484) disclosed credit ratings assigned by these credit rating agencies as of 1 January 2019. As of the beginning of 2018, only 152 banks had credit ratings (in 2018, 95 credit ratings were assigned and 26 credit ratings were withdrawn).

Credit institutions that account for the bulk of banking sector assets (85%) are rated between A- and AAA on the national rating scale for the Russian Federation[3]; the highest-rated banks (AAA) account for 56% of banking sector assets (Figure 2.24). In quantitative terms, the group of A-rated banks is small – 62 banks or less than a third of banks rated by at least one credit rating agency (Figure 2.24). Most high-rated banks are state-controlled or foreign-controlled banks.

Most rated banks (approx. 70%) were rated between B- and BBB+ on the national rating scale for the Russian Federation. These are mostly small and medium banks accounting for only 6% of banking sector assets.

Russian credit rating agencies rarely assigned pre-default credit ratings (CCC+ and below on the national rating scale for the Russian Federation).

Thus, assessments by the national credit rating agencies suggest that the core of the banking sector has a high level of creditworthiness (A-rated). Most rated banks are characterised by medium creditworthiness (B-rated); their assets are significantly lower than those of highest rated banks.

Banks which are not rated by the national credit rating agencies (273 institutions) accounted for only 9% of banking sector assets as of the end of 2018 (as of the end of 2017, 9%[4]). This share is expected to shrink as the number of banks to which national ratings are assigned grows.

II.4. BANKING TECHNOLOGIES: OPPORTUNITIES AND CHALLENGES

Financial technologies and innovations are becoming an integral element of the banking sector; they change banks' operations, their services and customer relation mechanisms. At the same time, the extensive digitalisation of bank services creates a number of risks for banks, among other things, amid a growing number and complexity of cyber-attacks.

In 2018, the following trends were observed in the banking sector in Russia and worldwide:

• digital transformation of the banking sector as regards internal processes and customer relations channels;

• growing competition from new financial market participants, including fintech companies and large technological companies;

• the use of artificial intelligence to collect customer information, improve services, and provide targeted services;

[1] Federal Law No. 222-FZ, dated 13 July 2015, 'On the Activity of Credit Rating Agencies in the Russian Federation, on Amending Article 76.1 of the Federal Law 'On The Central Bank of the Russian Federation (Bank of Russia)' and Invalidating Certain Provisions of Russian Laws' (Federal Law No. 222-FZ).

[2] Further referred to as ACRA and Expert RA.

[3] If a bank is rated by two agencies, the less conservative rating is taken into account.

[4] Ratings as of 28 December 2017.

• growing importance of big data analysis, among other things, with the use of machine learning;

• growing investment in cyber security.

One of the 2018 trends in digital transformation of the banking sector in the Russian Federation was the use of biometric technologies which are extensively introduced in various fields worldwide. Biometric technologies are based on person identification by unique biological signatures. In Russia, the remote biometric identification was launched on 30 June 2018. Registration in the Unified Biometric System that stores and processes biometric data for remote identification is available in more than 3,250 offices of 61 banks and outside banks in all Russian constituent territories (by courier). Furthermore, after remote identification customers may use remote banking services (open accounts (deposits), obtain loans, and make remittances).

In order to implement to requirements for collection and processing of biometric data, banks have to undergo complex organisational and technological changes, including those related to information security; therefore, the remote identification is introduced on a step-by-step basis. Until 30 June 2019, banks have to collect biometric data of their customers in at least 60% of their structural divisions in each region of their operation and in all structural divisions until the end of 2019. As many as five banks started providing bank services with the use of remote identification, among other things, with the use of an Android-based mobile application for remote identification through a smartphone.

Remote identification is one of the key objectives of financial services digitalisation that will boost financial inclusion for all people (including the inhabitants of remote regions and the handicapped), reduce cost of financial services and raise competition in the financial market.

Within the framework of creating a Faster Payments System (FPS), the Bank of Russia, the National Payment Card System (NPCS) and the FinTech Association tested a prototype system joined by 12 banks in 2018.

The FPS is elaborated as a service of the Bank of Russia payment system aimed at P2P (in future also P2B) online transfers and payments for goods and services 24/7/365 with the use of simple and convenient payment recipient identifiers (e.g. a mobile phone number of an individual).

The introduction of the FPS will raise financial inclusion for households, among other things, in remote regions, boost competition in the financial market, and help reduce costs of its participants.

In April 2018, the Bank of Russia approved the operating principles of the Bank of Russia regulatory sandbox, the main goal of which was to create a mechanism for the quick and safe implementation of innovative products, services and technologies in the Russian financial market. The Bank of Russia received more than 20 applications for participation in the sandbox from banks, fintech and other companies.

It held two successful pilot studies following one of which (managing corporate bank accounts online) Bank of Russia Ordinance No. 5035-U, dated 28 December 2018, was registered with the Ministry of Justice. It is aimed at creating legal grounds for the launch of the new service in the market[1].

The Bank of Russia studies other initiatives and will decide on their testing in the sandbox as they are ready.

In the reporting year, the Bank of Russia together with the Ministry of Digital Development, Communications and Mass Media and PJSC Rostelecom worked out a concept and a bill on a digital profile as part of the Digital Economy of Russia programme.

The digital profile will allow users to manage their data online (transfer or revoke them) and provide for a convenient, secure and fast data exchange between individuals, state and businesses; it will also raise service quality and accessibility for ultimate users, as well as increase the speed and transparency of data provision thanks to the possibility to manage digital approvals of their exchange.

This infrastructure will help simplify companies' access to public data, improve customer experience in commercial and public services, reduce their cost and raise quality.

The following projects are tested on the Masterchain platform, developed by the Bank of Russia in cooperation with banks on the FinTech Association platform and based on the distributed ledger technology:

[1] Effective since 15 February 2019.

• e-mortgage accounting – the project provides for accounting and storage of e-mortgages in a decentralised depositary system (the first mortgage deal with an e-mortgage was closed on September 2018);

• operations with digital bank guarantees (first pilot transactions were closed in December 2018);

• trade financing with the use of digital letters of credit.

In 2018, the Bank of Russia introduced a mechanism that allows any bank to obtain through the Public Services Portal (PSP) the results of certain public and municipal services in the electronic form, including data from information systems of the Pension Fund of the Russian Federation (PFR), the Federal Tax Service (FTS), the Ministry of Internal Affairs (MIA), the Federal Bailiffs Service (FBS), and the Federal Service for State Registration, Cadastre and Cartography (Rosreestr). Banks can only obtain the results of public services provision upon the customer's consent expressed with the use of the PSP.

The Bank of Russia has expanded the list of information banks may obtain electronically with the use of the Unified System of Interdepartmental Electronic Collaboration (USIEC) and the PSP. The draft Russian Government Directive that includes more than 20 types of data agreed upon with the banking community has been introduced to the Russian Government.

The Bank of Russia took part in elaboration of a bill on electronic document storage and use that ensures their legal validity in the financial market. The bill stipulated basic principles of replacement of hardcopy documents with electronic ones that will allow transferring hardcopy documents to softcopy preserving their validity and reducing costs of document workflow thanks to the transition to electronic storage; as well as conversion and migration principles which help ensure safekeeping and format continuity of electronic documents.

In 2018, the Bank of Russia communicated with financial market participants and other parties on various occasions with the use of personal accounts of information exchange participants.

The regulator uses personal accounts to send its requests, orders and explanations regarding the application of various regulations to credit institutions. Credit institutions, in turn, use personal account functions to send responses or queries to the Bank of Russia.

A personal account is an important means of exchange of legally important electronic documents, including confidential information, between market participants and the Bank of Russia.

II.5. PAYMENT SERVICES FINE-TUNING AS A TOOL TO DEVELOP BANKING PRODUCTS

In 2018, the payment services market enjoyed the effective functioning of the national payment system (NPS) members, the rise of the Mir payment system (the leading national player), the dramatic development of national payment instruments, growth in non-cash transactions, and extensive introduction of innovative technologies.

The banking sector, the core of the NPS, showed positive performance that defined its activity in the payment services market. Operations carried out by funds transfer operators at their customers' request[1] and as part of their own operations rose by 33.4% in number and by 13.4% in value (to 35.8 billion payments totalling ₽757.4 trillion).

The banking sector prioritises remote payment services as they help reduce costs and raise the quality of customer service. The trend towards the gradual replacement of physical channels for access to payment services with remote ones translated into ongoing growth in the number of remote access customer accounts (by 10.5% compared with 2017, to 242.4 million) that drove the increase in their share in active bank customer accounts to 84.4%.

The number of technology-enabled customer transactions increased by more than a third compared with 2017 (to 34.4 billion orders) and their value grew by 14.1% (to ₽676.1 trillion). This was largely enabled by retail transactions, which registered an annual increase of 36.3% in number and 35.2% in value.

[1] Here and elsewhere, individuals and legal entities other than credit institutions.

In addition, one in five electronic retail payments was made via the Internet and/or mobile devices.

In 2018, the market of payment cards, the most sought-after retail payment tool, continued to expand.

As of 1 January 2019, Russian credit institutions issued 272.7 million payment cards (1.9 cards per person). Card-enabled transactions at home and abroad increased by 34.7% in number (to 32.3 billion transactions) and by 22.9% in value (to ₽77.9 trillion).

The majority of all card transactions (nearly 90%) were cashless. Cards were used nine times as often for these purposes than for cash withdrawal. The value of such transactions accounted for nearly 64% of all card operations.

In the reporting year, the Mir payment system, operated by JSC NPCS, competed with international payment systems. As of 1 January 2019, Mir cards accounted for 19.2% of all payment cards issued (10.6% a year earlier). The share of Mir card-enabled transactions in total volume of domestic payment card-enabled operations grew from 2.9% in 2017 to 14.5% in 2018.

In 2018, strong growth was registered in contactless payments[1] which have gained in popularity in recent years. Contactless payments were used in 8.1 billion transactions worth ₽5.5 trillion (an increase by a factor of 4.4 in number and by a factor of 3.7 in value). One in four card payments was contactless.

As consumer demand for cashless payment services increased, the payment infrastructure developed extensively mainly due to the rising number of POS terminals and expanding functionality of ATMs which allow users to carry out cashless transactions. In 2018, the number of POS terminals increased by 18.3%, to 2.6 million units. The number of ATMs stood at 191,100 units as of 1 January 2019.

The e-money market continued to expand. The number of electronic payment instruments (EPI) used to transfer electronic money issued by e-money operators increased by 2.7% to 376.0 million units in 2018. Over the year, they were used in 2.3 billion transactions for a total amount of ₽1.7 trillion[2] (growth of 12.1% in number and 24.4% in value), with anonymous EPIs accounting for most of them (77.8% and 53.6% respectively).

In 2018, one of the Bank of Russia's key initiatives in the development of the retail payment infrastructure was the development and launch of the Faster Payments System. Starting from 2019, it operates as a service of the Bank of Russia payment system and is a critical nationwide infrastructure project.

[1] Contactless payment cards, Apple Pay, Samsung Pay, etc.

[2] Includes transfers of electronic money and electronic money balances, with the latter including cash withdrawal.

III. Russian banking sector risks

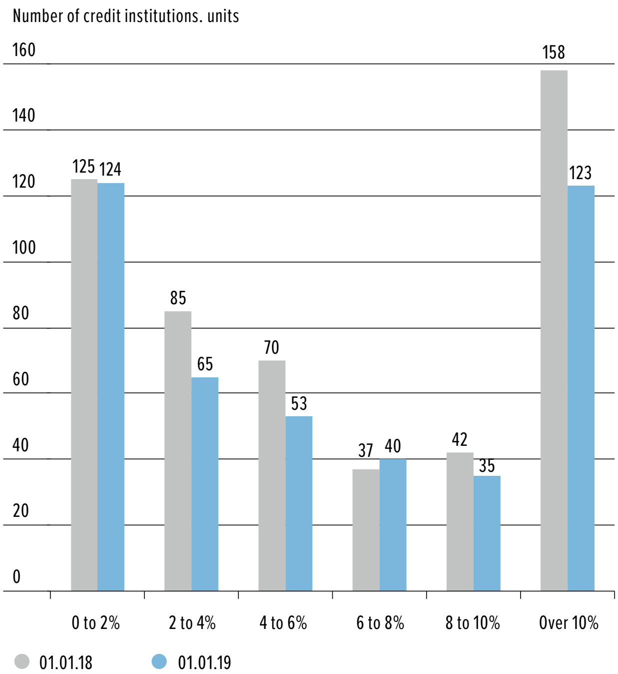
III.1. CREDIT RISK

Loan portfolio quality

In 2018, the share of overdue loans[1] in total loans to non-financial organisations and households in the banking sector fell from 6.6% to 5.9%. The fall resulted from faster growth of the loan portfolio compared with growth of overdue loans, 10.7% vs 1.6%[2].

The quality of the loan portfolio is also affected by write-offs and sales of non-performing portfolios. In 2018, overdue loans and other placed funds provided to customers (except for interbank operations), which were written off as loan loss provisions due to uncollectibility, rose by 26%, to ₽0.5 trillion. The main increase came from banks under resolution. Furthermore, in 2018, credit institutions also increased sales (assignments) of claims under agreements by 40%, to ₽2.3 trillion (this must be sales of problem loans).

CREDIT INSTITUTIONS BY OVERDUE LOANS TO NON-FINANCIAL ORGANISATIONS AND HOUSEHOLDS *Figure 3.1*



State-controlled banks were the main contributors to growth in overdue loans to non-financial organisations and households in the banking sector; their overdue loans increased by 9.2% in 2018. In contrast, banks under resolution, NCIs, banks with a basic licence, foreign-controlled banks and other banks not included in the above groups reduced their overdue loans. Foreign-controlled banks registered the most tangible decrease in overdue loans (12.9%). Despite the increase in overdue loans of state-controlled banks, their share of overdue loans remained the lowest compared with other bank groups (3.2% as of 1 January 2019).

The number of banks where the share of overdue loans to non-financial organisations and households in the banking sector was relatively high (more than 8% of the loan portfolio) decreased considerably from 200 to 158 in 2018 (Figure 3.1), and their share in banking sector assets shrank from 21.0% to 18.0%. That said, in 189 banks accounting for roughly 64% of banking sector assets as of 1 January 2019, overdue loans held below 4%.

By end-2018, the quality of loans to non-financial organisations almost stabilised – as of 1 January 2019, overdue loans stood at 6.3% (as of year-start, 6.4%). As lending to non-financial organisations increased by 5.8% (adjusted for foreign exchange rate movements[3]), overdue loans grew by 6.7% to ₽2.1 trillion in 2018 (Figures 3.2 and 3.4).

The quality of SME loans improved in 2018: the share of overdue loans contracted sizeably from 14.9% as of the beginning of 2018 to 12.4% as of 1 January 2019 (Figure 3.4). At the same time, in late 2018, the level of overdue debt in the SME loan portfolio was 6.1 pp higher that the similar indicator for

[1] Here and elsewhere in the Subsection, overdue loans are determined as loans overdue from the first day of overdue payment, unless indicated otherwise.

[2] Here and elsewhere in this Subsection, growth is adjusted for exchange rate effects in credit institutions operating as of the last reporting date (including restructured banks).

[3] Unadjusted for foreign exchange rate movements, the corporate portfolio expanded by 11.2% and overdue loans increased by 8.9%.

loans to non-financial organisations. Banks under resolution accounted for up to a half of overdue SME loans (₽251.7 billion); these banks factored out, only 7.3% of SME loans were overdue.

Broken down by economic activity, the share of overdue loans rose slightly in all key industries, bar agriculture and forestry (which registered a decline from 7.7% to 6.7%), transportation and communications (a fall from 4.3% to 2.3%) and trade (a decrease from 12.2% to 10.9%) (Figure 3.3). The strongest growth of the indicator was registered in loans to construction companies (+1.1 pp) (they also have the highest share of overdue loans at 19.0%) and loans to manufacturing companies (+0.6 pp).

The quality of retail loans improved considerably in 2018. Growth in the retail portfolio (of 22.8%) and a decline in overdue loans in this portfolio (of 10.0%) resulted in a sizeable decrease in the share of overdue loans from 7.0% to 5.1% over the year (Figures 3.2 and 3.5). In absolute terms, household loan arrears amounted to ₽760 billion as of 1 January 2019 (Figure 3.5).

The year 2018 saw an increase from 95.2% to 96.0% in the share of household loans grouped into homogeneous loan portfolios in total loans and other claims on households. The share of loans overdue for more than 90 days (90+ loans) in total household loans also shrank from 7.5% to 5.4% of the homogeneous loan portfolio.

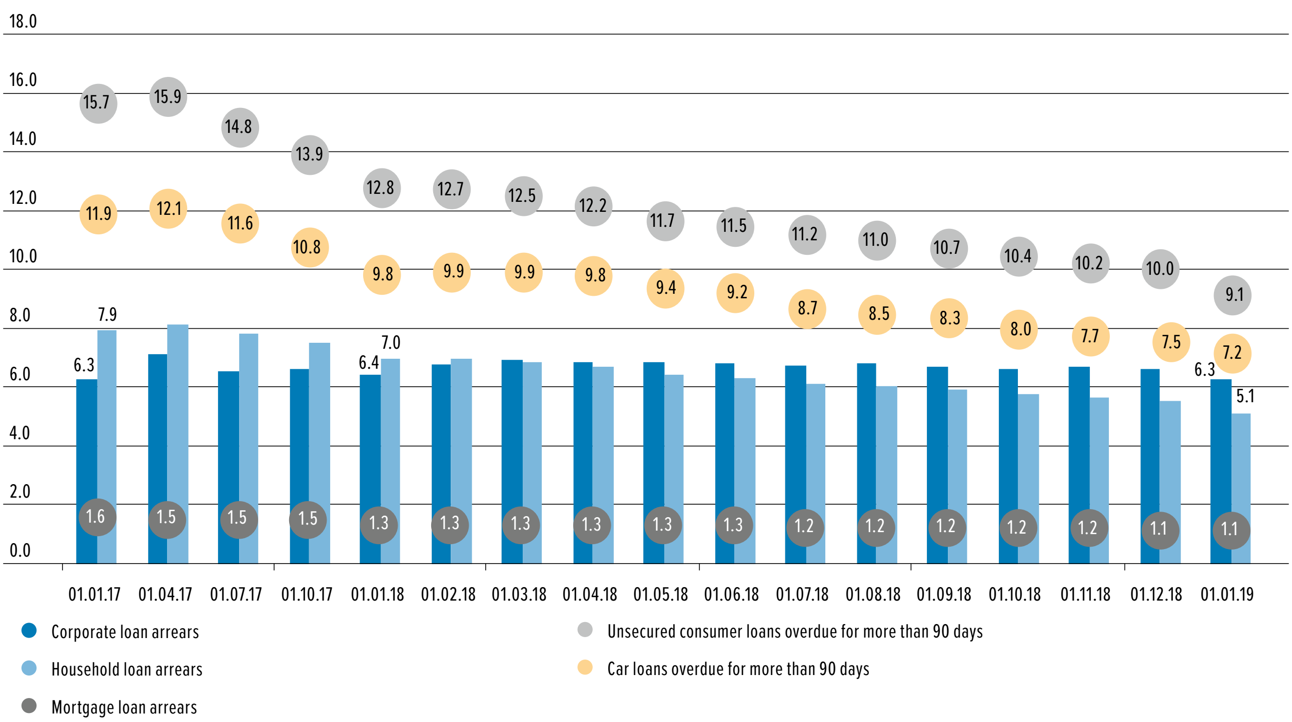
Housing mortgage lending (HML) still remains the highest-quality segment of retail lending. Overdue loans in the total HML portfolio dropped from 1.3% to 1.1% in 2018 (Figures 3.2 and 3.5). The share of 90+ HML loans remains immaterial, having shrunk from 2.2% to 1.8% (from 8.8% to 6.5% of the total retail loan portfolio) in 2018.

Car loans and unsecured consumer lending considerably improved their quality following, among other things, write-offs and sales of non-performing loan portfolios; the share of 90+ loans fell from 9.8% to 7.2% and from 12.8% to 9.1% respectively (Figure 3.2).

Overall, newly issued household loans expectedly demonstrate higher quality. This results from tighter regulatory requirements for high-risk lending segments, better risk management systems in banks and tighter requirements for borrowers (more conservative risk management).

As of end-2018, the share of quality category I and II loans in total loans (to households and legal entities, comprising financial organisations including credit institutions) rose slightly to 83.2% (as of start-2018, 82.5%), whereas the share of quality cat-

LOAN PORTFOLIO QUALITY (OVERDUE DEBT AND OVERDUE LOANS), % *Figure 3.2*

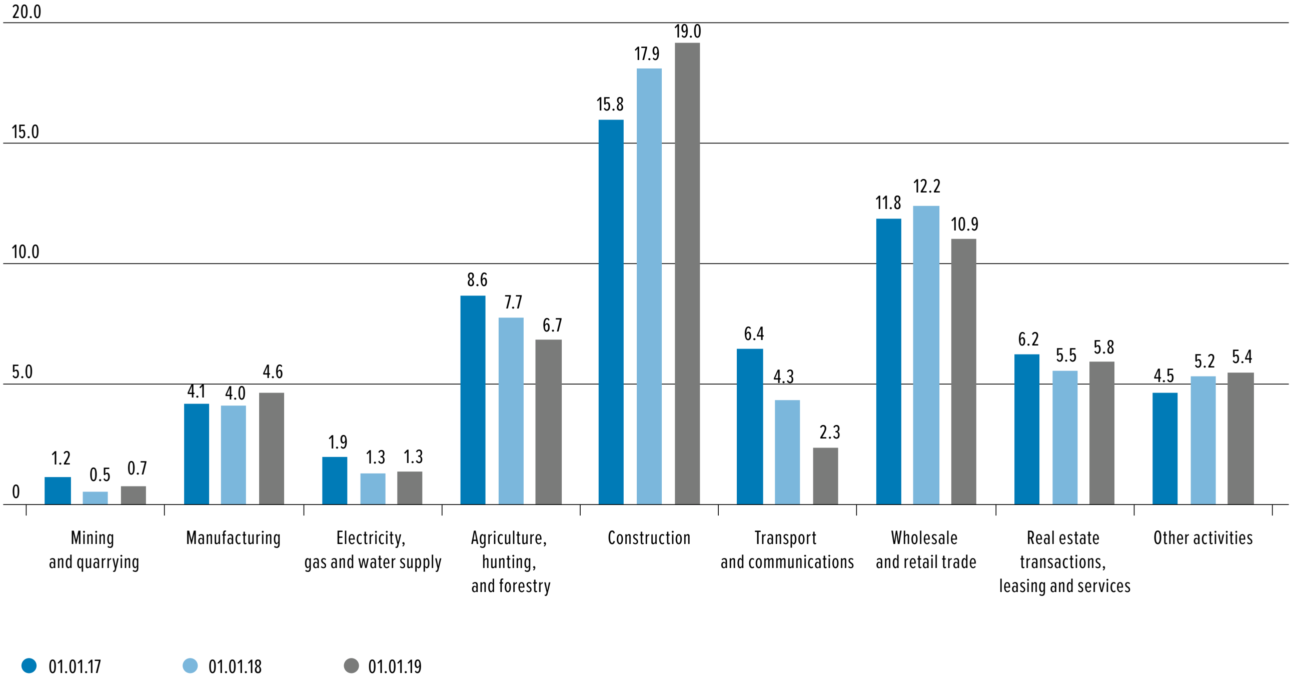


egory IV and V loans ('bad' loans) increased from 10.0% to 10.1%[1] (Figure 3.6).

The share of 'bad' loans in total loans to legal entities (including financial organisations other than credit institutions) grew from 12.0% to 12.2% in 2018 (Figure 3.8). The deteriorating quality of the corporate loan portfolio largely results from the performance of banks under resolution, which increased

CORPORATE LOAN ARREARS BY ECONOMIC ACTIVITY*, %

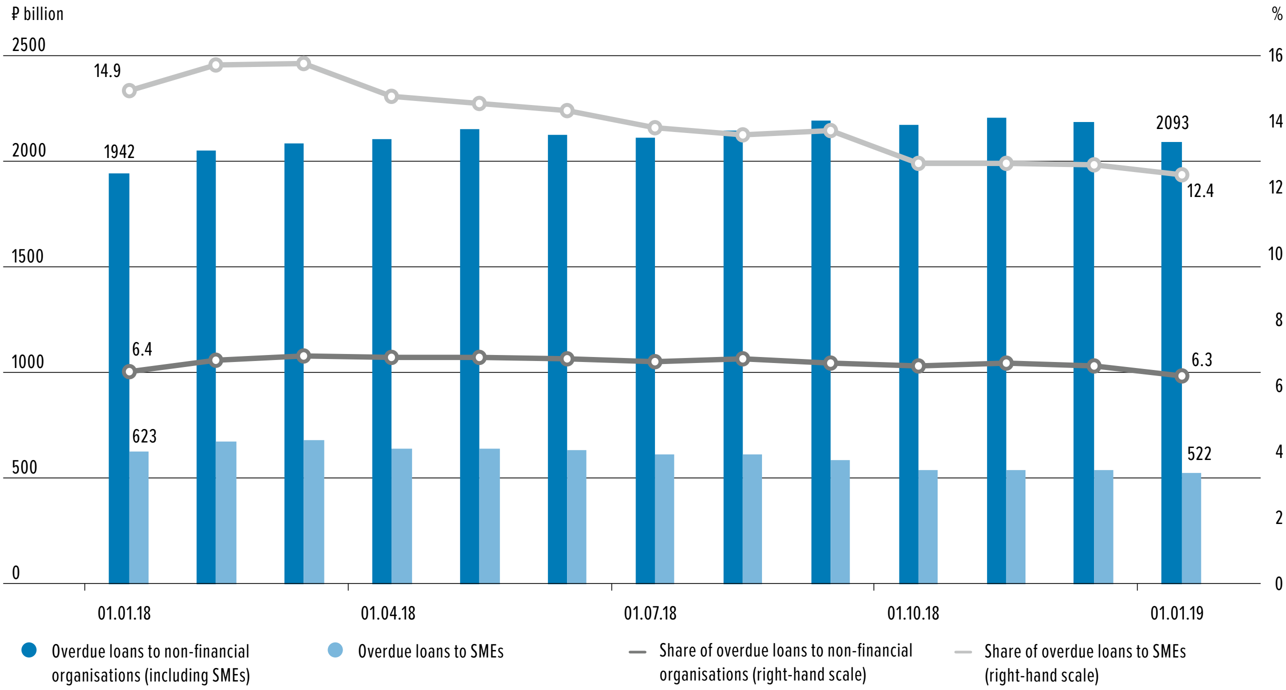
Figure 3.3



* Loans to resident legal entities and individual entrepreneurs. Excluding loans to complete settlements.

OVERDUE LOANS IN CORPORATE LOAN PORTFOLIO OF BANKS

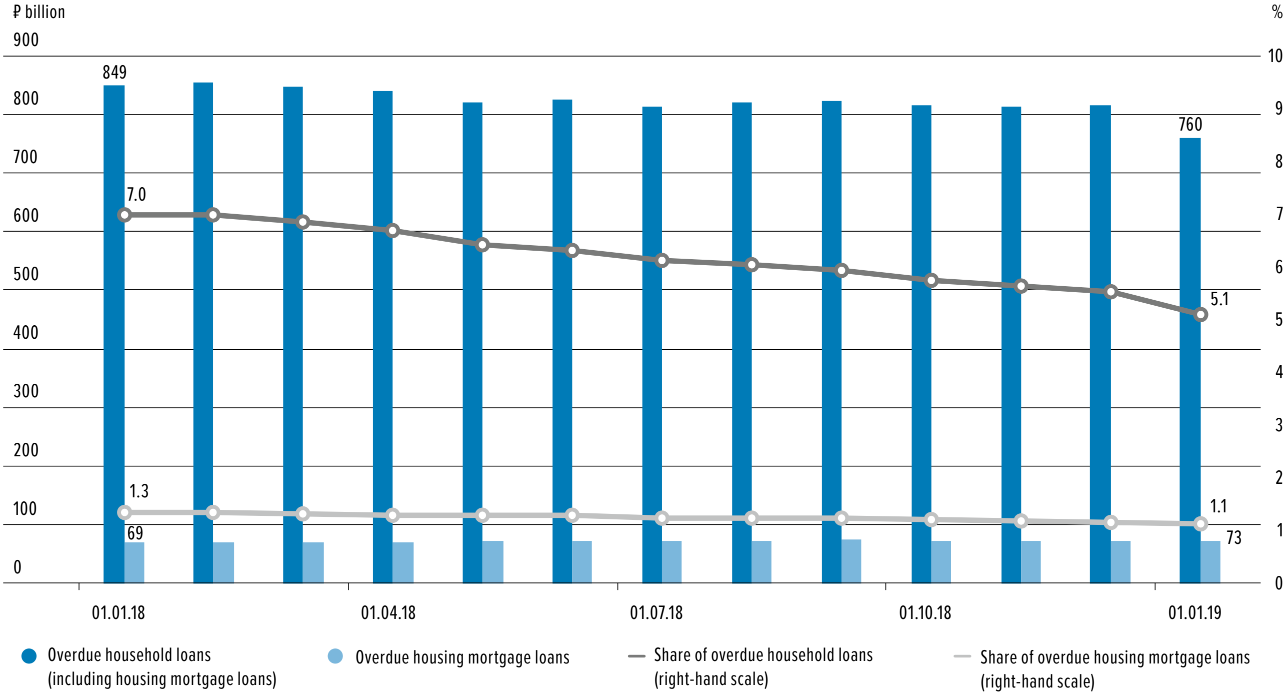
Figure 3.4



[1] Deviations from the data in Figure 3.6 are due to data rounding.

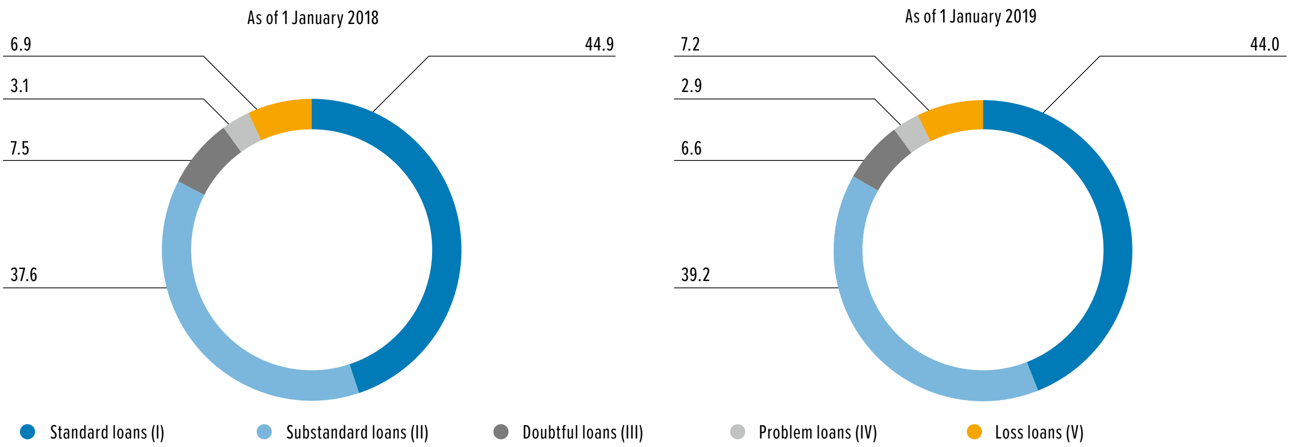
HOUSEHOLD LOAN ARREARS

Figure 3.5



QUALITY OF LOAN PORTFOLIO OF THE BANKING SECTOR (LOAN QUALITY CATEGORY)

Figure 3.6



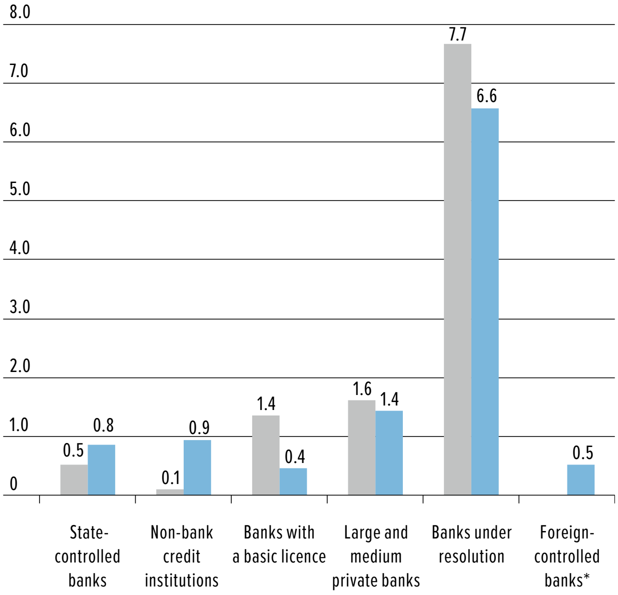
the share of 'bad' loans from 52.2% to 60.8% over the year. However, state-controlled banks and banks with a basic licence reduced the share of 'bad' loans in loans to legal entities from 6.7% to 5.9% and from 20.1% to 19.8% respectively.

The share of 'bad' household loans shrank from 9.8% to 7.6% in 2018 (Figure 3.9). All bank groups improved their performance. The share of 'bad' household loans reduced the most pronouncedly in banks under resolution (from 36.5% to 27.5%).

In 2018, the banking sector registered an intangible rise in the value at risk[1] from 1.4% to 1.5%. Provisioning grew as state-controlled banks, NCIs, and foreign-controlled banks created additional loss provisions on toxic assets (Figure 3.7). In contrast, risk cost declined in other bank groups.

[1] The value-at-risk ratio is calculated as the balance of expenses on additional provisioning and proceeds from provision recovery during 12 months to the average chronological amount of outstanding loans.

VALUE AT CREDIT RISK BY BANK GROUP *Figure 3.7*



* The group of foreign-controlled banks registered net recovery of provisions in 2017 (the graph excludes data as of 1 January 2018).

LOAN LOSS PROVISIONS *Table 3.1*

Loan quality category	Actual loan loss provisions as % of outstanding loans of the respective quality category		Share of actual loan loss provisions in total loss provisions in total volume, %	
	1 January 2018	1 January 2019	1 January 2018	1 January 2019
Total	**9.3**	**9.1**	**100**	**100**
Standard loans	0	0	0	0
Substandard loans	2.2	1.8	8.8	7.7
Doubtful loans	17.7	14.7	14.3	10.8
Problem loans	46.1	46.6	14.7	15.1
Loss loans	81.7	83.8	62.2	66.4

The ratio between loan loss provisions and total outstanding loans fell from 9.3% to 9.1% in 2018 (Table 3.1)[1].

Corporate portfolio provisioning decreased slightly in 2018 from 10.1% to 10.0%, the retail portfolio saw a more tangible drop in this indicator, from 10.3% to 8.5%.

However, provisions rose in 2018 from 65.9% to 67.5% for 'bad' corporate loans, and from 87.6% to 88.9% for retail loans.

Bank controlled by non-residents had the lowest provisions for 'bad' corporate loans (53.3%) as they are usually backed with high-quality collateral. Provisions for 'bad' loans in other banks ranged between 64.6% and 69.7%.

In the retail portfolio, the lowest provisions for 'bad' loans were in banks with a basic licence (70.2%), while banks under resolution had the highest provisions (92.1%). In other bank groups this indicator held within the range between 86.0% and 90.1%.

Credit risk concentration. Shareholder and insider risks

In 2018, large credit exposure[2] in the banking sector decreased by 1.0% to ₽21.0 trillion. The share of large loans in banking sector assets also dropped from 24.9% to 22.3%.

During the reporting year, 53 credit institutions violated the maximum exposure per borrower or group of related borrowers (N6) (in 2017, 44 credit institutions), and eight credit institutions violated the maximum exposure to large credit risks (N7) (in 2017, six credit institutions).

From 8 October 2018, the requirement for the maximum value of loans, guarantees and sureties issued by a credit institution (banking group) to its members (shareholders) (N9.1) were repealed[3]. In 2018, all credit institutions complied with this requirement.

Five credit institutions failed to comply with the total insider risk ratio (N10.1) in 2018 (in 2017, two credit institutions).

[1] Loan loss provisions are created with due regard to collateral and estimated provision, which is 0% of the principal for quality category I loans (standard loans); 1% to 20% for quality category II loans (substandard loans), depending on the degree of loan impairment; 21% to 50% for quality category III loans (doubtful loans), 51% to 100% for quality category IV loans (problem loans), and 100% for quality category V loans (loss loans).

[2] 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)', the sum of loans, guarantees, and sureties issued to one customer in excess of 5% of the bank's (banking group's) capital is considered to be a large credit risk.

[3] Bank of Russia Ordinance No. 4899-U, dated 3 September 2018, 'On Amending Bank of Russia Instruction No. 180-I, Dated 28 June 2017, 'On Banks' Required Ratios'.

As of 1 January 2019, 392 credit institutions (81% of operating banks) calculated the maximum exposure per bank affiliate (group of bank affiliates) (N25). In 2018, this ratio was violated by 13 credit institutions (in 2017, 14 credit institutions).

At the same time, banking supervision regularly reveals that banks fail to correctly record maximum exposure per bank affiliate (group of bank affiliates) in their statements. Supervision keeps this issue in focus, cooperating with banks in adequate risk assessment, including based on the professional judgement on borrowers' affiliation if its formal signs are missing.

High probability remains that debt burden of major companies, which drive the Russian economy, may increase. These companies continue to directly influence the concentration of credit risks in the banking sector, especially amid foreign sanctions.

III.1.1. USE OF THE CENTRAL CATALOGUE OF CREDIT HISTORIES AND CREDIT HISTORY BUREAUS IN BANK RISK ASSESSMENT

In accordance with Federal Law No. 218-FZ, dated 30 December 2004, 'On Credit Histories' (hereinafter referred to as Federal Law No. 218-FZ), the Central Catalogue of Credit Histories (CCCH), a Bank of Russia division, shall provide information on credit history bureaus (CHB) keeping the credit history of a credit history maker, which contains, among other things, the information on the credit history compilation source, liabilities under loan agreements, sureties, bank guarantees and other liabilities as envisaged by Federal Law No. 218-FZ, and on the refusal to enter into a loan agreement in the form and under the procedure established by the Bank of Russia.

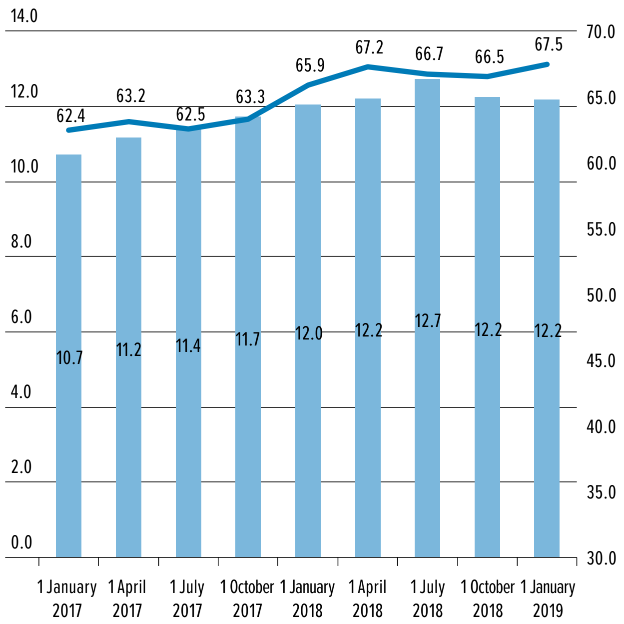
CHBs keep credit histories for ten years from their last update.

As of the end of 2018, the number of credit history titles[1] in the CCCH totalled 340.8 million (9.2% growth compared with the beginning of 2018), of which the number of credit history titles of individual borrowers stood at 339.5 million, while the number of credit history titles of corporate borrowers came in at 1.3 million.

During 2018, the number of CHBs included in the state register of credit history bureaus dropped from 17 to 13. Out of the four CHBs struck off the state

QUALITY CATEGORY IV AND V LOANS ('BAD' LOANS) IN TOTAL CORPORATE LOANS (EXCLUDING CREDIT INSTITUTIONS) AND PROVISIONS FOR THEM

Figure 3.8

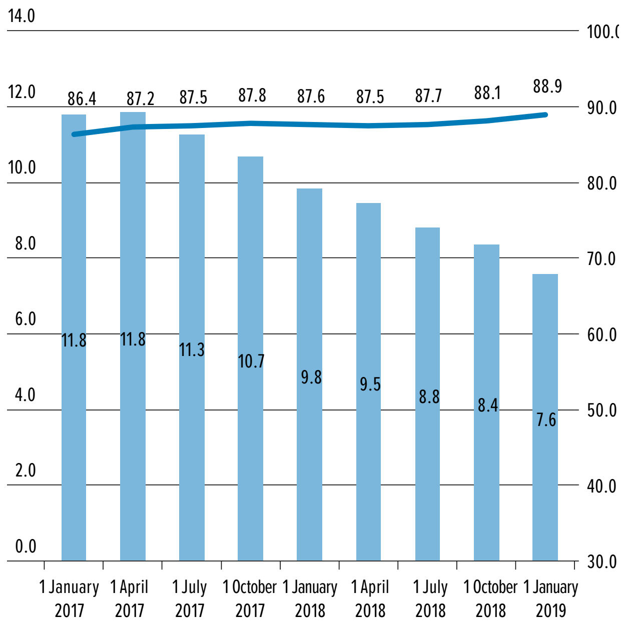


Share of quality category IV and V loans in total corporate loans (excluding credit institutions), %

Loan loss provisions for quality category IV and V corporate loans as % of the total amount of these loans (right-hand scale)

QUALITY CATEGORY IV AND V LOANS ('BAD' LOANS) IN TOTAL HOUSEHOLD LOANS AND LOAN LOSS PROVISIONS

Figure 3.9



Share of quality category IV and V loans in total household loans, %

Loan loss provisions for quality category IV and V household loans as % of the total amount of these loans (right-hand scale)

[1] The number of credit history titles is defined as the total sum of all credit history titles transferred to the CCCH by all CHBs (information about the same borrower can be kept in several CHBs), including credit history titles filed only upon the creditor's request.

register by the Bank of Russia, three CHBs underwent voluntary liquidation, and one CHB was struck off by the court ruling following repeated violations of and incompliance with Bank of Russia instructions.

In accordance with Bank of Russia Ordinance No. 3599-U, dated 15 March 2015, 'On the Format and Procedure for Submitting Credit Statements of Credit History Makers from Credit History Bureaus on Bank of Russia Request', the Bank of Russia receives credit reports from CHBs for supervisory purposes.

For the purposes of macroeconomic analysis, in 2018 the Bank of Russia supplemented the automated system of the Central Catalogue of Credit Histories with a new report that enables a quarterly counting of active borrowers (outstanding loan holders) based on the information provided by all CHBs.

Information provided by CHBs raises the accuracy of assessment of borrowers' creditworthiness, as it allows credit institutions to receive data on borrowers' payment history and defaults on obligations to lenders. Furthermore, information from credit reports is highly reliable, because credit history laws enable borrowers to contest invalid data included in credit histories.

In 2018, the Bank of Russia continued:

– to prepare for the second reading at the State Duma of the Russian Federation draft federal law No. 542749-7 'On Amending Article 4 of the Federal Law 'On Credit Histories'; it aims at raising data reliability in credit histories of individual and corporate borrowers and provides for the introduction of unique identifiers for credit risk-related transactions in order to prevent gaps in credit history due to passport renewal or name change, debt assignment, appointment of provisional administration, or securitisation;

– to draft amendments to Federal Law No. 218-FZ, which provides for an overhaul of the current system of credit history creation, including a more accurate identification of credit history makers, an improved procedure for verification of credit history titles, which take into account information provided by federal executive authorities (the Pension Fund of the Russian Federation, the Ministry of Internal Affairs, etc.).

Also, the Bank of Russia has been implementing a mechanism for calculating households' debt and payment burden in order to check households for liabilities under loan agreements. Credit institutions and microfinance organisations will use these data when deciding on loan approval. The Bank of Russia introduced a service at the PSP that allows users who have a confirmed USIA account request information about the credit history bureau(s) holding their credit histories.

III.2. MARKET RISK

III.2.1. MARKET RISK OVERVIEW

The banking sector's market risk[1], accounted in the denominator of bank capital adequacy indicators, reduced by 4.6% in 2018, to ₽3.7 trillion, while its share in total banking sector risks[2] shrank from 5.0% as of 1 January 2018 to 4.4% as of 1 January 2019 (Figure 3.10). Following the decline in the number of credit institutions in 2018, the number of institutions that calculated market risk value decreased from 401 to 323, while their share in banking sector assets dropped from 98% to 94%. The ratio of market risk to the capital of banks which calculated market risk decreased by 4.8 pp over the year to 37.8% as of 1 January 2019 pointing to an overall lower market risk exposure.

Despite the fact that in 2018 interest rate risk accounted for the bulk of market risk (65% as of 1 January 2019), its share dropped by 10 pp over the year. The share of commodity risk in the market risk structure more than doubled in 2018 from 5.9% to 16.0%; the share of stock market risk rose from 8.4% to 9.2%, whereas foreign exchange risk dropped from 10.7% to 10.1%. Interest rate risk declined as investment in relatively riskier debt securities of residents and non-residents were replaced with Bank of Russia debt with lower risk ratios. Commodity risk ex-

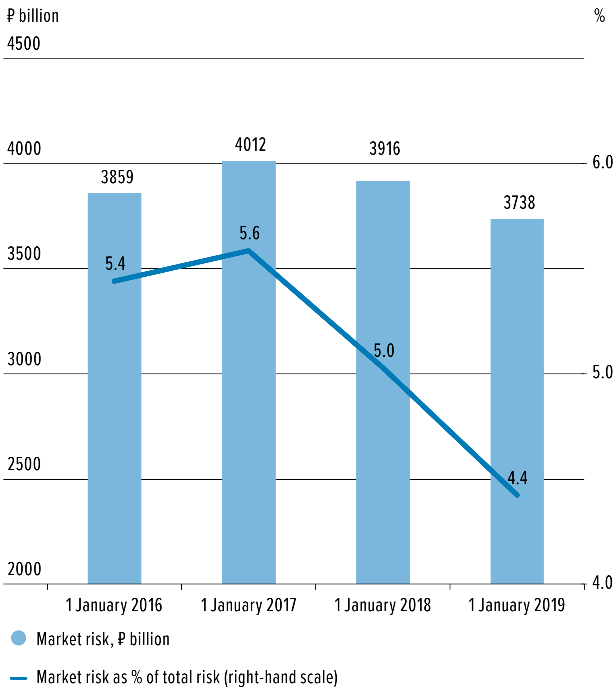
[1] Market risk is calculated in compliance with Bank of Russia Regulation No. 387-P, dated 3 December 2015, 'On the Procedure for Calculating Market Risk by Credit Institutions'.

[2] Risk-weighted assets used to calculate the capital adequacy ratio of the banking sector in compliance with Bank of Russia Instruction No. 180-I, dated 28 June 2017, 'On Banks' Required Ratios'.

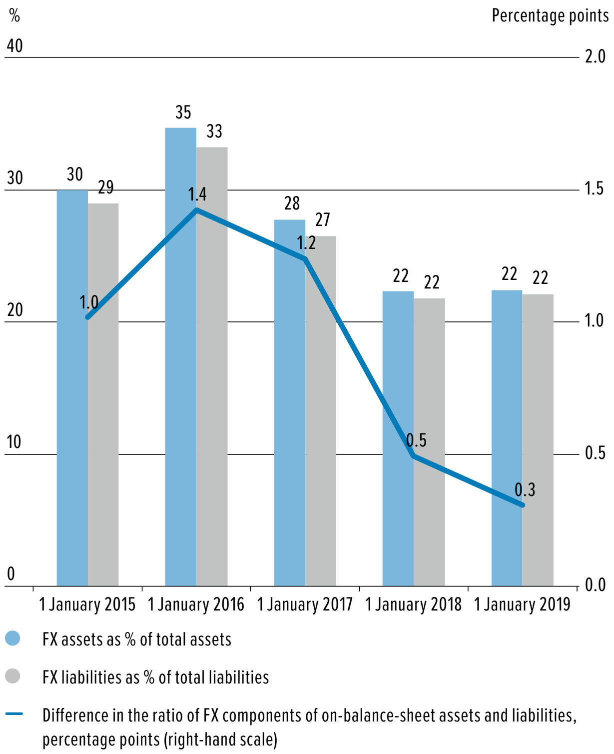
BALANCE-SHEET AND OFF-BALANCE-SHEET FX ASSETS AND LIABILITIES IN THE BANKING SECTOR *Table 3.2*

	1 January 2018		1 January 2019		Growth in 2018	
	$ billion	₽ billion	$ billion	₽ billion	$ billion	₽ billion
Balance-sheet positions						
Assets	329.9	19,000	303.9	21,112	–26.0	2,112
Liabilities	322.6	18,579	299.8	20,824	–22.8	2,245
Net balance-sheet position	7.3	421	4.1	288	–3.2	–133
Off-balance-sheet positions						
Assets	317.7	18,299	333.2	23,146	15.5	4,847
Liabilities	299.2	17,232	309.6	21,511	10.4	4,279
Net off-balance-sheet position	18.5	1,067	23.5	1,635	5.0	568

MARKET RISK AND ITS SHARE IN TOTAL BANKING SECTOR RISKS *Figure 3.10*



SHARES OF FX ASSETS AND LIABILITIES IN BANKING SECTOR TOTAL ASSETS AND LIABILITIES *Figure 3.11*



panded because certain large state-controlled banks traded in derivatives with underlying assets in 2018.

Following the depreciation of the ruble and the decline in FX assets and liabilities in US dollar terms (FX assets dropped in 2018 by 7.9%, from $330 billion to $304 billion while liabilities shrank by 7.1%, from $323 billion to $300 billion), the share of the FX component in banking sector assets and liabilities remained virtually unchanged in 2018: it rose from 22.3% to 22.4% in assets and from 21.8% to 22.1% in liabilities (Figure 3.11). The excess of balance-sheet FX assets over FX liabilities of the banking sector nearly halved, falling from $7.3 billion to $4.1 billion in 2018 (Table 3.5). In contrast, the difference between FX assets and liabilities on off-balance-sheet derivative transactions[1] rose from $18.5 billion to $23.5 billion.

[1] Chapter D 'Accounts for Accounting Assets and Liabilities on Derivatives and Other Agreements (Deals) Where Settlements and Delivery are Made no Earlier than the Day Following the Agreement (Deal) Conclusion' of the Chart of Accounts for Accounting Purposes in Credit Institutions.

NET FX OPTION AND FORWARD POSITION, BILLIONS OF CURRENCY UNITS

Table 3.3

Foreign currency	1 January 2018		1 January 2019	
	US dollar	Euro	US dollar	Euro
Net FX forward position	15	–4.2	14.5	–7.3
Net FX option position	–0.06	–0.2	0.2	0.1

III.2.2. ASSESSMENT OF BANKING SECTOR VULNERABILITY TO INTEREST RATE RISK BASED ON TRADING SECURITIES PORTFOLIO

To determine the banking sector's vulnerability to interest rate risk on trade investments in debt securities, losses of credit institutions are calculated, which result from the materialisation of a stress event – an upward shift of the yield curve for debt instruments (by 200–400 bp, depending on the currency and instrument, for debt instruments of the Russian Federation, and by 500–1,000 bp for Russian corporate bonds).

As of the end of 2018, the ratio between banks' possible losses from materialisation of interest rate risk of the trading portfolio[1] and capital fell from 14.0% to 11.6%. Possible losses varied across credit institutions with positive capital from 0.0% to 97.1% of total capital.

III.2.3. ASSESSMENT OF BANKING SECTOR VULNERABILITY TO STOCK MARKET RISK

The assessment of the Russian banking sector's vulnerability to stock market risk is determined by possible repercussions of a fall in stock indices. A 20–50% drop in stock indices (both Russian and global) was considered as the initial factor; banks' losses from revaluation were comparable with credit institutions' capital.

As of the end of 2018, possible losses of credit institutions making trade investments in equity securities would have amounted to 1.2% of capital in the event of a 20–50% drop in their value, depending on the issuer (2.8% as of 1 January 2018). For credit institutions with positive total capital, losses are estimated in the range between 0.0% and 32.6% of total capital. The decrease in potential losses in the event of stock market risk materialisation in 2018 is associated with a decline in credit institutions' trading investments in equity securities (from ₽480 billion as of 1 January 2018 to ₽252 billion as of 1 January 2019).

III.2.4. ASSESSMENT 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 selected as the initial event for the analysis of banking sector vulnerability to foreign exchange risk. To determine the impact of foreign exchange risk on the financial standing of the banking sector, data of credit institutions which calculate market risk and have open short positions in US dollars and euros was analysed. The number of banks with a short FX position in at least one of the two foreign currencies reduced to 76 credit institutions in 2018 (as of 1 January 2018, 110 credit institutions). The share of these banks in banking sector assets shrank from 33.6% to 33.0%, whereas their share in capital increased from 20% to 29%.

The assessment of banking sector vulnerability to foreign exchange risk revealed an 8% decline in possible losses. Banks' loss-to-capital ratio also fell to 0.5%. For credit institutions with positive capital, losses ranged between 0.0% and 2.0% of total capital.

[1] Here and elsewhere, the trading portfolio means investment in securities at fair value through profit or loss and securities available for sale (for more conservative estimates).

III.3. LIQUIDITY RISK

III.3.1. LIQUIDITY RISK OVERVIEW

In 2018, the banking sector operated amid a structural liquidity surplus.

The average annual level of the most liquid assets in the structure of total banking sector assets[1] rose from 11.4% in 2017 to 13.7% in 2018 (Figure 3.12). That said, funds placed by banks on deposit and correspondent accounts with the Bank of Russia, investment in Bank of Russia bonds and debt securities of the Russian Federation accounted, on average, for more than 60% of the most liquid assets.

At the same time, a structural liquidity surplus decreased in the second half of 2018. In the structure of bank assets, this manifested itself through the shrinkage of credit institutions' claims (primarily, deposits) on the regulator (from ₽2.7 trillion to ₽1.9 trillion in the second half of the year). The liquidity status in the banking sector overall remained favourable, differentiated by certain banks (for details, see Section III.3.2).

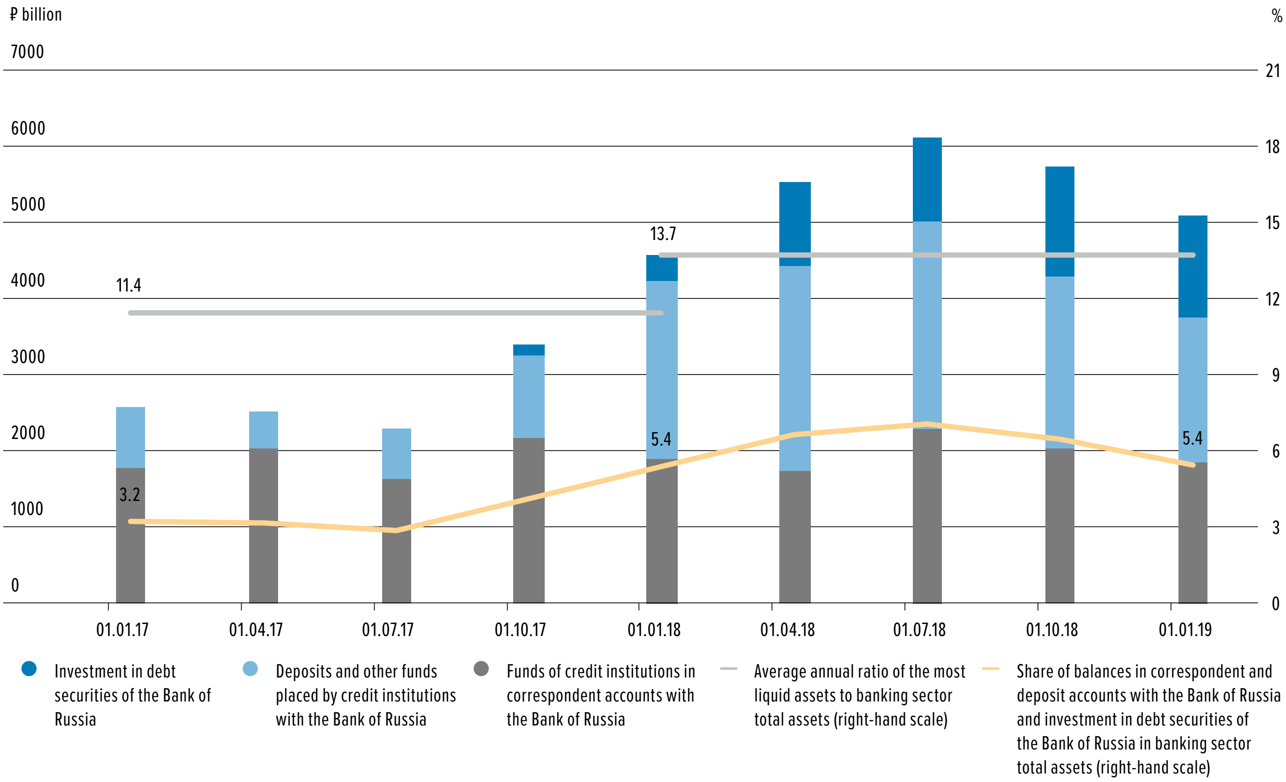
III.3.2. COMPLIANCE WITH LIQUIDITY RATIOS

The average instant liquidity ratio (N2) of the banking sector rose considerably in 2018 compared with the previous year and stood at 118.3% (vs the standard level of 15%). The average annual value of the actual current liquidity ratio (N3) increased from 163% in 2017 to 170.7% in 2018 (Figure 3.13), which was also considerably above the standard level of 50%.

The long-term liquidity ratio (N4) rose in the banking sector overall from 53% to 55% in 2018 compared to 2017 (vs the maximum standard value of 120%).

In 2018, individual credit institutions struggled to comply with required liquidity ratios but the num-

CHANGE IN BALANCES IN CREDIT INSTITUTIONS' CORRESPONDENT AND DEPOSIT ACCOUNTS WITH THE BANK OF RUSSIA AND INVESTMENT IN BANK OF RUSSIA SECURITIES* *Figure 3.12*



* Accounting balance sheet data of credit institutions.

[1] Cash, precious metals, correspondent account balances, correspondent and deposit account balances with the Bank of Russia, investments in debt securities of the Bank of Russia and the Russian Federation on banks' balance sheets.

ber of such banks decreased compared to 2017. Four credit institutions of those operating as of the end of the reporting year violated the instant liquidity ratio (N2) as of certain dates (in 2017, eight credit institutions operating as of 1 January 2018), and three credit institutions violated the current liquidity ratio (N3) (in 2017, 11 credit institutions).

Credit institutions operating as of 1 January 2019 complied with the long-term liquidity ratio (N4) in the reporting year (vs two violations in 2017).

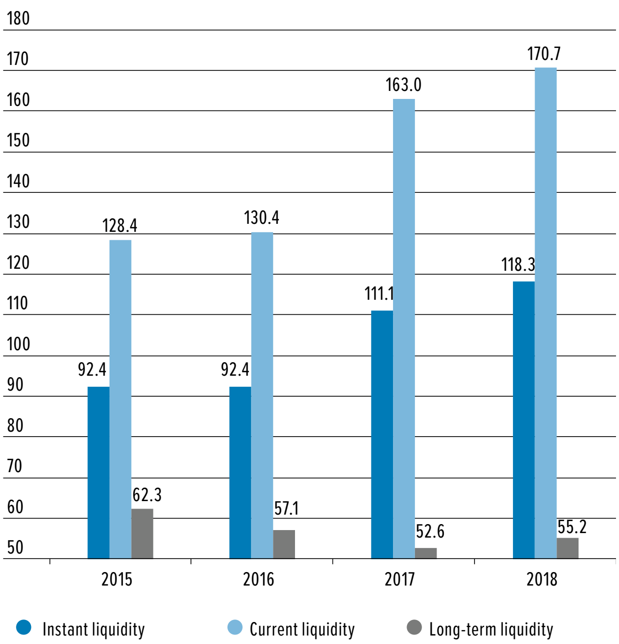
Assets compliant with the Basel III criteria have been growing gradually since early 2015 in the Russian banking sector overall. All systemically important credit institutions complied with the liquidity coverage ratio (N26 and N27[1]) in 2018. The actual value of the liquidity coverage ratio (N26 and N27) in systemically important credit institutions reduced in the banking sector from, on average, 148.6% as of 1 January 2018 to 130.5% as of 1 January 2019 and ranged between 98.6% and 177.7% broken down by bank.

III.3.3. MATURITY STRUCTURE OF BANK ASSETS AND LIABILITIES

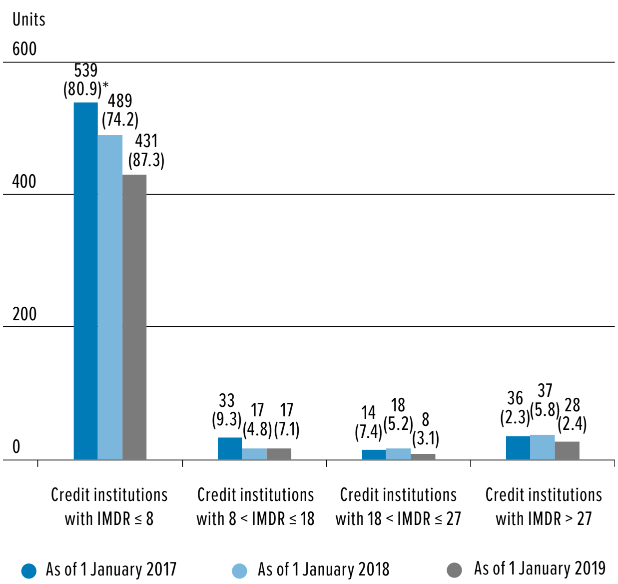
Banks continued to transform short-term liabilities into longer-term investments: the ratio between the excess of long-term (over one year) liquid assets over liabilities (maturing within more than one year) and short-term liabilities (less than one year) as of end-2018 stood at 35.2% (as of the beginning of the year, 32.5%). Amid a liquidity surplus, a slight increase of the indicator may be regarded as positive in terms of the banking sector's macroeconomic role and its effect on economic growth.

Long-term liquid assets (maturing within more than one year) increased by 12.4%[2] in 2018 (in 2017, by 8.0%) to ₽52.7 trillion, while short-term liquid assets (maturing within less than one year) rose by 8.1% (in 2017, by 10.1%) to ₽69.9 trillion. The share of long-

BANKING SECTOR LIQUIDITY RATIOS (ANNUAL CHRONOLOGICAL AVERAGES) *Figure 3.13*



CREDIT INSTITUTIONS BY DEPENDENCE ON THE INTERBANK MARKET *Figure 3.14*



* Figures in brackets denote the percentage of these credit institutions in banking sector assets, %.

[1] Systemically important credit institutions must comply with the banking group liquidity coverage ratio (N26) and the bank liquidity coverage ratio (N27). Starting from 1 January 2018, the minimum numerical value of the ratio was set at 90%, and since 1 January 2019 it has been set at 100%.

[2] For credit institutions operating as of the latest reporting date (including banks that underwent restructuring).

term liquid assets in total liquid assets expanded in 2018 from 42.0% to 43.0%.

In the reporting year, short-term liabilities (maturing within less than one year) showed faster growth than long-term liabilities compared to 2017 adding 12.7% over the year (in 2017, 10.0%) to reach ₽90.9 trillion. Long-term liabilities (maturing within more than one year) increased by mere 0.6% (in 2017, by 4.1%) to ₽20.7 trillion whereas their share in total liabilities fell from 20.3% to 18.6%.

III.3.4. DEPENDENCE ON THE INTERBANK MARKET

The interbank market dependence ratio (IMDR) of a credit institution 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[1].

As many as 431 credit institutions with low dependence on the interbank market (maximum IMDR value of no more than 8%) accounted for 87.3% of total assets of the banking sector as of 1 January 2019 (as of 1 January 2018, 489 banks, or 74.2%). The group with a high dependence on the interbank market (IMDR > 27%) includes only 28 banks with a 2.4% share in banking sector assets (Figure 3.14). This signals low dependence of most banks on relatively volatile sources of funding, and the share of such banks is growing.

III.4. OPERATIONAL RISK. CYBER-SECURITY

Cyber-security and cyber-resilience of the banking sector are important aspects of the Bank of Russia's activity.

The Bank of Russia makes efforts to ensure operations of the uniform system for countering informational threats:

– mitigates risks of financial stability breaches in credit institutions resulting from cyber-attacks on their information resources;

– mitigates risks of direct financial damage to customers and counterparties of credit institutions associated with unauthorised financial transactions, including unauthorised money transfers;

– ensures trust of customers and counterparties of credit institutions in safety of the offered technologies and services;

– improves reliability of data on incidents associated with violations of requirements to protect information related to funds transfers.

To ensure and monitor information security and counter informational threats in the financial sector, the Bank of Russia focused on the implementation of Federal Law No. 167-FZ, dated 27 June 2018[2]. To deliver on this objective, the Bank of Russia took the following measures:

a) established information exchange between the Bank of Russia and credit institutions on all incidents and (or) attempts of embezzlement through the Automated Incident Processing System (AIPS) of the Financial Sector Computer Emergency Response Team of the Bank of Russia Information Security Department (FinCERT);

b) elaborated and approved Bank of Russia Ordinance No. 4926-U[3], dated 8 October 2018, that established:

– a form for submitting information about all actual and (or) attempted unauthorised funds transfers by information exchange participants;

[1] The IMDR calculation generally complies with the methodology for calculating the PL5 ratio established by Bank of Russia Ordinance No. 4336-U, dated 3 April 2017, 'On Assessing Banks' Economic Situation', which defines IMDR threshold values at 8%, 18%, and 27% corresponding to a low, medium, and high dependence on the interbank market. A PL5 ratio exceeding the threshold value of 27% may indicate current troubles in a bank's activity, which are taken into account when including the bank in a particular group.

[2] Federal Law No. 167-FZ, dated 27 June 2018, 'On Amending Certain Laws of the Russian Federation for Countering Embezzlement'.

[3] Bank of Russia Ordinance No. 4926-U, dated 8 October 2018, 'On the Form and Procedure for Funds Transfer Operators, Payment System Operators, and Payment Infrastructure Operators to Inform the Bank of Russia about All Actual and (or) Attempted Funds Transfers Without the Customer's Consent and Receive from the Bank of Russia's Database Information about Actual and Attempted Funds Transfers Without the Customer's Consent, and on the Procedure for Funds Transfer Operators, Payment System Operators, and Payment Infrastructure Operators to Counter Funds Transfers Without the Customer's Consent'.

– a procedure for information exchange between information exchange participants and the Bank of Russia;

– a procedure for countering unauthorised funds transfers by information exchange participants;

c) enforced, from 1 November 2018, Bank of Russia Standard STO BR FBOS-1.5-2018[1] that established forms and terms of the Bank of Russia's cooperation with information exchange participants to reveal violations of information security;

d) on 26 September 2018, FinCERT created an AIPS database of actual and attempted unauthorised funds transfers, which is used by funds transfer operators, payment system operators, and payments service infrastructures to reveal operations bearing the evidence of unauthorised funds transfers;

e) as of 31 December 2018, all credit institutions were connected to the FinCERT AIPS;

f) in 2018 (starting from 26 September 2018) the FinCERT AIPS registered 15,607 unauthorised transactions and helped credit institutions prevent, suspend and block payments for a total of ₽40 million.

For the purpose of Part 14, Article 14.1 of Federal Law No. 149-FZ[2], dated 27 July 2006, the Bank of Russia and Public Joint-stock Company Rostelecom elaborated and approved joint Ordinance No. 4859-U/01/01/782-18[3], dated 9 July 2018; it is aimed at:

– ensuring protection of human and civil rights when processing biometric personal data for identification purposes;

– establishing the basis for requirements for information technologies and technical equipment used in processing biometric personal data for identification purposes;

– providing the necessary protection of biometric personal data in the process of their processing, including their collection and storage in the uniform information system of personal data that provides for biometric personal data processing, including their collection and storage, verification and transfer of information on their conformity with the biometric personal data provided by a Russian citizen for identification.

The implementation of the said measures reversed a number of embezzlement trends seen in recent years. Thus, the decline in the share of unauthorised payment card transactions in total funds transfers observed in 2016–2017 gave way to slight growth of 0.0002 pp in the reporting period. In 2018, this indicator rose to 0.0018% compared with the 0.0028% drop in 2015 to 0.0021% and 0.0016% in 2016 and 2017 respectively. The reporting period saw 416. ,900 unauthorised payment card transactions for a total of ₽1,384.7 million (in 2017, 317,000 transactions for a total of ₽961.3 million). As the number and value of cashless payments is forecast to grow further, the Bank of Russia aims to hold the share of unauthorised transactions in total payment card transactions below 0.005%.

In 2018, credit institutions reported to the Bank of Russia 6,151 unauthorised corporate account transactions worth ₽1.47 billion (in 2017, 841 transactions worth ₽1.57 billion). Whereas banks considerably increased the number of reports on unauthorised corporate account transactions (by a factor of 7.3), their value remained virtually unchanged. This trend and the rise in the share of unauthorised payment card transactions is attributed to an increase in the quality and transparency of data provided to the Bank of Russia, as well as a more serious approach of supervised entities to information security. As a result, banks started to report not only major incidents but also less significant cyber-attacks.

According to the reporting data received by the Bank of Russia, credit institutions indicate the use of social computing by fraudsters to influence holders of electronic payment instruments as the main reason behind most embezzlements. Credit institutions are obliged by law to inform customers about possible risks.

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[1] Bank of Russia Standards STO BR FBOS-1.5-2018 'Financial (Bank) Operation Security. Information Security Incident Management. On the Forms and Terms for Cooperation Between the Bank of Russia and Information Exchange Participants When Violations of Information Security Protection are Revealed', enforced by Bank of Russia Order No. OD-2403, dated 14 September 2018.

[2] Federal Law No. 149-FZ, dated 27 July 2006, 'On Information, Information Technology and Information Protection'.

[3] Ordinance of the Bank of Russia and Public Joint-stock Company Rostelecom No. 4859-U/01/01/782-18, dated 9 July 2018, 'On the List of Security Threats to Biometric Personal Data Processing, Including Collection and Storage, Verification and Transfer of Information about Their Correspondence to Biometric Personal Data of a Citizen of the Russian Federation Provided to Governmental Agencies, Banks and Other Institutions Indicated in Paragraph One of Part 1 of Article 14.1 of Federal Law No. 149-FZ, Dated 27 July 2006, 'On Information, Information Technology and Information Protection' Stored in the Unified Information System'.

As many as 129 inspections held in credit institutions in 2018 to check the compliance with data protection requirements in funds transfers and the use of information technologies, revealed 196 violations of Bank of Russia regulations.

The results of the inspections show that all the revealed violations of IS requirements were caused by a human error, including:

– poor knowledge and understanding of IS regulations;

– low responsibility of employees of supervised organisations for compliance with IS requirements;

– poor organisation of internal audit and internal controls of IS-related issues;

– formal attitude of owners and managers of supervised organisations to IS requirements as non-priority tasks.

In 2018, FinCERT sent 155 real-time reports on computer attacks and six reports on highly dangerous threats with detailed recommendations on their prevention to more than 700 participants of information exchange on information security. A half of these reports (74 reports) were sent after the prototype of the Fid-AntiFraud system was launched.

Bank of Russia specialists helped more than 200 credit institutions investigate embezzlements.

III.5. CAPITAL ADEQUACY

III.5.1. BANKING SECTOR CAPITAL DYNAMICS AND STRUCTURE

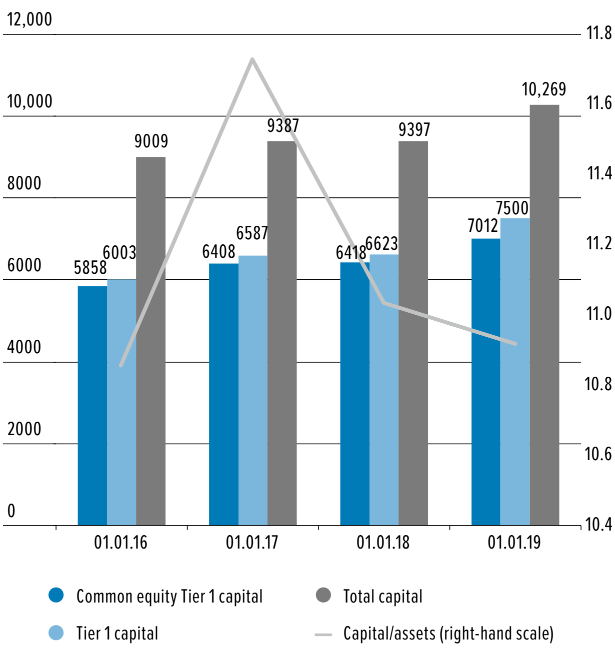
The banking sector capital showed positive trends in 2018: capital increased throughout the year (except for January and June), and as of the year-end its growth totalled 9.3% (as of 1 January 2019, capital reached ₽10.3 trillion). As of the year-end, common equity Tier 1 capital reached ₽7.0 trillion, growth of 9.3%; additional Tier 1 capital more than doubled to ₽0.5 trillion; as a result Tier 1 capital increased by 13.2%, to ₽7.5 trillion. Tier 2 capital remained virtually unchanged at ₽2.8 trillion (a 0.2% drop).

The increase in capital resulted primarily from growth in financial result recorded in capital sources, a rise in outstanding subordinated loans received, and a contraction of capital deductions.

This contrasts with the 2017 performance when banks under resolution brought down the financial result and subordinated loan balances; as a result total capital of the banking sector showed the minimum increase (+0.1%). In 2018, the influence of banks under resolution on banking sector capital was ambiguous. On the one hand, recapitalisation of large credit institutions which underwent resolution with the Bank of Russia's participation, undoubtedly played a positive role. On the other hand, banks under resolution registered sizeable losses in 2018. Overall, banks under resolution accounted for 93% of the total decrease in capital in 2018; banks under resolution as of 1 January 2019 factored out, the sector's capital rose significantly by 15.1%.

Most banks increased capital in 2018: capital of 325 credit institutions rose by ₽2.0 trillion (in 2017, 366 banks). Capital of 159 credit institutions dropped by ₽1.0 trillion (in 2017, 195 banks). Major profit-generating banks made the main contribution to the increase in the banking sector capital. It is of note that the banking sector capital was negatively affected by dividend payments by two major banks in June 2018; this reduced retained earnings of these banks.

BANKING SECTOR CAPITAL DYNAMICS *Figure 3.15*



The most significant increase in capital was registered in 2018 in state-controlled banks (earning ₽1.2 trillion, or +18.8%) and foreign-controlled banks (₽208 billion, or +14.5%) mostly thanks to the rise in financial result (of 18% and 19% respectively; growth in the banking sector as a whole came in at ₽319 billion, or 8%).

Another factor that determined capital' s positive dynamics was the reduction in deductions of banks' investments in shares of financial organisations, subsidiary and affiliated legal entities from capital (of ₽346 billion, or 50%). The reduction in deductions is typical mainly of state-controlled banks, where the indicator dropped by ₽359 billion, or 64%[1], over the year, among other things, following the merger of a number of large banks, and sale of subsidiaries of major banks.

The increase in capital of state-controlled banks in 2018 was also driven by growth in subordinated borrowings (of ₽56 billion, or 4%). A significant growth in this capital source is also registered in foreign-controlled banks (₽38 billion, or 15%). In large and medium private banks, subordinated loans increased by ₽25 billion, or 7%.

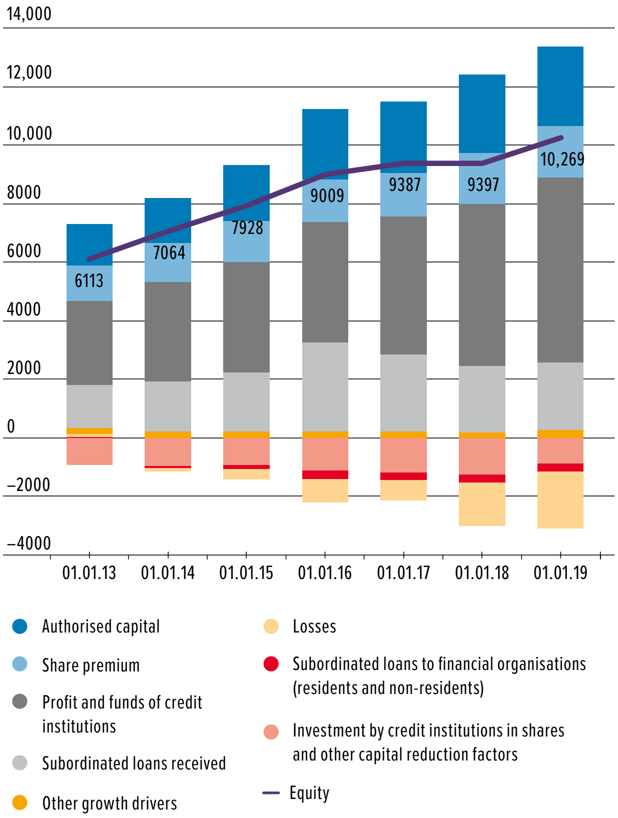
Financial result and investments in subsidiaries helped increase *common equity Tier 1 capital:* the audited financial result recorded in common equity Tier 1 capital grew over the year by ₽355 billion, or 11%, while deductions due to investments in subsidiaries sank by ₽134 billion, or 28%.

Growth in *additional Tier 1 capital* resulted primarily from the increase in subordinated loan balances (of ₽143 billion, or 41%) and lower deductions associated with banks' investments in shares of financial organisations, subsidiary and affiliated legal entities (of ₽212 billion).

Tier 2 capital was negatively affected by the reduction in subordinated loan balances (of ₽114 billion[2], or 6%) included in capital of this tier; it was in part offset by the decrease in deductions associated with subordinated loans extended to financial organisations (of ₽50 billion, or 20%).

The bank capital to GDP ratio came in at 9.9% as of 1 January 2019, which is 0.3 pp lower than as of 1 January 2018[3].

BANKING SECTOR CAPITAL STRUCTURE *Figure 3.16*



As a result of the above changes, profit increased its share in the structure of capital sources as of 1 January 2019 (from 44.3% to 47.2%), whereas the share of authorised capital and share premium shrank (from 35.7% to 33.4%), as well as the share of subordinated debt (from 18.6% to 17.5%).

At the same time, the share of losses in the structure of capital deductions rose from 49.2% to 63.6%. The share of investments in shares of financial organisations, subsidiaries and affiliated legal entities halved (from 22.7% to 11.0%, mostly due to the performance of state-controlled banks); the share of subordinated loans issued to financial organisations dropped, too (from 9.2% to 7.5%, mostly in state-controlled and foreign-controlled banks).

III.5.2. RISK-WEIGHTED ASSETS

The ratio of risk-weighted assets to total assets of Russian banks stood at 90% as of 1 January 2019 (91% as of 1 January 2018). This ratio reflects the level

1 A reduction of ₽276 billion is determined by performance of VTB Bank, which merged with VTB 24 in early 2018.

2 This may be determined by a phased exclusion of subordinated instruments from capital sources in accordance with law.

3 Nominal GDP grew in 2018 by 12.8%.

CAPITAL STRUCTURE AND DYNAMICS BY BANK GROUP, ₽ BILLION*

Table 3.4

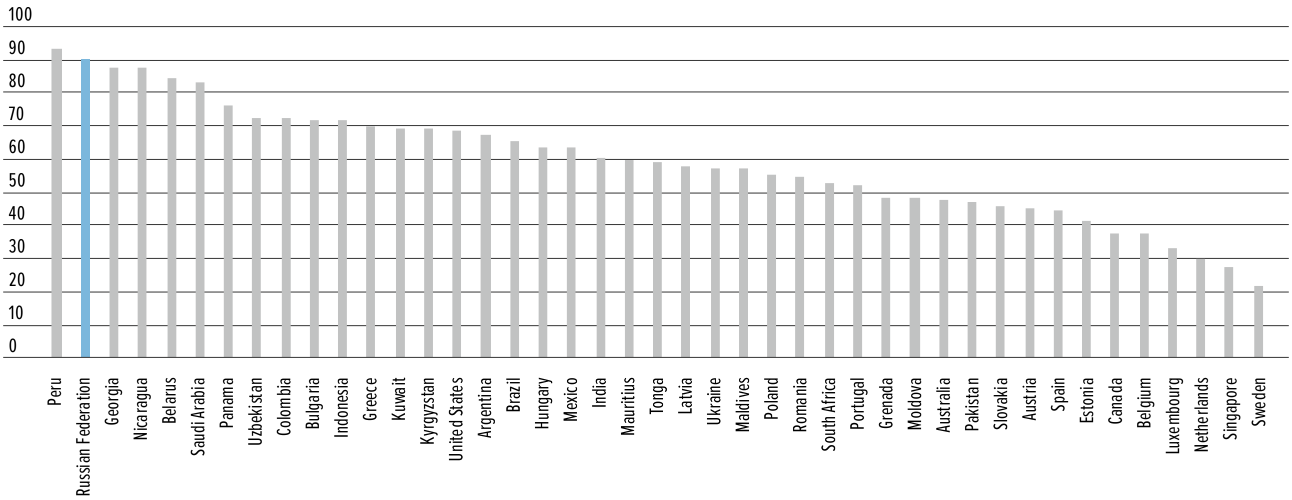
	State-controlled banks			Foreign-controlled banks			Large and medium private banks			Banks with a basic licence			Non-bank credit institutions			Banks under resolution		
	1 January 2018	+/–	1 January 2019	1 January 2018	+/–	1 January 2019	1 January 2018	+/–	1 January 2019	1 January 2018	+/–	1 January 2019	1 January 2018	+/–	1 January 2019	1 January 2018	+/–	1 January 2019
Capital sources	7,472	852	8,325	1,527	210	1,737	1,551	125	1,676	75	1	76	87	15	102	1,155	298	1,453
Authorised capital	1,444	50	1,494	343	18	362	343	8	351	31	0	31	21	0	21	301	137	438
Share premium	960	8	968	108	2	110	160	12	172	3	0	2	1	0	1	436	79	515
Profit and funds of credit institutions	3,608	642	4,250	793	151	944	632	78	710	30	1	31	65	15	79	204	90	294
Subordinated loans	1,394	56	1,450	254	38	293	378	25	403	7	1	7	0	0	0	184	–3	181
Revaluation surplus	67	–1	66	28	0	29	38	1	40	5	0	5	0	0	0	29	–4	25
Other	0	98	98	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital deductions	1,184	–332	853	92	2	94	69	19	88	5	1	6	14	–10	4	1,201	854	2,056
Losses	129	21	150	9	5	14	21	17	38	4	1	4	0	0	1	909	855	1,764
Intangible assets	245	52	297	19	1	20	11	5	16	1	0	1	3	0	3	9	4	14
Treasury shares (stakes) and bank's other capital investments**	2.7	–0.3	2.4	12	4	16	5	–2	3	0	0	0	0	0	0	1	0	0
Subordinated loans to financial organisations (residents and non-residents)	217	–43	175	4	0	4	1	1	2	0	0	0	0	0	0	51	2	52
Credit institution's investments in shares (stakes) of financial organisations (including non-residents), subsidiary and affiliated legal entities, and resident credit institutions	563	–359	203	41	–12	30	14	–9	5	0	0	0	0	0	0	61	43	105
Other	29	–3	25	6	4	10	17	7	24	1	0	1	10	–10	0	171	–50	121
Capital, total	6,288	1,184	7,472	1,435	208	1,643	1,482	106	1,588	70	1	70	73	25	98	–46	–556	–602
Number of credit institutions***			18			62			183			149			44			28

* As of 1 January 2018, bank groups are shown as clustered as of 1 January 2019.

** The indicator includes not only investments in treasury shares, but also other capital investments of credit institutions (sources of capital formed from improper assets). This is the reserve fund and profit formed from funding assets, i.e. investments paid for from the credit institution's funds (commissions, fines, and interest income).

*** For banks in operation as of 1 January 2019.

THE RATIO OF RISK-WEIGHTED ASSETS TO AGGREGATE BALANCE-SHEET ASSETS IN INDIVIDUAL COUNTRIES AS OF 1 JANUARY 2019** *Figure 3.17*



* The denominator of total capital adequacy requirements (N1.0 ratio) is the sum of market and operational risks, elevated requirements for capital coverage of individual bank assets and other components.

** Cross-country comparisons are based on the IMF data (specifically, data on assets and risk-weighted assets are included in the measures used to calculate IMF Financial Soundness Indicators). Data as of 1 January 2019 or 1 October 2018.

of conservatism in assessment of banking risks – the higher is the ratio, the more total capital banks need to comply with capital adequacy ratios. Cross-country comparison shows that banking regulation in Russia is more conservative than in other countries with comparable credit ratings (Figure 3.17).

Total risk-weighted assets increased in 2018 by ₽6.6 trillion, or 8.5% (in 2017, by 8.5%) to ₽84.5 trillion.

The majority of banks, bar banks with a basic licence, posted growth in assets at risk; it was the most significant in banks under resolution (of ₽2.3 trillion, or 32.5%) and state-controlled banks (of ₽10.3 trillion, or 3.3%). A tangible increase in assets at risk was registered in major banks (of 22.1% in SICIs other than banks under resolution).

Assets at risk rose following the increase in credit risk-weighted assets[1] of ₽6.9 trillion, or 11.6% (Figure 3.18). This is largely caused by the revival of the banking business, in particular, lending growth: in 2018, total exposure[2] rose by 10.7%[3]. As a result, the ratio between credit risk-weighted assets and total risk-weighted assets grew from 77% to 79% in 2018. Credit risks on assets recorded on the balance sheet account for the bulk (50%) of credit risk weighted-assets.

Regulatory innovations changed the structure of risk-weighted assets in 2018.

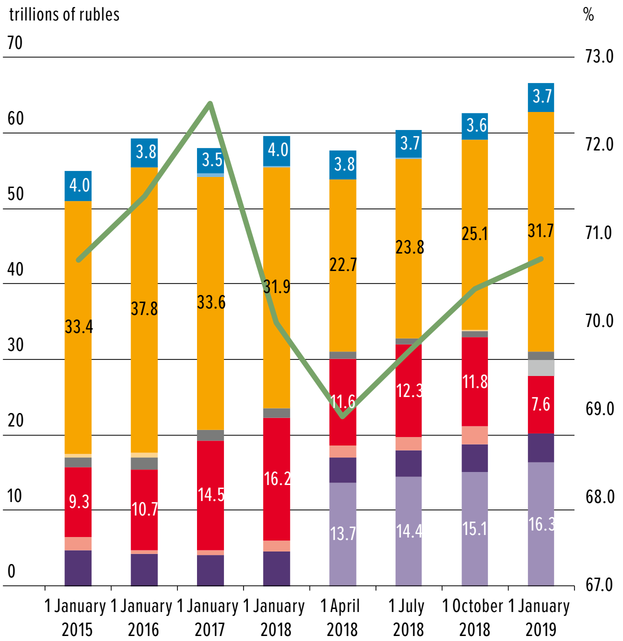
In 2017, a new component was introduced – credit risk including charges calculated using the internal ratings-based approach (IRB approach). In 2018, PJSC Sberbank started to apply this approach and the IRB-based component came in at ₽16.3 trillion as of the end of 2018. It partially included claims previously recorded in other assets at risk.

[1] In accordance with Bank of Russia Instruction No. 180-I, dated 28 June 2017, 'On Banks' Required Ratios', this risk category includes credit risk on assets recorded on balance-sheet accounts (with a risk weight of 0% to 150%); claims on entities affiliated with the bank; credit risks on contingent credit liabilities; credit risks on forward transactions; higher risk transactions (PK); risks on unsecured household loans issued after 1 July 2013 at increased interest rates to individual borrowers (PKr); the risk of changes in the value of credit claims following the deterioration of a counterparty's creditworthiness (RSK); total risks on claims on clearing participants; internal ratings-based credit risk including charges calculated on the basis of IRB4 for the purposes of including in the capital adequacy ratios (KRP and code 8770); and the final result of application of risk charges calculated in accordance with Bank of Russia Ordinance No. 4892-U, dated 31 August 2018 (code 8769.0) (included in the calculation from 8 October 2018).

[2] Claims on non-financial organisations and individuals, financial corporations (other than credit institutions), including claims on investments in debt securities, promissory notes and acquired claims.

[3] Excluding credit institutions whose licences were revoked, and adjusted for FX revaluation.

CREDIT RISK-WEIGHTED ASSETS OF CREDIT INSTITUTIONS* *Figure 3.18*



- Other credit risk-weighted assets
- Asset group 5** (risk ratio 150%)
- Asset group 4** (risk ratio 100%)
- Asset group 3** (risk ratio 50%)
- Asset group 2** (risk ratio 20%)
- Result of the application of add-ons to risk weights calculated in accordance with Bank of Russia Ordinance No. 4892-U (Code 8769.0) (included in calculation from 8 October 2018)
- Higher risk transactions net of an estimated value, adjusting the N1.0 ratio denominator that prevents re-including credit claims on higher risk transactions in capital calculation
- Credit risk on unsecured household loans issued after 1 July 2013 at an increased interest rate (PKr)
- Credit risks on credit contingencies
- Credit risk including IRB buffers calculated using the IRB approach*** for the purpose of inclusion in capital adequacy requirements
- Credit risk-weighted assets relative to banking sector total assets, % (right-hand scale)

* Credit institutions calculate these indicators in accordance with Bank of Russia Instruction No. 180-I, dated 28 June 2017, 'On Banks' Required Ratios'.

** Assets net of loan loss provisions.

*** IRB approach is an internal ratings-based approach to calculating credit risk in accordance with Bank of Russia Regulation No. 483-P, dated 6 August 2015, 'On the Procedure for Assessing IRB Credit Risk'.

Furthermore, instead of increased risk ratios add-ons to risk weights were applied to a number of assets in 2018[1]. This change is aimed at increasing the regulatory response – the increase or reduction of risk ratios through amending regulations is a more labour consuming and long process than adjustment of buffers. As a result, total assets recorded in balance-sheet accounts with a 100% ratio included certain requirements which were previously separate components:

- operations with increased risk ratios carried out after 1 May 2016[2] (as of 1 January 2018, the balance totalled ₽4.0 trillion, and as of 1 January 2019 it came in at zero);
- credit risk on unsecured loans extended to individuals after 1 July 2013 at increased interest rates[3] (as of 1 January 2018, the balance totalled ₽1.5 trillion, and as of 1 January 2019 it came in at zero);
- credit claims and claims on accrued interest on mortgage loans extended to individuals for which the ratio between the principal and the fair value of collateral as of the loan issue date stands at more than 90%[4] (as of 1 January 2018, the balance totalled ₽153 billion, and as of 1 January 2019 it came in at zero);
- credit claims and claims on accrued interest on FX loans to individuals[5] (as of 1 January 2018, the balance totalled ₽67 billion, and as of 1 January 2019 it came in at zero). That said, the sum of charges were recorded in financial statements separately (Code 8769.0); as of 1 January 2019, the balance totalled ₽2.1 trillion.

III.5.3. BANK CAPITAL ADEQUACY

Capital adequacy ratios of the banking sector increased slightly in 2018 but remained at a comfortable level: the total capital adequacy ratio rose by 0.09 pp, to 12.15%; common equity Tier 1 capital adequacy increased by 0.10 pp, to 8.31%; and Tier 1 capital adequacy added 0.38 pp, to 8.88%.

[1] Bank of Russia Ordinance No. 4892-U, dated 31 August 2018, 'On Types and Characteristics of Assets for Which Risk-based Capital Buffers are Set and on the Methodology for Applying These Buffers to the Said Types of Assets for Credit Institutions to Calculate Their Capital Adequacy Ratios'.

[2] KPv except for code 8754.

[3] PKr.

[4] Code 8737, previously included PKi.

[5] Code 8832, previously included PKi.

Banks under resolution constrained growth of the capital adequacy ratio of the banking sector: these banks factored out, total capital adequacy would rise more considerably, by 1.1 pp, to 14.44%, while common equity Tier 1 capital and Tier 1 capital adequacy would add 1.08 pp and 1.41 pp, to 10.4% and 11.0% respectively. Furthermore, growth in assets at risk in a number of large banks exceeded the increase in their capital, which also affected capital adequacy ratios.

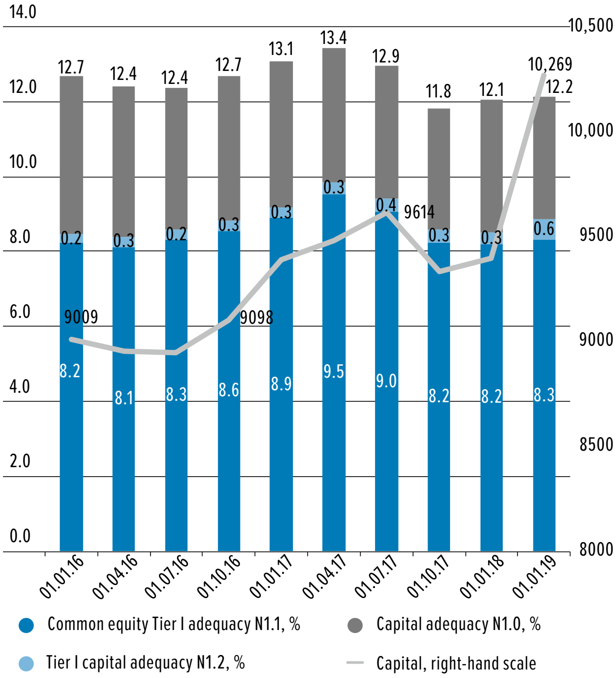
Most banks increased capital adequacy in 2018; however, growth was mostly registered in small banks (banks that increased total capital accounted for less than a third of banking sector assets as of 1 January 2019).

Total capital adequacy rose in banks with a basic licence (by 1.78 pp) which showed a record level of this indicator, and foreign-controlled banks (by 0.05 pp); state-controlled banks (including PJSC Sberbank) and large and medium private banks accumulated risks bringing this indicators down (by 0.51 pp and 0.35 pp respectively).

Capital stock of the banking sector fell by ₽177 billion (-8.0%) in 2018 and as of 1 January 2019 came in at ₽2.0 trillion. As a result, the potential for the expansion in lending contracted from ₽28.4 trillion as of 1 January 2018 to ₽23.4 trillion

BANKING SECTOR CAPITAL ADEQUACY IN 2018

Figure 3.19



as of 1 January 2019. At the same time, it is of note that the contraction in capital stock was attributed to a scheduled upward revision of requirements for buffers in 2018[1]. If the requirements for buffers applicable since 2018 became effective in December 2017, the minimum capital stock as of 1 January 2018 would

CAPITAL ADEQUACY BY GROUP OF CREDIT INSTITUTIONS RANKED BY ASSETS*, %

Table 3.5

Credit institutions ranked by assets (in descending order)	Adequacy of					
	Common equity Tier I capital (N1.1)		Tier I capital (N1.2)		Capital (N1.0)	
	1 January 2018	1 January 2019	1 January 2018	1 January 2019	1 January 2018	1 January 2019
State-controlled banks	10.25	9.91	10.42	10.40	14.19	13.68
Foreign-controlled banks	11.88	12.05	12.45	13.01	16.13	16.18
Large and medium private banks	10.60	10.50	11.58	11.60	15.97	15.62
Banks with a basic licence**	–	–	20.83	22.20	25.41	27.19
Banking sector (banks under financial resolution as of 1 January 2019 factored out)	**9.34**	**10.42**	**9.64**	**11.05**	**13.3**	**14.44**

* Credit institutions operating as of 1 January 2019, banks under financial resolution as of 1 January 2019 factored out.

** Bank of Russia Instruction No. 183-I, dated 6 December 2017, 'On the Required Ratios of Banks with a Basic Licence' stipulates simplified regulation for banks with a basic licence. They should comply with the Tier I capital adequacy (N1.2) and total capital adequacy (N1.0) ratios, but should not comply with the Common equity Tier I capital adequacy ratio (N1.2).

[1] In accordance with Bank of Russia Instruction No. 180-I, dated 28 June 2018, 'On Banks' Required Ratios', the minimum capital conservation buffer totalled in 2018 1.875 pp, while the systemic capital buffer stood at 0.650 pp. In 2017, these buffers were 1.250 pp and 0.350 pp respectively.

CAPITAL BUFFERS

Table 3.6

Indicator	Date						
	From 1 January 2017	From 1 January 2018	From 1 January 2019	From 1 April 2019	From 1 July 2019	From 1 October 2019	From 1 January 2020
Capital conservation buffer	1.250	1.875	1.875	2.0	2.125	2.25	2.5
Systemic capital buffer	0.350					0.650	1.0
Russian national countercyclical buffer, pp*						0	–
National countercyclical buffer ratio	0.50	0.75					1.0

* In accordance with Bank of Russia Instruction No. 180-I, dated 28 June 2018, 'On Banks' Required Ratios', a bank should determine the countercyclical buffer based on the weighted average national countercyclical buffers in all countries with residents of which the bank makes transactions for which credit and market risks are calculated.

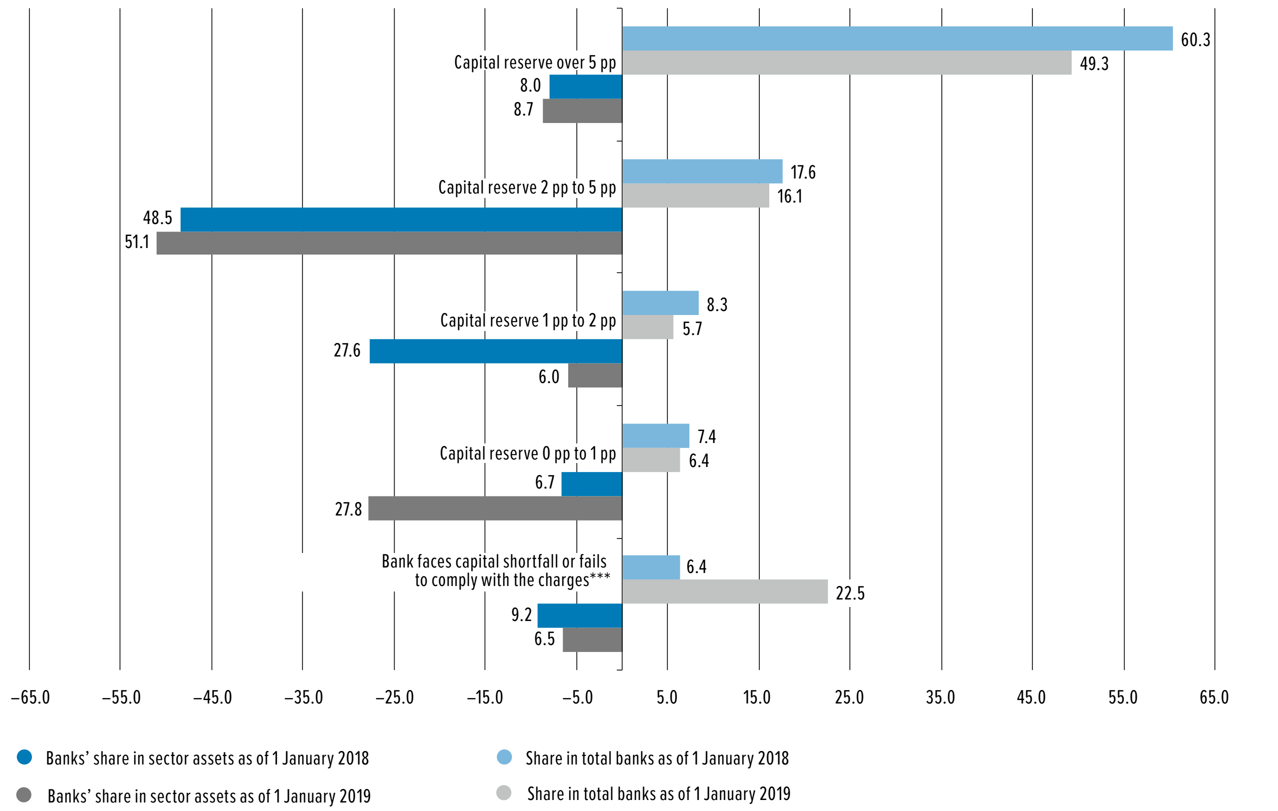
The countercyclical buffer for the Russian Federation is established by the Bank of Russia Board of Directors. Currently it stands at 0 pp.

Should the authorised agency of any state (other than the Russian Federation) establish the national countercyclical buffer that exceeds 2.5 pp, banks should use such a countercyclical buffer in calculation of the countercyclical buffer at 2.5% of risk-weighted assets.

When calculating the minimum countercyclical buffer, the weighted average of the national countercyclical buffer should be multiplied by the ratio stipulated in Clause 3.3 of Bank of Russia Instruction No. 180-I.

BANKS BY CAPITAL RESERVE**

Figure 3.20



* Excluding NCIs.

** Capital reserve is calculated as the actual difference between capital adequacy and minimum capital adequacy requirements including charges. The calculation is based on standalone data on compliance with the charges.

*** Calculation factors in banks that violate capital adequacy ratios and banks with negative capital.

be lower (₽1.7 trillion), whereas in 2018 it would grow by ₽394 billion, or 23.8%. Should this be the case, lending capacity would total ₽19.3 trillion as of early 2018, and its annual growth would come in at 20.3%.

Nevertheless, as of the beginning of 2019, most banks enjoyed comfortable capital stock: the share of banks with capital in excess of 5 pp came in at 49.3% of operating banks, while the share of banks with capital stock from 2 pp to 5 pp was 16.1%. It is of note that small banks had the highest capital stock (the share of such banks with capital stock in excess of 5 pp in the sector's asset stood at 8.7%). On the one hand, it is explained by low business diversification in small banks, due to which they need higher capital stock. Moreover, small banks offer a narrower choice of credit products than large credit institutions. Therefore, they have to keep significant liquid assets with lower risk weight. It is also of note that in some cases large banks rely on owners' support, which small banks usually lack and, therefore, they have a higher level of capital adequacy.

Large banks can afford a lower capital stock. Therefore, banks with capital stock in the range between 2 pp and 5 pp account for 16.1% of total credit institutions but 51.1% of banking sector assets.

Banks' compliance with buffers

Credit institutions must comply with the buffers on a quarterly basis. That said, parent credit institutions of banking groups should only comply with the buffers on a consolidated basis. For information on capital buffers refer to Table 3.6.

Violations of buffers restrict credit institutions' profit distribution capabilities.

In 2018, the majority of credit institutions complied with the capital conservation buffer; moreover, all systemically important banks, bar banks under resolution, complied with the systemic capital buffer.

In 2018, 17 credit institutions failed to comply with the buffers on a standalone basis at certain dates whereas they complied with capital requirements. These are mostly small banks which accounted for 0.9% of the sector's assets as of 1 January 2018. Six of the banks which failed to comply with the buffers in 2018 had their licences revoked throughout the year.

Capital shortfall[1] in banks which failed to comply with capital adequacy ratios grew in 2018 by ₽205 billion, or 13.2%, and came in at ₽1,758 billion as of 1 January 2019. Nevertheless, the number of banks experiencing capital shortfall reduced from 23 to 17. All 17 banks which had capital shortfall as of the end of 2018 have undergone bankruptcy prevention measures.

III.6. OPERATIONS WITH NON-RESIDENTS[2]

The amount of Russian credit institutions' claims to non-residents decreased in 2018 by 4.1%[3], to ₽10.5 trillion (11.2% of banking sector assets), of which 83.0% were FX-denominated. The total debt[4] of the Russian banking sector to non-residents dropped more considerably by 14.0%, to ₽4.9 trillion (5.2% of banking sector liabilities), of which 81.5% were FX liabilities. As a result, the banking sector's net claims on non-residents[5] increased over the year by ₽1.1 trillion to ₽5.7 trillion as of 1 January 2019.

As of 1 January 2019, 420 out of 484 operating credit institutions had debt to non-residents. In 307 credit institutions it accounted for less than 5% of liabilities (Figure 3.21), whereas in a half of such organisations this indicator did not exceed 0.4% (median value) pointing to an overall sustainably insignificant dependence of a majority of banks from this funding source.

In 2018, the number of banks which carried out interbank operations with non-residents contracted. As of 1 January 2019, funds from non-resident banks were raised by 83 credit institutions. However, their share in total banking sector assets rose to 84.6% (as of 1 January 2018, 93 credit institutions accounting for 80.8% of banking sector assets). As of 1 January 2019, 121 Russian credit institutions placed

[1] Capital shortfall is defined as the recapitalisation amount banks with capital shortfall need to comply with capital requirements. Capital shortfall factors out buffer charges.

[2] This section includes data on subsidiaries of Russian residents.

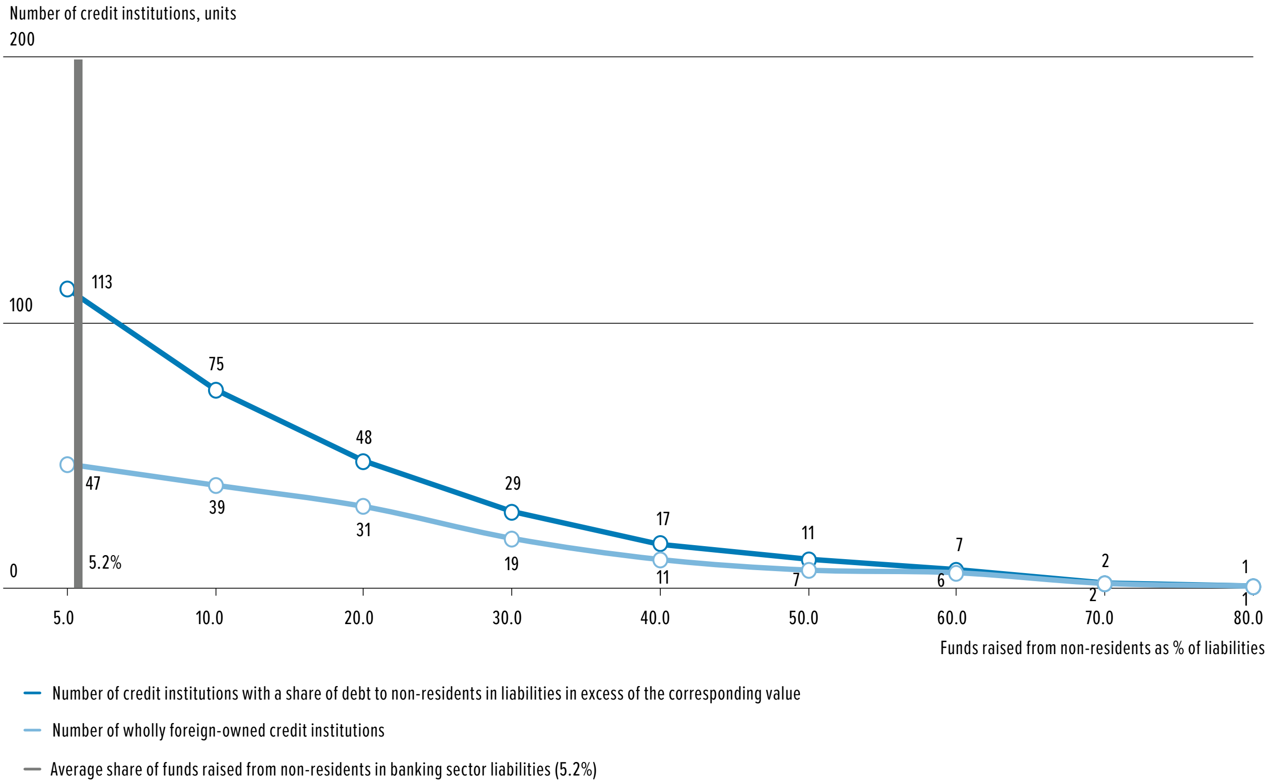
[3] Growth adjusted for currency effects in credit institutions operating as of the last reporting date (including previously reorganised banks).

[4] Including correspondent and other accounts of non-resident credit institutions, loans, deposits, and funds on accounts of other non-resident individuals and legal entities.

[5] Balance of claims on non-residents and debt to non-residents.

BANKING SECTOR DEBT TO NON-RESIDENTS AS OF 1 JANUARY 2019

Figure 3.21



their funds in non-resident banks; they accounted for 84.7% of total banking sector assets (as of 1 January 2018, 127 credit institutions accounting for 87.6% of total assets).

The bulk of interbank transactions with non-residents are still concentrated in Russia's largest banks. A half of the funds raised from abroad through this channel were raised by five Russian banks, four of which were systemically important. The concentration was even higher in funds extended to non-resident banks: two systemically important banks accounted for a half of assets as of the end of 2018.

The year 2018 registered growth in correspondent NOSTRO account balances with non-resident banks (to ₽1.3 trillion as of 1 January 2019); as a result, their share in banking sector assets rose from 1.0% to 1.3%.

Non-resident banks' correspondent and other account balances with Russian credit institutions showed a slight increase (₽346 billion as of 1 January 2019) with the share of these funds in banking sector liabilities remaining low (0.4%).

III.7. BANK MANAGEMENT QUALITY

In 2018, the coverage for considerable risks was assessed under the first Internal Capital Adequacy Assessment Process (ICAAP) in accordance with Bank of Russia Ordinance No. 3883-U, dated 7 December 2015, 'On the Procedure for the Bank of Russia to Assess the Quality of Risk and Capital Management Systems, and Capital Adequacy of a Credit Institution or a Banking Group'. The process applied to credit institutions whose assets totalled ₽500 billion or more as of 1 January 2017.

Credit institutions assessed under the first ICAAP received instructions and recommendations on the removal of revealed deficiencies in their risk and capital management systems.

The Bank of Russia launched the ICAAP in other credit institutions with a universal licence in addition to banks whose assets exceeded ₽500 billion in 2017.

The quality assessment under the ICAAP in banks with a basic licence and non-bank credit institutions is supposed to be held as part of their economic position assessment in accordance with Bank of

Russia Ordinance No. 4336-U, dated 3 April 2017, 'On Assessing Banks' Economic Situation'.

The results of the quality assessment under the ICAAP point to a number of deficiencies in their organisation the most typical of which are as follows:

– incompliance of banks' internal documents with Bank of Russia requirements;

– low involvement of banks' board of directors and executive bodies in development, implementation and control of compliance with the ICAAP;

– inappropriate determination of material and immaterial risks of a credit institution;

– incompliance with internal indicators which characterise the acceptable risk level, and capital adequacy for their coverage;

– untimely approval of internal documents by the authorised body and submission of internal risk reports to credit institution management;

– lack of response from credit institutions to underestimation of risks revealed by the Bank of Russia's supervision and inspections until Bank of Russia instructions are received.

III.8. BANKING SECTOR STRESS TESTING

In 2018, the Bank of Russia performed regular stress tests based on the scenario analysis with the use of macromodels and tests of banks' sensitivity to different risks, including liquidity risk, in order to assess stability of the banking sector and enhance proactivity of supervision by means of revealing credit institutions which are most exposed to certain risks, monitoring changes in bank risk structure, and determining the necessary level of capitalisation of the banking sector should the set stress conditions materialise. Furthermore, in 2018 the bottom-up stress testing gained ground under which major banks make relevant calculations using the scenarios provided by the Bank of Russia.

The results of the latest stress test showed an overall acceptable level of resilience of the banking sector: a possible capital shortfall forecast in the toughest scenario is overall manageable.

III.8.1. SCENARIO ANALYSIS-BASED STRESS TESTING

The macroeconomic scenario of a stress test based on the late 2018 data provided for more than a twofold decrease in oil price, a GDP drop by a total of 4.2% during the recession period (from the highest level reached under stress to the lowest value in the run-up to the economic revival) and ruble depreciation by more than 30%. Under this scenario, these unlikely events came along with climbing interest rates in the Russian financial market and a drop in stock indices.

The assessment of credit institutions' losses was based on four major risks: credit risk (including the risk of rollover loan quality deterioration), market risk, liquidity risk and interest rate risk on the bank book.

The analysis factored out banks under resolution with negative total capital as of the beginning of stress testing.

Along with other revisions to the stress test methodology, the assessment of credit risk was supplemented to factor in bad debts which were previously written off; this resulted to a more conservative estimate of its value under stress. The results of stress testing showed that most losses (76.7%) are associated with credit risk (additional loan provisions). The average share of bad loans in the loan portfolio[1] may grow from 10.6% to 14.1% on the one-year horizon. Losses from additional provisions for rollover loans account for 6.4% of total losses. Figure 3.23 shows the distribution of losses.

Even with the income banks may receive in the stress conditions factored in, the banking sector could come up with a loss; in some banks, stress may result in capital shortfall. As many as 154 banks, accounting for 27.7% of banking sector assets as of 1 January 2019, might face capital shortfall and violate at least one of the three capital adequacy ratios. Capital shortfall is estimated at ₽0.8 trillion.

Materialisation of shocks included in the macroeconomic scenario leads to a decline in capital adequacy indicators in the banking sector overall: com-

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

Methodological comments

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 (macroparameters), including such indicators as GDP, the ruble exchange rate against foreign currencies, inflation, real disposable household income, fixed capital investments, etc. on banking sector indicators (corporate account balances, household and corporate deposits, households' and corporates' demand for loans, changes in quality of these loans, revaluation of securities, net interest income, and other bank performance indicators).

The stress test employs more than 30 econometric models which reflect the effect of macrofactors on bank indicators. Models use more than 10 macroeconomic indicators as explanatory variables.

Along with macroparameters, the stress test considers additional conditions and shocks, such as supervisory adjustments of bank asset quality, including assets in troubled markets.

Given the impact of macrofactors on key banking indicators for each credit institution during the projected period (quarterly), calculations are based on a simulated balance model that reflects the possible behaviour of a bank during the assumed stress conditions and assesses its financial performance. Figure 3.22 shows a bank's balance model architecture.

The income generated by banks over the forecast period partially offsets potential losses. The result of the simulation is an estimate of the credit institution's total loss due to all types of risks under stress, as well as the potential capital and liquidity shortfall.

Capital shortfall means the amount of funds credit institutions need to comply with all three capital adequacy ratios (N1.0 ratio for banks with a basic licence); liquidity strain means the outflow of customer funds not covered with an organisation's liquid assets.

In 2018, the Bank of Russia continued to improve approaches to stress testing. In particular, it formed homogeneous bank clusters to model performance indicators. Models aimed at credit risk assessment were estimated for each cluster; this helped increase the accuracy of calculations and take individual specifics of banks into account. Special models were elaborated for certain banks which stood out from their business model clusters by their indicators. Algorithms for accounting interbank relations within a banking group in the model of resource flow in the banking sector under stress were fine-tuned. In addition, the calculation of credit risk-inflicted losses was supplemented with FX revaluation of reserve requirements.

The Bank of Russia continues to improve its stress testing methods; in particular, it plans to elaborate individual conduct models of major banks.

mon equity Tier I capital adequacy could fall from 8.3% to 4.8%; Tier I capital adequacy – from 8.9% to 5.3%; and aggregate capital adequacy – from 12.2% to 8.4%. Despite the fact that this scenario is tight enough, two of the three capital adequacy ratios in the banking sector overall have held above the threshold values suggesting that the banking sector overall is resilient.

III.8.2. ANALYSIS OF RUSSIAN BANKS' SENSITIVITY TO LIQUIDITY RISK

Despite the fact that liquidity surplus persisted in the banking sector overall, liquidity conditions may vary across individual banks under stress. Given the above, in 2018, the Bank of Russia continued to improve the methodology for sensitivity analysis-based liquidity risk stress testing.

Sensitivity analysis-based liquidity risk stress testing suggests that a stress event occurs within 30 days; the respective shock parameters are applied to a bank's balance sheet as of the set reporting date. In this exercise the effect of a stress event on banks is calculated factoring out the possibility of raising additional funding from the Bank of Russia. Thereby, a more conservative estimate of risk exposure is provided. However, the set flows are supposed to be covered with funds the bank under consideration places with other banks.

ARCHITECTURE OF BANK BALANCE MODEL

Figure 3.22

Negative effects (stress)

1. Liquidity outflow
2. Change in quality of loan portfolio
3. Revaluation of marketable assets
4. Decline in interbank loans
5. Adjustment of bank assets in problem markets

→

Bank balance model

The obtained negative and compensatory parameters allow to simulate as follows:

1. Change in balance-sheet items following stress and compensatory actions

↓

2. Actions taken by the bank to recover the fallouts from liquidity reduction (sale of assets, raising interbank loans, refinancing from the Bank of Russia, etc.)

↓

3. Calculation of loss from bank risks (credit, market and liquidity risk, interest rate risk on the balance sheet)

↓

4. Assessment of a bank's financial performance

↓

5. Recalculation of capital adequacy and liquidity ratios, evaluation of capital and liquidity deficit

←

Compensation of stress events

1. Liquidity growth due to scheduled payments from placed loans
2. Income from current banking activity
3. Receipt of additional financial aid

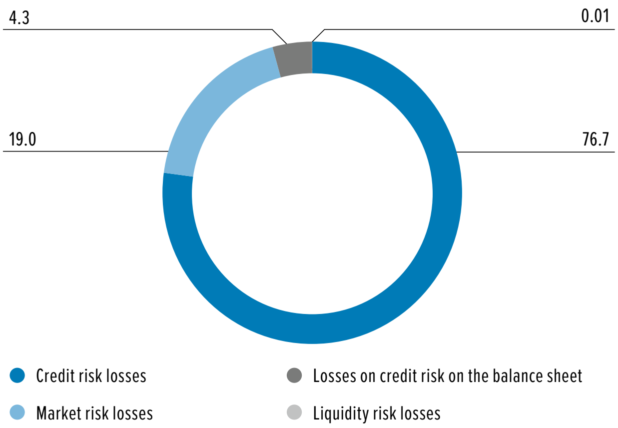
Methodological aspects of the analysis of liquidity risk sensitivity

Customer fund outflows are broken down by financing type (household deposits, corporate deposits, settlement accounts, interbank loans, etc.). Besides, outflows are broken down by counterparty type (financial/non-financial organisations, residents/non-residents, public funds). Taking this differentiation into account, household deposit outflows vary from 5% to 15% depending on the deposit amount, while the outflows of corporate funds vary from 10% to 100%. Outflows of funds raised from banks range between 30% and 100%; for other outflows ratios between 5% and 100% are used. Outflows are covered with monetary funds (cash, correspondent accounts, deposits with the Bank of Russia, etc.) and by disposing of liquid assets at pre-set discount rates (the discount value is determined depending on the asset liquidity). If the amount of liquid assets is not enough to cover the outflow, the bank is considered to be in a technical default and the uncovered outflow is called liquidity strain.

It should be noted that the sensitivity test-based scenario assumes that the stress event does not occur in all banks simultaneously and is not a systemic shock.

BANK LOSSES BY RISK TYPE IN CASE OF STRESS EVENT

Figure 3.23



Based on the analysis of liquidity risk sensitivity as of 1 January 2019, the realisation of a shock, consisting of the outflow of funds from creditors' and customers' accounts at the rate set by experts, could bring about liquidity strain in 41 banks (27.9% of banking sector assets). Liquidity strain relative to these banks' assets will range between 0.2% and 31.9% if a shock materialises.

Given that the sensitivity analysis-based stress testing provides for a closed access to all kinds of liquidity support from the Bank of Russia, which could prevent liquidity strain in some banks, the shock is more likely to have moderate consequences, while the scope of deficit may be used as an estimate of the possible demand for Bank of Russia liquidity under stress.

III.8.3. BOTTOM-UP STRESS TESTING

In 2018, 14 major banks (70.5% of banking sector assets) performed stress tests using a common stress scenario elaborated by the Bank of Russia as part of the annual bottom-up stress testing. Banks discussed their outcomes with a focus on the analysis of approaches to banks' internal stress testing and the analysis of results in comparison with banks using similar business models.

As a result of the stress test under a moderately conservative scenario in the two-year horizon most banks demonstrated that they were capable of complying with capital adequacy requirements taking the established buffers into account. A stress event reduced capital adequacy requirements by 2 pp on average. Stress had a varying effect depending on the capital structure and risk profile: the minimum reduction came in at 1 pp, whereas the maximum reduction totalled 4.7 pp. All the 14 banks registered sizeable losses on their loan and securities portfolios, and expected that the interest margin would decrease. A number of banks expected to increase trading and respective income in the crisis environment amid an elevated volatility in financial markets. 10 out of 14 banks modelled a negative financial result in the stress environment.

At a qualitative level, the stress tests that the follow-up supervisory meetings showed highly developed methodology and stress testing procedures in most banks which performed bottom-up stress testing. The peer group analysis provided by banks as a feedback allowed the Bank of Russia reveal elements in the interbank stress testing methodology that require revision.

In late 2018, the Bank of Russia launched a Comprehensive Supervisory Stress Testing project as a part of the supervisory stress testing framework. The project is aimed at further integration of stress tests into supervision and covers methodological and technological issues. In particular, the project is aimed at updating the architecture of models used in supervisory stress testing, fine-tuning the system of stress scenario elaboration, developing a new credit risk assessment model based on the probability-of-default estimates of banks' major borrowers under stress. Furthermore, the Bank of Russia intends to describe approaches to determining possible supervisory measures applicable to banks in the follow-up to stress testing. Developing the set of models and updating the technological platform will allow the regulator to assess the effects of stress events on resilience of individual banks and the banking sector as a whole in a more flexible and timely manner.

IV. Bank regulation and supervision in Russia

IV.1. IMPROVING APPROACHES TO BANKING REGULATION AND SUPERVISION. OUTLOOK

IV.1.1. UPDATING LEGAL FRAMEWORK FOR CREDIT INSTITUTIONS

Federal Law No. 212-FZ, dated 26 July 2017, 'On Amending Parts 1 and 2 of the Civil Code of the Russian Federation and Certain Laws of the Russian Federation' effective since 1 June 2018, evened out the legal position of credit institutions and other legal entities as regards the procedure for conducting operations with precious metals. Furthermore, the law expanded the list of bank operations with precious metals. Bank of Russia Ordinance No. 4925-U, dated 5 October 2018, amended 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 of Credit Institutions and Issuing Banking Licences Thereto' which established new forms of banking licences.

A number of regulations came into force in 2018 which ensure the implementation of Federal Law No. 281-FZ, dated 29 July 2017, 'On Amending Certain Laws of the Russian Federation with Regard to Improving Mandatory Requirements for Financial Institutions' Founders (Participants), Management Bodies and Officials':

– Bank of Russia Regulation No. 621-P[1], dated 25 December 2017, that determines the procedure for the Bank of Russia to send orders to financial organisations[2] following the failure to comply with qualification requirements and (or) business reputation requirements, and (or) the requirements for financial position, the violation of the procedure to purchase shares (stakes) of a financial organisation, the establishment of control over shareholders (members) of financial institutions; the list of persons to whom copies of orders are sent; the procedure for informing the Bank of Russia about the execution of order and sending an act of order repeal; and on the procedure for posting information on sending an order (repealing an order) on the Bank of Russia website;

– Bank of Russia Regulation No. 625-P[3], dated 27 December 2017, is aimed at establishing a uniform procedure for assessment of qualification and business reputation of management bodies, officials, shareholders (members) of financial institutions and other persons to whom the respective requirements apply; a procedure for maintaining databases stipulated by Articles 75 and 76.7 of the Federal Law 'On the Central Bank of the Russian Federation (Bank

[1] Bank of Russia Regulation No. 621-P, dated 25 December 2017, 'On the Procedure for the Bank of Russia to Send Orders Following the Failure to Comply with Qualification Requirements and (or) Business Reputation Requirements, Violation of the Procedure for the Purchase of Shares (Stakes), Establishment of Control over Shareholders (Members) of Financial Institutions, and the Revelation of Unsatisfactory Financial Position; on the List of Persons to Whom Copies of Orders are Sent; the Procedure for Informing Shareholders (Members) of Financial Institutions about Receiving Copies of Order and an Act of Order Repeal; the Procedure for Determining the Number of Voting Shares (Stakes) of Credit Institutions Following the Sending of Orders; the Procedure for Sending an Act of Order Repeal, a Notification of Order Execution; and on the Procedure for Posting Information on Sending an Order (Repealing an Order) on the Bank of Russia Website'.

[2] Financial institutions include credit institutions, insurance companies, non-governmental pension funds, management companies (of investment funds, unit investment funds, non-governmental pension funds), and microfinance companies.

[3] Bank of Russia Regulation No. 625-P, dated 27 December 2017, 'On the Procedure for Approving by the Bank of Russia of Candidates' Appointment (Selection) to Positions in a Financial Institution; for Notifying the Bank of Russia about Selecting (Terminating Authorities), Appointing (Releasing from Office of) Top Managers, Other Officials in Financial Institutions; for Assessing Compliance with the Qualification Requirements and (or) Requirements for Business Reputation of the Top Managers, Other Officials and Founders (Shareholders, Members) of Financial Institutions; for Forwarding Information to the Bank of Russia by a Member of a Financial Institution's Board of Directors (Supervisory Board) on Voting (Non-voting) against a Decision Made by the Board of Directors (Supervisory Board) of a Financial Institution; for Requesting Information from the Bank of Russia and the Latter's Replying Regarding the Availability (Non-availability) of Information in Databases Stipulated by Articles 75 and 76 of Federal Law No. 86-FZ, Dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)'; and on the Procedure for Maintaining Such Databases'.

of Russia)'; a procedure for the said persons to request information from the Bank of Russia regarding the availability (non-availability) of their data in databases, and the procedure for the Bank of Russia to submit a reply covering the requested information about a person whose data are kept in the databases or a lack of such information;

– Bank of Russia Regulation No. 626-P[1], dated 28 December 2017, established the procedure and criteria for the assessment of financial standing of shareholders (participants) of a financial institution, buyers of shares of (stakes in) a financial institution and other persons the requirements for whose financial standing are specified in Russian laws.

In addition, for the purpose of Part 11 of Article 23 of the Federal Law 'On Banks and Banking Activities' (introduced by Federal Law No. 92-FZ, dated 1 May 2017, 'On Amending Certain Laws of the Russian Federation'), Bank of Russia Ordinance No. 4917-U[2], dated 24 September 2018, established the procedure for a credit institution to submit documents to the Bank of Russia for the state registration of amendments to its charter due to obtaining the status of a microfinance company, and on the procedure for a credit institution to apply to the Bank of Russia for cancelling its banking licence due to obtaining the status of a microfinance company.

Furthermore, for the purpose of Article 60.1 of the Federal Law 'On Banks and Banking Activities', the Bank of Russia issued Ordinance No. 4666-U[3], dated 26 December 2017, that provides for the procedure for filing a complaint to the Bank of Russia against the Bank of Russia's decisions on recognising a person non-compliant with qualification requirements and (or) business reputation requirements established by federal laws (including the list of documents to be attached to such complaint).

In 2018, the Bank of Russia contributed to amendments to Federal Law No. 208-FZ, dated 27 July 2010, 'On Consolidated Financial Statements', which simplify the disclosure of information for banks with a basic licence by abolishing the preparation, submission and disclosure of standalone financial statements in compliance with the IFRS.

The Bank of Russia abolished the requirement for the maximum value of loans, guarantees and sureties issued by a credit institution to its members (shareholders) (N9.1) provided for by Clause 10, Article 62 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'.

In addition, as a participant in measures aimed at the development of small and medium-sized enterprises, the Bank of Russia contributed to amendments to Federal Law No. 177-FZ, dated 23 December 2003, 'On the Insurance of Deposits with Russian Banks', which became effective from 1 January 2019. The amendments extend insurance coverage to small enterprises' funds deposited with banks participating in the deposit insurance system.

In accordance with Part 10.1, Article 6 of Federal Law No. 353-FZ, dated 21 December 2013, 'On Consumer Loans', effective since 24 June 2018, the Bank of Russia calculates the market average effective interest rate on consumer loans in the following manner: if in the calculation of the weighted average effective interest rate consumer loans issued within one category of consumer loans by one lender exceed 20% of total loans issued by all lenders in this category, the value of loans issued by such lender is considered to equal 20%.

In 2018, the Bank of Russia issued an ordinance that changed the timeframe and the procedure for cooperation with a credit institution when examining the collateral and (or) the activity of the borrower (collateral provider); obliged a credit institution to provide information on its readiness to undergo examination at the Bank of Russia's request within the timeframe stipulated in the preliminary notification; and provided for an electronic information exchange with a credit institution via the personal account.

[1] Bank of Russia Regulation 626-P, dated 28 December 2017, 'On the Assessment of, and Requirements for, Financial Standing, Grounds for Recognising Financial Standing as Unsatisfactory with Regard to the Founders (Participants in) of a Credit Institution and Other Persons Specified by Federal Law No. 281-FZ, Dated 29 July 2017, 'On Amending Certain Laws of the Russian Federation with Regard to Improving Mandatory Requirements for Financial Institutions' Founders (Participants), Management Bodies and Officials'.

[2] Bank of Russia Ordinance No. 4917-U, dated 24 September 2018, 'On the Procedure for a Credit Institution to Submit Documents to the Bank of Russia for the State Registration of Amendments to its Charter Due to Obtaining the Status of a Microfinance Company, and on the Procedure for a Credit Institution to Apply to the Bank of Russia for Cancelling its Banking Licence Due to Obtaining the Status of a Microfinance Company'.

[3] Bank of Russia Ordinance No. 4666-U, dated 26 December 2017, 'On the Procedure for Appealing Against a Person's Recognition as Non-compliant with Qualification and (or) Business Reputation Requirements'.

Also, the Bank of Russia issued ordinances which provide for the rights of the general inspector of an interregional inspection centre and the head of an inspection centre to sign inspection orders.

Furthermore, the regulator issued methodological recommendations for revealing seemingly illegal financial transactions carried out by credit institutions and their customers; for organising and conducting audits of accounting (reporting) in a credit institution (its branch); and for examining credit institutions' compliance with mandatory reserve requirements.

IV.1.2. BANKING REGULATION

1. In 2018, the Bank of Russia introduced proportionate regulation.

Bank of Russia Instruction No. 183-I, dated 6 December 2017, 'On the Required Ratios of Banks with a Basic Licence', effective since 17 March 2018, determined the range of non-core borrowers, and established five required ratios and the methodology for their calculation for banks with a basic licence. In addition, amendments were introduced to Bank of Russia Regulation No. 590-P, dated 28 June 2017, 'On the Procedure for Credit Institutions to Make Loss Provisions for Loans, Loan and Similar Debts', which provide for an increase in the threshold value of loans (total loans) issued by banks with a basic licence to one borrower for their inclusion in the portfolio of homogeneous loans from 0.5% to 1.5% of total capital (a similar procedure was implemented for the portfolio of homogeneous assets (contingent credit liabilities)). The assessment of the economic position of banks with a basic licence factors in the applicable prudential requirements. For the purpose of current operations of banks with a basic licence, the list of securities eligible for their operations and trades was expanded.

Similar to the regulation applicable to banks with a basic licence, non-bank credit institutions were exempt from disclosure of information in accordance with Pillar 3 'Market Discipline' of Basel II.

2. The Bank of Russia continued to expand the possibilities of using the methods of the so-called incentive-based banking regulation.

In 2018, it established a special procedure for creating provisions for loans extended under the project financing mechanism supported by Vnesheconombank[1] and loans issued to construction companies as part of the development of equity construction with the use of escrow accounts (effective since 2019).

In order to make loans more affordable for small and medium-sized enterprises (SME), a wider use of discounts is applied in calculation of loss provisions on loans to such entities. This allows banks to avoid the analysis of reality of their operations and to recognise the quality of debt servicing on restructured and refinanced loans of such borrowers as good irrespective of the assessment of their financial standing. The regulator also expanded the list of information which can be used for analysis of their financial standing in addition to their financial statements.

It also increased, from ₽5 million to ₽10 million, the threshold value of SME loans which may be included in the portfolio of homogeneous loans for borrowers with an average financial standing (a similar procedure was implemented for the portfolio of homogeneous assets (contingent credit liabilities)).

Independent guarantees and sureties of JSC RSMB Corporation accepted by banks to reduce loan loss provisions may be assigned to quality category I collateral if JSC RSMB Corporation complies with the ratios established by Federal Law No. 209-FZ, dated 24 July 2007, 'On the Development of Small and Medium-sized Businesses in the Russian Federation'.

For the purpose of calculation of required ratios, the reduced risk ratio of 75% applicable to liabilities of small businesses also applies liabilities of medium-sized enterprises. The maximum liabilities of one SME borrower (group of related borrowers) which allow application of the reduced risk ratio of 75% were increased from ₽60 million to ₽70 million.

3. In 2018, the Bank of Russia continued to gradually introduce international standards of the Basel Committee on Banking Supervision (BCBS) in the regulation of credit institutions.

As part of the implementation of the BCBS standard on securitisation, the regulator introduced an approach that suggests that the estimated risk ratio shall be determined by the quality of securitised assets and the structure of the transaction and shall not be dependent on the credit rating of securitised securities.

[1] On 28 November 2018, it was reorganised into the State Development Corporation VEB.RF.

After the introduction of the new regulation, the mandatory 1,250% risk ratio is only applicable to junior tranches if there is no information on the quality of securitised assets and the structure of transaction; that said, the risk ratio may be reduced for certain tranches to 15%. The originator may keep risk ratios which applied before securitisation. Concurrently, this approach suggests that the so-called simple, transparent and comparable securitisation (STC-securitisation) was carved out, with the relevant risk ratio reduced to 10% as regard investments in senior tranches.

For banks with a universal licence, the Bank of Russia established in 2018 the composition of information about the internal capital adequacy assessment process (ICAAP) and its results, and the procedure for its submission to the Bank of Russia. This information serves as the primary data source for the Bank of Russia's quality assessment of risk and capital management systems, and capital adequacy of banks with a universal licence.

In 2018, the Bank of Russia started to implement the BCBS standard for the assessment of risk concentration in accordance with which all exposures of a bank to a borrower are included in the calculation not weighed by risk level (less created provisions for possible losses). Indicator PKC 6.1 was introduced as part of the standard implementation. Starting from 1 January 2019, it is only calculated by systemically important credit institutions in the monitoring mode.

The Bank of Russia continued to introduce new requirements for information disclosure by credit institutions (other than banks with a basic licence) and banking groups established by the BCBS document 'Revised Pillar 3 Disclosure Requirements' (Phase 2). It issued a regulation that establishes the form and procedure for disclosure of information on the calculation of the structural liquidity ratio (Net Stable Funding Ratio) and its components.

In 2018, the Bank of Russia issued Ordinance No. 4969-U, dated 15 November 2018, 'On Amending Bank of Russia Regulation No. 511-P, Dated 3 December 2015, 'On the Procedure for Calculating Market Risk by Credit Institutions' (further referred to as Bank of Russia Ordinance No. 4969-U and Bank of Russia Regulation No. 511-P) to reduce the use of credit ratings assigned by international credit rating agencies to debt securities (other than securitisation and re-securitisation instruments) and bring the classification of these securities in line with the simplified standardised approach to the calculation of credit risk applied in Bank of Russia Instruction No. 180-I, dated 28 June 2017, 'On Banks' Required Ratios'.

Bank of Russia Ordinance No. 4969-U updates the procedure for calculating market risk on derivatives and explanations previously posted on the Bank of Russia website as answers to frequently asked questions on Bank of Russia Regulation No. 511-P and its practical application by banks.

In 2018, the Bank of Russia prepared a draft ordinance 'On Amending Bank of Russia Regulation No. 483-P, Dated 6 August 2015, 'On the Procedure for Assessing IRB Credit Risk' to incorporate the experience gained during the validation and update certain provisions for compliance with Basel II. The ordinance is expected to be approved in the second quarter of 2019.

In order to introduce new requirements for managing interest rate risk of the bank portfolio in accordance with the BCBS standard, the Bank of Russia prepared a draft regulation that stipulates a new procedure for calculating interest rate risk of the bank portfolio and a draft ordinance on amending Bank of Russia Ordinance No. 3624-U, dated 15 April 2015, 'On the Requirements for the Risk and Capital Management System of a Credit Institution or a Banking Group' as regards interest rate risk management of the bank portfolio.

The introduction of the draft regulations will help improve management of interest rate risk of the bank portfolio in credit institutions to prevent deterioration in their financial standing following the materialisation of interest rate risk. These drafts, which were posted on the Bank of Russia website for regulatory impact assessment raised interest of the banking community.

The documents are being updated in the follow-up to the discussion and are expected to come into force in 2019.

The Bank of Russia prepared a draft regulation 'On the Requirements for the Operational Risk Management System in Credit Institutions and Banking Groups' to introduce the new standardised BCBS approach to operational risk assessment for the calculation of the capital adequacy ratio. The regulation includes requirements to managing risks to information security (including cyber risk) and information systems, and requirements to keeping databases on operational risk events. This regulation is to become effective in 2019.

4. In 2018, the Bank of Russia started to introduce International Financial Reporting Standards 9 ‘Financial Instruments’ (IFRS 9).

Due to the enactment of the regulations which provide for the introduction of requirements of IFRS 9 from 1 January 2019, the Bank of Russia issued a package of regulations in 2018 which stipulate that the effective approaches to prudential regulation of credit institutions should remain in place, including the base for creating prudential provisions.

In order to minimise the effect of IFRS 9, the regulator stipulated the specifics of calculation of total capital and required ratios by credit institutions and updated the effective procedure for the assessment of banks’ economic standing. Starting from 1 January 2019, this assessment factors out the adjustments and revaluations of financial assets and liabilities provided for by the new procedure for accounting of financial instruments, that is based on prudential performance indicators of credit institutions calculated on the basis of the real cost of financial instruments.

5. As regards the prudential regulation, the Bank of Russia took measures to support corporate borrowers (counterparties) of credit institutions against which foreign states had introduced restrictive measures.

Introduced amendments to legislation stipulate that in cases established by the Russian Government credit institutions against which restrictive measures have been imposed have the right not to publicly disclose information which should be disclosed in accordance with the effective law or to disclose it only partially for the purpose of both calculating required ratios and determining loss provisions.

6. In 2018, the Bank of Russia improved the method for determining total capital of credit institutions to ensure due quality of capital sources and prevent including in its calculation the so-called fictitious sources.

7. In 2018, the Bank of Russia issued a regulation that established the procedure for the application of measures to credit institutions (parent credit institutions of banking groups) if they violate federal laws, and regulations and instructions based on such laws, fail to provide information, provide incomplete or insufficient information, fail to undergo statutory audit, or fail to disclose information on their operations and the auditor’s report. This regulation determines Bank of Russia officials authorised to take such decisions and a typical form of order on the application (cancellation) of measures (Bank of Russia Instruction No. 188-I, dated 21 June 2018, ‘On the Procedure for Applying Measures to Credit Institutions (Parent Credit Institutions of Banking Groups) Envisaged by Article 74 of the Federal Law ‘On the Central Bank of the Russian Federation (Bank of Russia)’). The regulation replaces Bank of Russia Instruction No. 59, dated 31 March 1997, ‘On the Application of Corrective Measures Against Credit Institutions’.

8. In 2018, the Bank of Russia assessed banks’ methods of credit risk management and models for quantitative assessment of credit risk for the calculation of the capital adequacy ratio in accordance with Basel II approach to the calculation of credit risk with the use of the internal ratings-based (IRB) approach applied by JSC Raiffeisenbank. As a result of this assessment, in December 2018, the Bank of Russia allowed JSC Raiffeisenbank to use the IRB approach for corporate exposures from 1 February 2019.

In December 2018, JSC ALFA-BANK requested the Bank of Russia to authorise the use of the IRB approach. The bank’s assessment, including an on-site inspection is expected in 2019.

In 2019, the Bank of Russia plans to carry out an assessment (validation) of internal methods of PJSC Sberbank and JSC Raiffeisenbank elaborated both for exposures excluded from the primary package but included in the plan of a gradual transition to the IRB approach and the amendments introduced by banks to their methods and models.

IV.1.3. MACROPRUDENTIAL REGULATION

1. Development of macroprudential regulation

In 2018, the Bank of Russia developed macroprudential regulation in terms of amendments to the procedure for macroprudential policy and expansion of the list of macroprudential instruments available to the Bank of Russia.

In March 2018, amendments to Article 18 of Federal Law No. 86-FZ, dated 10 July 2002, ‘On the Central Bank of the Russian Federation (Bank of Russia)’ were approved, which authorise the Bank of Russia to establish by the decision of the Board of Directors add-ons to risk weights for the purpose of calculating capital adequacy. This enabled the Bank of Russia to conduct its macroprudential policy – the policy aimed at financial stability – in a more promptly manner. Before these amendments were introduced, the Bank of Russia conducted its macroprudential policy by updating banks' prudential regulatory framework.

To supplement the provisions of Article 18 of this law, the Bank of Russia issued Ordinance No. 4892-U, dated 31 August 2018, 'On Types and Characteristics of Assets for Which Risk-based Capital Buffers are Set and on the Methodology for Applying These Buffers to the Said Types of Assets for Credit Institutions to Calculate Their Capital Adequacy Ratios'. The Ordinance establishes the procedure for the application of add-ons to risk weights and determined the procedure for calculating the debt burden ratio of an individual (DBR). Credit institutions should calculate this indicator from 1 October 2019 for newly issued loans. The debt burden indicator is calculated as the ratio of payments on all the borrower's loans during 12 months to the borrower's average monthly income for 12 months. The indicator will be used to limit risks of an increase in households' debt burden. Add-ons to risk weights will be based on the DBR. This indicator will expand the range of macroprudential instruments available to the regulator.

In December 2018, the Bank of Russia prepared and published for a regulatory impact assessment the draft ordinance 'On the Specifics of Application of Add-ons to Risk Weights for Certain Types of Assets by Credit Institutions Which Took the Responsibility to Use Bank Methods for Risk Management and Models of Qualitative Assessment of Risks for the Purpose of Calculation of Required Ratios' for accounting add-ons to risk weights by credit institutions which assess credit risk with the use of the internal model-based approach[1].

2. Macroprudential measures in the segment of unsecured consumer lending

During 2018, the Bank of Russia decided to raise add-ons to risk weights for consumer loans three times. The need to raise the add-ons is attributed to the rise in debts on such loans that exceeds growth of households' income. Fast growth of outstanding unsecured loans in 2018 was virtually not offset by the rate reduction which resulted in the increase in households' debt burden. In order to prevent excessive growth of households' debt burden and raise banks' resilience to potential systemic risks in the market of unsecured consumer lending, the Bank of Russia took the following decisions to change risk ratios on such loans:

– raised risk ratios on consumer loans with the effective interest rate (EIR) of 15% to 25% issued after 1 May 2018 (risk ratios rose by 10 pp);

– raised risk ratios on consumer loans issued after 1 September 2018 (EIR of 10% to 15% – from 100% to 130%; EIR of 15% to 20% – from 110% to 150%; EIR of 20% to 25% – from 120% to 180%; EIR of 25% to 30% – from 140% to 200%);

– raised by 30 pp add-ons to risk weights for consumer loans issued after 1 April 2019 with EIR of 10% to 30%.

3. Macroprudential measures in the segment of mortgage lending

For all the currently high growth paces of mortgage lending, its growth comes so far without substantial financial stability risks. The year 2017 saw an increase in the share of mortgage loans with a low down payment (from 10% to 20%) characterised with an elevated credit risk of borrowers. Measures which the Bank of Russia took after 1 January 2018 for a sustainable development of the mortgage segment failed to reduce the share of such loans which accounted for 43.4%[2] of bank loans in the third quarter of 2018 (41.4% in the second quarter, and 41.2% in the first quarter). Given the above, on 1 October 2018, the Bank of Russia decided to raise add-ons for such loans from 0.5 to 1.0. The new values of add-ons apply to loans issued after 1 January 2019.

4. Macroprudential measures aimed at the reduction of the share of FX loans

In early 2018, FX lending to non-financial organisation was on the rise. A large proportion of foreign currency in the banking sector's assets and liabilities poses risks to financial stability that may be chal-

[1] Bank of Russia Ordinance No. 5072-U, dated 12 February 2019, 'On the Specifics of Applying Buffers to Risk Ratios for Certain Assets of Credit Institutions Which Commit to Use Banking Methodologies for Risk Management and Models of Qualitative Risk Assessment for Calculating Required Ratios' became effective on 29 March 2019.

[2] Based on a quarterly survey of banks which account for over 70% of households' outstanding loans.

lenged by both borrowers without FX revenues and exporters. Excessive FX debt brings higher volatility in the domestic financial market as the global market environment deteriorates. The situation is further complicated for Russian banks and non-financial organisations by the restrictions imposed by certain countries on access to external borrowing.

In view of the above the Bank of Russia increased risk ratios on FX credit claims (and investments in debt securities) on resident exporters (from 100% to 110%). In order to further reduce lending in the riskiest segment, risk ratios on mortgage loan exposures were revised upwards from 130% to 150%. All other claims against legal entities in foreign currency are weighted at a risk ratio of 130% (the previous ratio is 110%). There remains an exception that abrogates the application of the new risk ratios to credit claims guaranteed, directly or indirectly, by the Russian Federation (in particular, FX credit claims backed by an EXIAR insurance policy).

The said changes apply to loans (debt securities transactions) issued after 1 July 2018. This will help distribute pressure on bank capital over time (as and when companies need current debt refinancing and investment). Should the risks associated with dollarisation of bank assets and liabilities aggravate, the Bank of Russia may take additional measures.

The Bank of Russia's measures to reduce the share of the FX component brought down outstanding FX loans to non-financial organisations by 11.2% in 2018 (adjusted for FX revaluation).

In 2018, the Bank of Russia also applied measures aimed at reducing the FX component of banks' liabilities. Starting from 1 August 2018, the Bank of Russia raised reserve requirements on banks' FX liabilities by 1 pp, to 7% for liabilities to individuals and to 8% for other liabilities.

In 2018, the share of FX household deposits in total household deposits increased by 0.9 pp (shrank by 2.3 pp adjusted for FX revaluation), to 21.5%; the share of corporate FX deposits dropped by 3.0 pp (7.5 pp adjusted for FX revaluation), to 35.8%. Banks' FX liabilities to customers decreased over the year by 5.5%, to $14.1 billion.

IV.1.4. BANKING LICENSING

In 2018:

– one bank incorporated through restructuring by way of spin-off and simultaneous merger into another credit institution was registered;

– 11 credit institutions[1] terminated their operations as a result of merger (in 2017, nine credit institutions).

In 2018, three banks changed their status to that of a non-bank credit institution (in 2017, one bank).

During the reporting period, one non-bank credit institution changed its status from that of a non-bank credit institution entitled to make funds transfers without opening bank accounts and other related bank operations to that of a non-bank settlement credit institution (in 2017, one non-bank credit institution changed its status in the same way).

In 2018, as many as 422 amendments to charters of credit institutions were registered following the Bank of Russia's decisions. In 2018, 152 credit institutions[2] received basic licences in accordance with Federal Law No. 92-FZ, dated 1 May 2017, 'On Amending Certain Laws of the Russian Federation'.

As of 1 January 2019, the Bank of Russia accredited 46 representative offices of foreign credit institutions (as of 1 January 2018, 48 representative offices). In 2018, the Bank of Russia accredited three representative offices of foreign credit institutions for operation in the Russian Federation and extended the accreditation of 13 representative offices of foreign credit institutions (in 2017, 12 representative offices). In 2018, accreditation of five representative offices of foreign credit institutions in the Russian Federation was terminated (in 2017, 11 representative offices).

Total non-resident investments in total authorised capital[3] of operating credit institutions shrank in 2018 from ₽403.4 billion to ₽391.7 billion. Non-residents' share in total authorised capital of operating credit institutions decreased from 15.11% as of

[1] Including one credit institution incorporated through restructuring by way of spin-off and simultaneous merger into another credit institution.

[2] As of 1 January 2019, 149 operating credit institutions held basic licences.

[3] For the purpose of calculation of non-residents' participation in the banking system, total authorised capital means total registered authorised capital and issues of joint-stock credit institutions completed as of 1 January 2019.

1 January 2018 to 14.52% as of 1 January 2019 (in 2017, from 16.57% to 15.11%)[1].

The number of operating credit institutions with participation of non-residents decreased in 2018 from 160 to 141 (in 2017, from 174 to 160). The number of operating credit institutions with non-residents' stake of more than 50% dropped from 84 to 77 (in 2017, from 92 to 84).

IV.2. IMPROVEMENT OF BANKING SUPERVISION

In October 2018, **the Bank of Russia completed centralisation of banking supervision**. The Systematically Important Banks Supervision Department (SIBSD) and the Service for Ongoing Banking Supervision (SOBS) took up supervision over all credit institutions from regional branches. Importantly, the centralisation allowed the Bank of Russia to apply uniform supervisory standards, promptly respond to negative trends in credit institutions' operations and start a timely professional dialogue with banks' owners and management to discuss possible solutions of complex problems.

To ensure real-time interaction with financial market participants, the Bank of Russia **arranged electronic information exchange with credit institutions** and other supervised entities via personal accounts. As part of this project, amendments were made to federal laws. Starting from 26 January 2018, Bank of Russia Ordinance No. 4600-U, dated 3 November 2017, 'On the Procedure for the Bank of Russia to Interact with Credit Institutions, Non-bank Financial Institutions and Other Parties to Information Exchange via Bank of Russia Information Resources, Including Personal Accounts' became effective. It establishes a uniform procedure for such interaction.

Personal accounts allowed the Bank of Russia to speed up and simplify the exchange of official documents, promptly collect the necessary data, solve the problems associated with credit institutions' remoteness, and unambiguously determine the time when a supervised entity receives a request or an instruction from the Bank of Russia. Furthermore, the technological infrastructure of personal accounts helped introduce uniform standards of information exchange for all participants and unify the requirements for reporting by credit institutions based on templates or other unstructured information.

The use of personal accounts as a tool for off-site supervision and supervisory response helped improve the quality of supervision and ensured timely and efficient decision-making by the Bank of Russia's supervisory divisions. At the same time, the transition to electronic interaction with supervised entities allowed the Bank of Russia to painlessly centralise banking supervision.

Since the introduction of the electronic exchange, document exchange with financial market participants through personal accounts has been expanding steadily compared with other means of official information exchange (hardcopy document exchange, electronic exchange through other special-purpose channels). Thus, by the end of 2018, the share of documents submitted via personal accounts reached 88% of total information exchange between supervisory divisions and credit institutions.

IV.3. IMPROVEMENT OF BANKING SUPERVISION METHODOLOGY

To improve its supervisory framework, the Bank of Russia continued to **standardise banking supervision** in 2018. The Core Banking Supervision Standard was supplemented with both assessment standards (liquidity risk assessment, corporate governance quality assessment) and procedural standards (approaches to setting supervisory regimes, to activities of authorised representatives), and the elaboration of a standard for the analysis of bank business models started. In 2019, the Bank of Russia will continue to standardise banking supervision.

[1] The paragraph covers unadjusted indicators of absolute and relative participation of non-residents established by Article 18 of Federal Law No. 395-1, dated 2 December 1990, 'On Banks and Banking Activities' (further referred to as the Federal Law 'On Banks and Banking Activities').

In 2018, the Bank of Russia issued a regulation aimed at the development of banking laws and the implementation of international recommendations regarding the mechanisms for recovery of financial institutions' stability. The regulation establishes the requirements to the contents of **financial stability recovery plans** (FSRP) for credit institutions and banking groups, including the requirements that FSRPs should contain measures for financial stability recovery in cases of materialisation of various stress-scenarios. The regulation also stipulates the procedure for submission of a FSRP to the Bank of Russia, its assessment by the regulator, and the notification of the Bank of Russia of the events in the operations of a credit institution provided for by the FSRP and the decision to launch the implementation of the plan. Systemically important credit institutions submit their FSRPs annually no later than 1 July 2019, other credit institutions should provide their plans within 30 days after receiving the Bank of Russia's request.

Moreover, in 2018, for the purpose of development of supervisory tools, amendments were made to Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' (further referred to as Federal Law No. 86-FZ); they **empower the Bank of Russia to conduct control exercises in respect of financial market participants**. Regulations were worked out which stipulate the procedure for the Bank of Russia to organise and carry out test purchases (secret shopper) in banks which mislead customers regarding financial services.

IV.4. QUALITY ASSESSMENT OF CREDIT INSTITUTIONS' ASSETS

In 2018, the Risk Analysis Service continued to improve their approaches to raising the quality of **independent off-site analysis of risks in credit institutions and non-bank financial institutions**.

In 2018, a new line of analysis appeared: the analysis of credit risks of major borrowers (legal entities and major groups). The Bank of Russia analysed approx. 400 groups and major borrowers whose total debt burden comes in at ₽20 trillion (affiliated companies factored in).

More than 22,000 loans were analysed as part of the mass assessment of legal entities' credit risk in 2018.

In 2018, a pilot analysis of retail credit risks was completed. The Bank of Russia worked out and launched main types of analysis, and extensively developed an analytical system for processing big data arrays for retail loan portfolios. The regulator assessed more than 17 million retail loans with total debt of more than ₽973 billion.

The comprehensive assessment of possible loan losses in 2018 was driven by the **expert evaluation of pledged items** accepted by credit institutions as collateral on loans. It assessed the actual pledged item, its legal status, and provided judgement on the cost of the pledged item. In 2018, more than 30,000 pledged items and more than 15,000 assets of credit institutions were assessed.

Since 2018, the Bank of Russia has worked on the Collateral Register that should help establish facts of pledging the same item as collateral on several loans and control the calculation of loan loss provisions by credit institutions. The introduction of the Collateral Register will allow the Bank of Russia to aggregate information about pledged items, analyse credit institutions' collateral portfolio as a whole and collateral of individual loans.

In 2018, 11 credit institutions were assessed as part of the piloting of the operational risk management system.

To improve the quality and accuracy of risk analysis, the Bank of Russia extensively improves approaches to collection and processing of primary data of credit institutions, automates the analysis of big data with the use of new technologies, and expands the use of open source data in its operations:

– the development of automated data collection about operational risk events in credit institutions was launched to reduce the number of one-time requests and simplify the analysis;

– bank data register templates were developed, tested and being applied in the analysis of big data on retail loan portfolios; processing and analysis techniques have been improved;

– processes involving open source data, including the analysis of credit and market risks, have been expanded.

IV.5. OFF-SITE SUPERVISION AND SUPERVISORY RESPONSE

The Bank of Russia made a special focus on **preventive banking supervision**. It has built a system of systemic risk identification based on the ongoing analysis of the banking sector and the accepted risk with a due account of external factors. Coupled with stress-testing tools and risk monitoring (including on a consolidated cross-sectoral basis), this system can detect negative trends and events which may lead to deterioration in the banking sector.

Supervision was focused on the assessment of an elevated concentration of risks on owners' business, industry, region, and investments in non-core assets. The capability of a credit institution's supervisor to see intended actions of bank owners and management which lead to a deterioration in asset quality, asset withdrawal, and involvement in shadow economy, was an important component of effective supervision.

In 2018, the Bank of Russia continued to **develop consolidated supervision**. It was aimed at:

– early detection, analysis and registration of both external risks which impact on a financial group and its individual participants, and internal risks, including those associated with intragroup transactions;

– the preparation of important supervisory solutions (measures) with respect to participants of a financial group;

– the detection of regular arbitrage and preparation of proposals for its elimination.

As of 1 January 2019, as many as 81 banking groups operated in the Russian Federation which were supervised by the Systematically Important Banks Supervision Department (11 banking groups) and the Service for Ongoing Banking Supervision (70 banking groups). The Bank of Russia formed special supervisory groups for a number of systemically important credit institutions (parent companies of banking groups) in accordance with Bank of Russia Ordinance No. 3089-U, dated 25 October 2013, 'On the Procedure for Supervising Banking Groups'. Given the structure of the banking groups, supervisory groups include employees specialising in supervision over non-bank financial institutions.

In accordance with the objective of the off-site banking supervision to introduce consolidated approaches to risk assessment and supervision over financial groups, information exchange with Bank of Russia divisions specialising in supervision on the financial markets was carried out with the aim to assess mutual influence of group participants on their financial standing; proposals were made to update the subject matters of inspections of affiliated credit institutions in 2018. The Recommendations on Supervision over Informal Financial (Banking) Groups were elaborated and approved to introduce the rules of consolidated supervision.

The further development of consolidated supervision over banking/financial groups provides for the preparation of the concept of cross-sectoral regulation by the Bank of Russia of the activity of associations of legal entities with the participation of financial organisations (banking/financial groups).

In 2018, the Bank of Russia continued to automate supervisory processes which will also facilitate the transition to consolidated supervision. The Supervised Institution Consolidated File functional subsystem included functions related to supervision over non-bank financial institutions. In terms of the supervision over credit institutions, in December 2018, the Bank of Russia completed the preparation of the first version of the system that automates loan portfolio analysis.

In 2018, the Bank of Russia started to **implement a project aimed at the collection and analysis of accounting and operational data of credit institutions (business day data)** to reduce the load on credit institutions, increase reliability and promptness of reporting data, and timely respond to negative trends in credit institutions' operations. The project is the first step towards the real-time collection of primary data instead of aggregated data provided in reporting forms. The regulator carried out a test collection of data from credit institutions willing to participant in the project. In the follow-up to the testing, the Bank of Russia worked out a new format and composition for business day data collection with the aim to shift to a mandatory daily data collection from 1 January 2021. The accounting and operational data will be used, among other things, to control the reliability of deposit accounting.

The Bank of Russia continues to develop other applied information and analytical systems which help raise the effectiveness and depth of supervisory and analytical procedures, and reduce the number of labour force needed to tackle these issues.

In 2018, the Bank of Russia's **supervisory response** was primarily geared towards early identification of negative trends in the activities of credit institutions and adoption of adequate measures to prevent the development of those trends.

In accordance with Article 74 of Federal Law No. 86-FZ and Article 20 of Federal Law No. 395-1, dated 2 December 1990, 'On Banks and Banking Activities' (further referred to as Federal Law No. 395-1), the Bank of Russia revoked licences from 60 credit institutions in 2018 and from 51 credit institutions in 2017 (Figure 4.1).

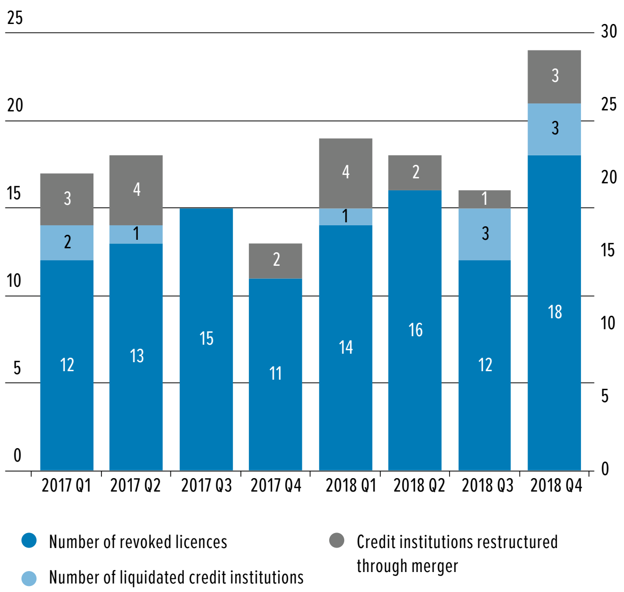
Banking licences were revoked on the following grounds:

– failure to comply with federal banking laws and Bank of Russia regulations, if the measures provided for by Federal Law No. 86-FZ were repeatedly applied to the credit institution over the course of one year: 56 cases (51 in 2017);

– repeated violation of Federal Law No. 115-FZ, dated 7 August 2001, 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' and related Bank of Russia regulations over the course of one year: 35 cases (24 in 2017);

– revealed significant inaccuracy of reporting data: two cases (five in 2017);

CREDIT INSTITUTIONS THAT TERMINATED THEIR OPERATIONS IN 2017–2018 *Figure 4.1*



– capital adequacy below 2%: eight cases (14 in 2017);

– decline in the capital of a credit institution below the minimum authorised capital established as of the date of its state registration: eight cases (14 in 2017).

In addition, in 2018, the Bank of Russia cancelled licences of seven banks following the resolution of their shareholders (members) on voluntary liquidation.

Nearly a half of credit institutions (29 of 60) whose licences were revoked in 2018 were registered in the Moscow region.

IV.5.1. BANKING SECTOR STABILITY MONITORING AND ITS USE IN SUPERVISION

In order to timely inform supervisory divisions about credit institutions which call for additional supervisory focus, in 2018, the Bank of Russia's banking supervision units used instruments for early detection and prevention of problems in credit institutions' operations. As part of this report the Bank of Russia prepared a weekly summary of indicators which provided evidence of the formation of negative trends in the risk profiles of individual banks whose performance indicators for the evaluated positions exceeded the risk limits (triggers).

The list of risks (broken down by major component) assessed as part of a weekly monitoring includes over 32 items that provide a comprehensive description of credit institutions' operations. The monitoring assessed the potential negative impact of main risks on banks' compliance with prudential ratios (primarily capital adequacy ratios), analysed the quality of assets and liquidity, revealed considerable deviations in the borrower funds dynamics, funding cost and concentration in borrowed and placed funds. Negative trends in banking sector profitability received an in-depth analysis.

The current indicators of credit institutions' activity were benchmarked against the established criteria and threshold values. The selection revealed elevated risks on certain positions in some credit institutions. Banks found in conventional risk zones with the maximum number of cases were additionally analysed for expediency of updating the applicable supervisory regime.

For these purposes, the Bank of Russia also occasionally compared credit ratings assigned to banks by Russian credit rating agencies on the national rating

MEASURES TAKEN BY CREDIT INSTITUTIONS IN 2018

Table 4.1

No.	Measures	Number of credit institutions
Measures taken as part of advisory supervision		
1	Notifying in writing the management and/or board of directors (supervisory board) of a credit institution of shortcomings in its work, and recommending remedial action	549
2	Calling a meeting	427
3	Other (recommendations to draw up a plan of remedial action, tighten control over reporting, make a realistic assessment of credit risk, avoid misreporting, etc.)	35
Measures taken in accordance with Article 74 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'		
4	Fines*	288
	including:	
4.1	for non-compliance with reserve requirements	29
4.2	for breaches of federal laws and Bank of Russia rules and regulations issued in pursuance thereof and for non-reporting, under-reporting, or misreporting	275
5	Restrictions on individual banking operations conducted by credit institutions*	109
	including:	
5.1	taking household funds on deposit	75
5.2	settlements on behalf of corporate entities relating to transfer of funds to budgets of all levels and government extra-budgetary funds	3
5.3	opening bank accounts to corporate entities and households	74
5.4	interest rate on bank deposit agreements concluded (extended) in the restriction period	2
6	Prohibiting credit institutions from conducting certain banking operations*	17
	including:	
6.1	taking household funds on deposit	11
6.2	opening bank accounts to households, including unallocated metal accounts (demand and term accounts)	10
6.3	Other	17
	Memo item: Bans on taking household funds on deposit and opening bank accounts to households imposed on credit institutions pursuant to Article 48 of Federal Law No. 177-FZ, dated 23 December 2003	–
7	Requirements*	480
	including:	
7.1	orders to comply with Bank of Russia required ratios	5
7.2	orders to replace persons whose positions are indicated in Article 60 of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' due to their failure to comply with the qualification requirements and requirements for business reputation in accordance with Russian laws	37
7.3	orders to reclassify receivables	300
7.4	orders to build up loan loss provisions	314
8	Prohibiting credit institutions from opening branches	19
9	Appointing provisional administrations to credit institutions without revoking their licences (including provisional administrations whose functions have been assigned to the DIA and the LLC Fund of Banking Sector Consolidation Asset Management Company)	8
10	Banking licence revocation	60

* The indicated number of credit institutions differs from sub-clause total, as in some cases banks have been subjected to several actions and placed under several sub-clauses.

scale for the Russian Federation with internal supervisory assessments.

During 2018, the regulator revealed banks incompliant with buffers to capital adequacy ratios[1], these banks were in an increased supervisory focus and underwent measures aimed at eliminating these violations.

Furthermore, the quality of bank loans was monitored on a regular basis for the adequacy of loan loss provisions[2] based on the following criteria: loans extended to legal entities and individual entrepreneurs which were recognised bankrupt by a court ruling and against which bankruptcy proceedings were initiated in 2018; loans extended by different banks to the same borrowers whose quality categories assigned by different banks varied considerably (primarily as regard the financial standing)[3]. The results of the monitoring were taken into account in supervision as an additional source of information when assessing the quality of banks' corporate loan portfolios.

Stress testing is one of the most important parts of the banking sector stability assessment (see Section III.8).

IV.6. ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

In 2018, the Bank of Russia continued to exercise its powers stipulated by the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' (hereinafter referred to as Federal Law No. 115-FZ). Special attention was given to enhancing the effectiveness of the system of anti-money laundering and combating the financing of terrorism (AML/CFT).

In order to bring the national legislation in line with international AML/CFT standards, the Bank of Russia contributed in 2018 to amending Federal Law No. 115-FZ in terms of enshrining in law countering the financing of proliferation of weapons of mass destruction[4].

Also, in 2018 the Bank of Russia focused on bringing the AML/CFT regulation in line with the new legislative requirements in that area[5].

In 2018, the Bank of Russia continued regular and systemic efforts to contract fictitious transactions[6]. As a result of these efforts fictitious transactions in the banking sector reduced sustainably.

Overseas money diversion shrank by a factor of 1.2 in 2018 compared with 2017 (from ₽77 billion to ₽65 billion), cash-out transactions in the banking sector dropped by a factor of 1.9 (from ₽326 billion to ₽176 billion), and dubious transactions almost halved (from ₽2.5 trillion to ₽1.3 trillion).

As part of its supervisory functions, the Bank of Russia completed 146 AML/CFT-related inspections of credit institutions (their branches) in 2018, or 35% of all scheduled and unscheduled inspections of credit institutions (their branches) completed in 2018, of which five inspections were terminated during the inspection as the credit institutions' banking licences were revoked.

As many as 35 credit institutions had their licences revoked in 2018 due to the violation of laws, including AML/CFT laws (the total of 60 credit institutions had their licences revoked in 2018).

In 2018, following the violation of AML/CFT-related regulations and Federal Law No. 115-FZ[7] supervisory measures were applied to 316 credit institutions in accordance with Article 74 of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)', including fines (imposed on 211 credit institutions), restric-

[1] In accordance with Bank of Russia Instruction No. 180-I, dated 28 June 2018, 'On Banks' Required Ratios'.

[2] In accordance with Bank of Russia Regulation No. 590-P, dated 28 June 2017, 'On the Procedure for Making Loss Provisions by Credit Institutions for Loans, Loan and Similar Debts'.

[3] Based on Reporting Form 0409303 'Loans to Legal Entities'.

[4] Federal Law No. 90-FZ, dated 23 April 2018, 'On Amending Certain Laws of the Russian Federation for Countering the Financing of Proliferation of Weapons of Mass Destruction'.

[5] For the list of amending documents, refer to Section V.1 'Key Bank of Russia regulations adopted in 2018'.

[6] Transactions performed by bank customers which have an ambiguous character, no apparent economic expediency or evident legal purpose, which may be conducted in order to divert capital outside the country, finance grey imports, cash-out funds to avoid taxation, and to support corruption and pursue other unlawful objectives.

[7] Except for Clause 3 of Article 7 of Federal Law No. 115-FZ.

tions to carry out certain transactions (37 credit institutions), bans on certain transactions (three credit institution) and requirements to mitigate violations of AML/CFT regulations (256 credit institutions).

Furthermore, as part of advisory supervision, the Bank of Russia applied such measures as a written notification of the management and/or the board of directors of a credit institution of the deficiencies in its operations and recommendations for their removal. The regulator applied this measure to 346 credit institutions and held meetings with 17 banks.

In 2018, the Bank of Russia worked out and approved a Plan for the Bank of Russia's participation in the assessment of the Russian AML/CFT system by the Financial Action Task Force on Money Laundering (FATF) in the second half of 2018 and 2019 (further referred to as the Plan).

As part of the Plan, the Bank of Russia provided FATF with information about its AML/CFT regulations, described its effective efforts in this area, and made a sectoral assessment of ML/FT risks in the sectors under the Bank of Russia's supervision taking into account their regional specifics and the results of the national assessment of ML/FT risks (approved on 2 November 2018).

IV.7. INSPECTION OF CREDIT INSTITUTIONS

In 2018, the Bank of Russia inspected 384 credit institutions (their branches), including 12 systemically important credit institutions and their branches. Scheduled inspections accounted for 75% (286 inspections) of total inspections.

Upon the occurrence of grounds stipulated by law and Bank of Russia regulations unscheduled inspections were organised (98 inspections); most of them (66%) were carried out by the decision of the Bank of Russia management as negative developments were revealed in operations of credit institutions, including a sizeable increase in cash transactions; signs of double accounting of FX and deposit transactions, and dubious transactions conducted by banks' customers.

In accordance with the risk-based approach to the organisation and conduct of inspections, the main focus was made on the assessment of risk portfolios and their concentration, asset and capital quality was assessed, ultimate receivers of borrowed funds and sources of loan repayments were detected, the accounting discipline and compliance with regulatory requirements were checked.

For the purpose of consolidated risk assessment the Bank of Russia continued to conduct simultaneous inspections of supervised institutions which have economic ties or controlled by the same group of persons.

During 2018, the Bank of Russia conducted simultaneous inspections of 33 credit institutions which were members of 13 banking groups, including credit institutions under resolution and their investors, as well as 17 credit institutions (their branches) and 26 non-bank financial institutions (NFIs) which were members of 15 banking groups/bank holding companies.

Simultaneous inspections of credit institutions and NFIs revealed individual facts which suggest that microfinance market participants and credit institutions apply business models aimed at gaining economic benefits from the difference in regulation of different financial market participants. These facts are non-systemic in nature. The Bank of Russia applied supervisory measures on the revealed facts.

Simultaneous inspections of investor banks and banks under resolution revealed that investors' operations may be financed from funds provided by the State Corporation Deposit Insurance Agency (DIA) to banks under resolution, banks under resolution may suffer sizeable losses from mutual transactions with an investor bank, and banks providing financial resolution may have low quality of assets.

They also revealed instances when participants of an informal financial group (a credit institution and an investment company) which had no economic expediency conducted securities trading with non-resident legal entities which resulted in accumulation of funds in accounts of foreign companies directly controlled by the group's ultimate beneficiary.

Inspections also registered instances when a non-governmental pension fund (an investor's beneficiary) used pension reserves to purchase low-quality assets from banks of the group.

The analysis of inspection outcomes showed that most violations (68%) resulted from high-risk credit policy pursued by banks, among other things in their owners' interests, and inadequate quality assessment of outstanding loans. The inspections revealed loan issues which have signs of asset diversion.

The Bank of Russia revealed multiple violations in retail lending, including the excess of the highest possible effective interest rate, operations aimed at concealing the real credit risk accepted by the bank through the issue of new retail loans for repayment of overdue loans, and through the assignment of claims on individuals to legal entities on a deferred-payment basis, and incorrect determination of overdue payments. This concealed the real risk on loans and formed credit institutions' income from unreliable sources.

Other violations in credit institutions' operations are associated with manipulation of accounting and reporting data through delayed accounting of data contained in the bank's primary documents and fictitious transactions aimed at concealing cash shortages and diversion of high quality liquid assets from the bank.

As many as 120 inspections of credit institutions assessed their compliance with AML/CFT requirements. The revealed violations were connected with banks' failures to submit (timely submit) information on the operations subject to mandatory control to the authorised body and failures to take legitimate and available measures to identify customers (their beneficiary owners).

As many as 245 inspections of credit institutions checked the compliance with federal laws on the state defence order and servicing of business entities of strategic importance for the military-industrial complex. They revealed individual violations of the procedure for credit institutions to inform the authorised agency about account opening/closing by such customers.

DIA employees initiated 71 inspections which assessed the timeliness and completeness of insurance payments to the compulsory deposit insurance fund, the procedure for accounting liabilities to depositors, and credit institutions' capability to provide a register of such liabilities in the due course.

The Bank of Russia cooperated with controlling and law enforcement agencies at all stages of inspections. In the reporting year, the Bank of Russia submitted 178 information notices on financial operations of credit institutions (their customers) bearing signs of illegal transactions to the Prosecutor General's Office of the Russian Federation and the Federal Financial Monitoring Service. Controlling and law enforcement agencies initiated inspections of six credit institutions.

IV.8. BANKS' PARTICIPATION IN THE DEPOSIT INSURANCE SYSTEM

As of 1 January 2019, 757 credit institutions were registered in the deposit insurance system (DIS) (compared to 781 banks as of 1 January 2018), including 407 operating banks and 350 banks undergoing liquidation.

In 2018, two banks were included in the DIS, and 26 banks were excluded from it.

Insured events occurred in 57 banks in 2018; among these, a moratorium on meeting creditors' claims was imposed in two banks.

Starting from the first quarter of 2018, the Bank of Russian raised the base rate of insurance premiums payable by banks to the compulsory deposit insurance fund from 0.12% to 0.15% of the calculation base, which is the highest possible value established by Federal Law No. 177-FZ, dated 23 December 2003, 'On the Insurance of Deposits with Russian Banks'.

In a key 2018 development of the DIS, starting from 1 July 2018, the insurance coverage has been expanded to ₽10 million on cash balances on escrow accounts of individuals opened for settlements under equity construction agreements. In addition, starting from 1 January 2019, insurance coverage has been expanded on funds in corporate accounts of small businesses in the amount of up to ₽1.4 million.

IV.9. BANKRUPTCY PREVENTION AND FINANCIAL RESOLUTION OF CREDIT INSTITUTIONS

In 2018, the Bank of Russia continued to prevent bankruptcy of credit institutions in accordance with Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)' (further referred to as Federal Law No. 127-FZ).

When the Bank of Russia decides to take bankruptcy prevention measures or to submit to the State Corporation Deposit Insurance Agency (DIA) the proposal on its participation in these measures, it takes into account the systemic importance of a bank both at the level of the financial system as a whole and at the regional level, the importance of certain segments of the financial market, and possible consequences of the Bank of Russia's decision to revoke the banking licence for the financial market, certain sectors, regions and Russia's economy as a whole.

As of early 2018, 26 banks were undergoing bankruptcy prevention measures with the DIA's participation. In 2018:

– a decision was taken to terminate financial resolution with the DIA's participation in four credit institutions and to simultaneously approve plans of the Bank of Russia's participation. Consequently, a decision was taken to settle the liabilities of one of these credit institutions and revoke its banking licence;

– plans for the DIA's participation were approved for two credit institutions; however, in the follow-up to the analysis of their financial standing it was recognised impossible to execute DIA participation plans and as a result these banks had their banking licences revoked.

As of the beginning of 2018, three systemically important credit institutions were undergoing bankruptcy prevention measures with the Bank of Russia's participation.

During 2018, the following decisions were taken on financial resolution of credit institutions with the Bank of Russia's participation:

– the Bank of Russia Board of Directors decided to initiate financial resolution of Asian-Pacific Bank (PJSC) with the participation of the Bank of Russia;

– ROST BANK JSC was restructured through merger with NB Trust (PJSC);

– JSC B&N Bank and JSC B&N Bank Digital merged with PJSC Bank FC Otkritie on 1 January 2019.

As of 1 January 2019, 21 credit institutions continued to undergo bankruptcy prevention measures with the DIA's participation and five banks with the Bank of Russia's participation. Thus, in 2018, the Bank of Russia did not make any decisions to initiate bankruptcy prevention measures with the DIA's participation that provide for financial assistance.

The total cost of assets of the banks for which plans of the DIA's or the Bank of Russia's participation in bankruptcy prevention measures were approved stood at ₽9.95 trillion or 10.6% of total banking sector assets as of 1 January 2019.

These banks accounted for 7.5% of total banking sector loans to non-financial organisations, 4.4% of total household loans and 6.6% of total funds raised from households. Meanwhile, the banks where bankruptcy prevention measures are implemented with the participation of the Bank of Russia account for 6.7% of banking sector assets, 4.7% of corporate loans, 2.7% of household loans and 4.5% of household deposits.

The DIA's outstanding loan with the Bank of Russia aimed at bankruptcy prevention measures amounted to ₽1,083 billion as of the end of the reporting period.

As of 1 January 2019, outstanding deposits with credit institutions which the Bank of Russia provided as part of financial assistance in accordance with the plan of the Bank of Russia's participation from funds of the Banking Sector Consolidation Fund came in at ₽1,791 billion (excluding accrued interest). As of the end of 2018, all credit institutions which complied with capital adequacy requirements repaid the outstanding deposits of the Bank of Russia provided in accordance with the Bank of Russia participation plans.

In the reporting period, the Bank of Russia continued to implement bankruptcy prevention measures in PJSC Bank FC Otkritie, PJSC B&N Bank, and PJSC Promsvyazbank initiated in 2017.

In 2018, the Bank of Russia Board of Directors took the decision to guarantee that PJSC Bank FC Otkritie, PJSC B&N Bank, PJSC Promsvyazbank, and Asian-Pacific Bank (PJSC) would continue as a going concern during the implementation of the plans for the Bank of Russia's participation in bankruptcy prevention of these credit institutions.

In order to provide financial assistance to credit institutions, in 2018, the Bank of Russia recapitalised credit institutions from the funds of the Banking Sector Consolidation Fund and has become the owner of more than 99.99% of ordinary shares of PJSC B&N Bank, ROST BANK JSC, JSC AVB Bank, NB Trust (PJSC), and Asian-Pacific Bank (PJSC). The recapitalisation of PJSC Bank FC Otkritie conducted in 2018 provided for financial assistance to PJSC IC Rosgosstrakh and NPF Otkritie. As of 1 January 2019, the Bank of Russia's participation in the capital of these credit institutions came in at ₽565 billion.

As a result of recapitalisation, PJSC Bank FC Otkritie and Asian-Pacific Bank (PJSC) comply with all capital adequacy requirements.

In 2018, PJSC Bank FC Otkritie and the Bank of Russia established a universal financial group affiliated with PJSC Bank FC Otkritie. The standing management bodies of PJSC Bank FC Otkritie will continue to develop the business of Otkritie Group to ensure the performance comparable with that of leading market participants.

In the reporting period, a non-core asset bank (NAB) was established under the auspices of NB Trust (PJSC) which received non-core and toxic assets as provided for in the Bank of Russia participation plans. NAB assets were in part formed through the spin-off of a separate legal entity from PJSC Bank FC Otkritie with its simultaneous merger with NB Trust (PJSC). JSC AVB Bank that received toxic and non-core assets of PJSC Promsvyazbank merged with NB Trust (PJSC) on 7 March 2019.

Federal Law No. 53FZ, dated 7 March 2018, 'On Amending Certain Laws of the Russian Federation' allowed state ownership of PJSC Promsvyazbank that became the core bank of the military-industrial complex of the Russian Federation. To implement these changes, the Bank of Russia engaged the DIA to act as an investor in the bank's recapitalisation and financial assistance. The respective funding of the DIA came from the asset contribution of the Bank of Russia.

After purchasing an additional issue of ordinary certified shares of PJSC Promsvyazbank, the DIA has become the owner of more than 99.99% of ordinary shares of PJSC Promsvyazbank which were subsequently transferred to the treasury of the Russian Federation together with the ordinary shares which the DIA bought from the bank's minority shareholders. As a result of the said measures, PJSC Promsvyazbank has complied with all capital adequacy requirements.

The Bank of Russia-held shares of Asian-Pacific Bank (PJSC) are supposed to be sold after it discloses information about its 2019 performance to the public, including potential investors.

As the Bank of Russia prepares to sell Asian-Pacific Bank (PJSC) to the new owner, it decided to establish a closed-end mixed unit investment fund Spetsialny (CUIF) managed by Limited Liability Company Fund of Banking Sector Consolidation Asset Management Company (Management Company) using the funds of the Banking Sector Consolidation Fund. The mechanism that provides for the establishment of the CUIF aimed at the purchase of assets from the bank to which the Bank of Russia participation plan applies, may be further used as an alternative to direct recapitalisation. The decision on the application of this mechanism will depend on the nature of toxic assets, recovery forecasts and other measures aimed at financial resolution of the credit institution.

In 2018, the new mechanism of financial resolution of credit institutions proved as an effective instrument for recovering banks' financial standing which helps them to promptly ensure compliance with regulatory requirements. Furthermore, the Bank of Russia's direct participation in capital of credit institutions under resolution helped untie financial resolution of a credit institution from the financial standing of its investor and ensured resolution of large credit institutions, including systemically important banks. In view of the above, in 2018, amendments were introduced to the legislation which allowed financial resolution of insurance companies with the use of Bank of Russia funds in the manner similar to financial resolution of credit institutions with the Bank of Russia's participation.

In 2018, the Bank of Russia made efforts to recover in court the damages inflicted by the actions (inactions) of persons who controlled the credit institution before bankruptcy prevention measures were initiated. As part of these efforts the Bank of Russia applied the procedure for determining the damage inflicted by the actions (inactions) of persons controlling the credit institution which can be recovered from the controlling parties in court as stipulated in Federal Law No. 87-FZ, dated 23 April 2018, 'On Amending Certain Laws of the Russian Federation'. This will help offset the Bank of Russia's expenses on financial resolution of credit institutions and raise the responsibility of the parties controlling the bank for their decisions. The Bank of Russia also submitted to law enforcement agencies the information about the seemingly illegal operations carried out before the provisional administration was introduced which inflicted damage to the credit institutions.

The operations of provisional administrations to manage credit institutions eligible for bankruptcy prevention, which had been appointed before their licences were revoked, make an important part of the Bank of Russia's activity.

In 2018, the Bank of Russia controlled 16 provisional administrations, of which nine provisional administrations to manage credit institutions were appointed in the reporting period:

– five provisional administrations were appointed to banks in accordance with the approved plans for the Bank of Russia's participation in bank bankruptcy prevention measures and their functions were assigned to the Management Company;

– three provisional administrations were appointed to banks in accordance with the approved plans for the DIA's participation in bank bankruptcy prevention measures;

– one provisional administration was appointed after the bank's banking licence was revoked following the approval of plans for the DIA's participation in the settlement of the bank's liabilities.

In 2018, the activity of 15 provisional administration to manage credit institutions was terminated. As of 1 January 2019, the provisional administration continued its operations in one credit institution.

Moreover, during the reporting period, 31 credit institutions were eligible for bankruptcy prevention in accordance with Article 189.10 of Federal Law No. 127-FZ[1]; however, the Bank of Russia or the DIA did not apply any bankruptcy prevention measures to these institutions, of which:

– 10 credit institutions removed the reasons for bankruptcy prevention measures;

– one credit institution worked out and submitted to the Bank of Russia a financial resolution plan which did not provide for financial assistance from the Bank of Russia or the DIA;

– 20 credit institutions had their banking licences revoked. Among them PJSC Uraltransbank who took bankruptcy prevention measures in accordance with its financial resolution plan which did not provide for assistance from the Bank of Russia or the DIA. The bank failed to implement all the core measures stipulated by the financial resolution plan and, therefore, had its banking licence revoked.

IV.10. LIQUIDATION OF CREDIT INSTITUTIONS

In accordance with the Federal Law 'On Insolvency (Bankruptcy)', after the Bank of Russia revokes a banking licence from a credit institution, it should appoint a provisional administration to manage the credit institution no later than the day following the licence revocation. The provisional administration acts as the credit institution's executive bodies from the day of its appointment and until the day when an arbitration court recognises the credit institution as insolvent (bankrupt) and initiates bankruptcy proceedings (appoints a receiver) or until the ruling of an arbitration court on the appointment of a liquidator becomes effective.

As of 1 January 2018, 12 provisional administrations of credit institutions appointed due to the revocation of credit institutions' licences were operating.

In 2018, 59 provisional administrations to manage credit institutions were appointed due to the revocation of the credit institutions' licences[2], and the activity of 55 provisional administrations was terminated. As of 1 January 2019, 16 provisional administrations of credit institutions appointed due to revocation of credit institutions' licences were operating.

As of 1 January 2019, 398 credit institutions with revoked (cancelled) licences were subject to liquidation, and the Bank of Russia had not received certificates of their state registration for the purpose of

[1] Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)'.

[2] Excluding the provisional administration of Joint-stock Company Bank Sovetsky (Reg. No. 558), where its functions are performed by the State Corporation Deposit Insurance Agency.

liquidation from the competent registration authorities. Liquidation procedures were being implemented in 382 credit institutions, and in 16 credit institutions the corresponding court rulings had not been passed after the revocation of their licences as of 1 January 2019.

Out of the 382 credit institutions subject to liquidation, 342 banks were recognised insolvent (bankrupt) and had bankruptcy proceedings initiated, among others 41 credit institutions were recognised bankrupt in 2018. Arbitration courts ruled on the forced liquidation of 34 credit institutions, including 16 rulings on the forced liquidation passed in 2018. Furthermore, six credit institutions underwent voluntary liquidation following the decisions of their founders.

As of 1 January 2019, in 357 credit institutions liquidation was implemented by the DIA, of which in 333 credit institutions the DIA acted as a receiver and in 24 as a liquidator. As of 1 January 2019, in 19 credit institutions liquidation was implemented by liquidators accredited with the Bank of Russia as receivers of bankrupt credit institutions, of which nine credit institutions underwent bankruptcy proceedings and 10 banks underwent involuntary liquidation.

As of 1 January 2019, liquidation proceedings were completed in 388 credit institutions which had their banking licences revoked (cancelled) after 2004 (the establishment of a corporate liquidator institute); liquidation of 25 credit institutions was completed in 2018. In accordance with the reports submitted to the Bank of Russia, claims of creditors of these credit institutions were met in 35.3% of instances, including 58.2% of first-priority creditors' claims. In liquidated credit institutions where the DIA acted as a receiver (liquidator), creditors' claims were met in 37.3% of instances, including 57.3% of first-priority creditors' claims.

In 2018, the Bank of Russia held 68 inspections in accordance with the Consolidated Plan of Inspections of Receivers (Liquidators) of Credit Institutions in order to implement the powers to oversee the activities of receivers (liquidators) of credit institutions vested in the Bank of Russia by the laws of the Russian Federation on insolvency (bankruptcy). Furthermore, six unscheduled inspections were held. As many as 68 inspections were focused on the activity of the DIA, and six inspections – on the activity of liquidators duly accredited by the Bank of Russia as receivers in the bankruptcy of credit institutions.

In 2018, 24 liquidators were accredited with the Bank of Russia as receivers of bankrupt credit institutions and the accreditation of another 30 liquidators was extended. Furthermore, four liquidators were denied accreditation due to their incompliance with the accreditation conditions.

As of 1 January 2019, 54 liquidators were accredited with the Bank of Russia.

IV.11. BANKING CONSUMER PROTECTION

In 2018, the Bank of Russia received as many as 130,300 complaints against credit institutions, 6.6% more than in 2017.

Despite the fact that the banking sector accounts for the bulk of financial sector assets, complains against credit institutions account for only 53.5% of total complaints against financial market participants. Complains mainly concern consumer and mortgage lending: the issues of loan repayment account for 25.8% of total complaints against credit institutions, while the use of banking cards and ATMs accounts for 7.2%.

One of the Bank of Russia's priorities is to ensure compliance with Federal Law No. 230-FZ 'On Protecting Rights and Lawful Interests of Individuals When Collecting Overdue Debt and on Amending the Federal Law 'On Microfinance Activities and Microfinance Organisations' (further referred to as Federal Law No. 230-FZ) that regulates interaction between lenders and debtors. The Bank of Russia's focus on such complaints, raising public awareness of the rights and obligations, and banks' own measures contained the rise in the number of such complaints in 2018 after it had peaked in spring 2017.

The regulator also focused on compliance with Federal Law No. 353-FZ 'On Consumer Loans' (further referred to as Federal Law No. 353-FZ), including the promotion of insurance services to borrowers. The number of such complaints submitted to the Bank of Russia was on the rise in 2017 but the applied measures (monitoring of interactions between borrowers and lenders, informing borrowers about their rights and obligations, assistance in complaint handling) reversed the trend by mid-2018 and the number of complaints dropped in the second half of the year.

The Bank of Russia addressed a total of 52,500 queries to credit institutions in the course of complaint handling (in 2017, 29,500 queries).

The analysis of credit institutions' response to the Bank of Russia's queries (taking into account the updated assessment criteria) shows that the share of resolved issues remained virtually unchanged in the reporting year compared with 2017 rising by 0.2 pp, to 46.7%. At the same time, the share of queries which helped the applicants receive the necessary comments and information rose by 3 pp, to 52%. Also, there is a considerable reduction (from 4.8% to 1.3%) in the share of queries which resulted in credit institutions' refusal or incapability to solve the applicants' problems.

In order to ensure understanding and agreement between borrowers and lenders, 44 quadrilateral meetings between lenders, borrowers, and representatives of JSC DOM.RF and the Bank of Russia were held from August 2017 until December 2018, after the assistance programme implemented in accordance with the Resolution of the Government of the Russian Federation No. 961, dated 11 August 2017, 'On Further Realisation of Targeted Support Programme for Distressed Housing Mortgage Loan Borrowers' was launched. To discuss the restructuring of banks' foreign currency mortgage loan portfolios, 27 supervisory meetings with lenders were held. As of 31 December 2018, 1,900 consultations of borrowers were conducted.

The Bank of Russia controlled the preparation of 1,933 decisions on FX mortgage loans (including written application handling); decisions were taken regarding 1,600 loans and implemented with respect to 1,410 loans.

The Bank of Russia Public Reception received citizens who addressed the regulator due to their inability to deliver on their credit obligations (mostly associated with FX mortgages) and security holds. Some queries are connected with difficulties in obtaining credit histories and bank licence revocations.

The development of conduct supervision tools is among the Bank of Russia's strategic objectives closely associated with improving public trust in financial markets, financial services quality and financial inclusion, as well as overall development of the financial market. The implementation of conduct supervision will enable comprehensive achievement of these objectives and control over the conduct of financial companies towards their consumers.

Starting from 2018, the Bank of Russia spun off conduct supervision into a separate line of supervision that monitors operations of supervised entities through their interaction with customers. It is supposed to prevent violations of consumer rights. The regulator analyses products and business processes of financial services providers which may result in a violation of consumer rights.

In 2018, the Bank of Russia sent 240 recommendations to remove violations, deficiencies and the use of unacceptable practices to 31 credit institutions, including 128 recommendations associated with Federal Law No. 353-FZ, and 48 recommendations associated with Federal Law No. 230-FZ. In 2018, the Bank of Russia revealed violations of laws on credit histories in terms of a timely and accurate submission of information about borrowers' payment discipline to CHBs in a number of banks (including four of top-10 banks by assets). The Bank of Russia initiated supervisory measures which helped update CHB data on 4.8 million customer accounts.

In December 2018, the Bank of Russia supported the concept of the first part of the Responsible Mortgage Lending Standard, a mortgage lending standard worked out by JSC DOM.RF. The document contains uniform rules of conduct which cover all stages of mortgage loan life circle – from promotion of a mortgage product to full repayment of loan. That said, special attention is given to pre-trial debt settlement procedures and debt recovery in court, when interactions between the lender and the borrower tend to be especially tense.

The main outcomes of conduct supervision measures related to certain credit institutions are as follows:

– the method for calculating the effective interest rate (EIR) factored in insurance premiums on insurance contracts where a bank acts as a beneficiary, and insurance premiums on insurance contracts which affected provisions of consumer loan agreements;

– commissions on certain services were cancelled;

– borrowers received the right to choose the outcomes of early loan repayment between a reduction of the loan term or a reduction of the monthly payment, and acceptance or rejection of loan assignment;

– group insurance contracts can be renounced during a cooling-off period;

– the provisions of agreements on legal services provided by banks acting in agents capacity have been revised: currently, the borrower can renounce an additional service and have a portion of the paid funds refunded;

– overdue loan notifications exclude information about possible criminal actions;

– a form of written notification of a customer about investment product conditions and risks has been introduced.

The analysis of compliance with the Bank of Russia's recommendations shows that credit institutions have an overall positive attitude towards the proposals to improve credit and investment products and introduce clear contract provisions.

The Bank of Russia issued information letter No. IN-01-59/69, dated 28 November 2018, 'On the Sale of Financial Products' with recommendations on the use of sales scenarios (scripts) which should provide for the fullest possible information provided to the consumer about the specifics and risks of a financial product.

Starting from September 2018, Federal Law No. 123-FZ, dated 4 June 2018, 'On the Financial Consumer Ombudsman' became effective. In 2018, the Financial Ombudsmen Operations Support Service has been established; its objectives include, among other things, financial, technical and information support of financial ombudsmen.

In order to protect citizens and prevent unlawful practices in consumer lending, Federal Law No. 554-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On Consumer Loans' and the Federal Law 'On Microfinance Activities and Microfinance Organisations' was adopted; it provides for as follows:

– a three-stage transition from 2.5-fold (from 28 January 2019) to twofold (from 1 July 2019) to 1.5-fold (from 1 January 2020) restriction of a borrower's maximum debt under a consumer loan agreement;

– a gradual limitation of the interest rate under consumer loan agreements with 1.5% (from 28 January 2019) to 1% per day by 1 July 2019;

– limitation of the EIR with the lowest of 365% p.a. or the market average EIR in percentage per annum of the respective category of consumer loan applied in the respective quarter by more than 1/3 (from 1 July 2019);

– a lender's right to offer a borrower a special credit product in the amount of up to ₽10,000 for 15 days (with the highest possible payments of no more than ₽3,000).

This law restricts the range of persons to whom the rights of claim on consumer loans can be assigned with credit institutions, microfinance organisations, consumer credit cooperatives, agricultural consumer credit cooperatives, pawnshops, recovery professionals[1], special-purpose financial companies (professional lenders) or individuals indicated in a borrower's written consent for the case of arrears (if the agreement provides for an assignment). For the purpose of consumer protection, the Bank of Russia issued Ordinance No. 4795-U, dated 15 May 2018, 'On the Procedure for Calculating the Approximate Average Monthly Payment of a Borrower Under Credit (Loan) Agreements, Which are Concluded with an Individual for Purposes not Related to Entrepreneurial Activity and Whereunder the Borrower's Obligations are Secured by a Mortgage'.

IV.12. COOPERATION WITH RUSSIA'S BANKING COMMUNITY

During 2018, the Bank of Russia regularly cooperated with the Russian banking community on a wide range of issues related to banking regulation and supervision. During the year, the Bank of Russia's management held multiple meetings with representatives of bank associations and their member credit institutions. The Bank of Russia posted more than 270 draft regulations on its website for discussions with the professional community. The banking community welcomed the innovations suggested by the Bank of Russia and banks extensively discussed these drafts. Summaries of discussions have been posted on the Bank of Russia website. Many of the suggested initiatives were implemented in 2018.

[1] Legal entities included in the state register whose principal activity is to recover overdue loans.

IV.13. COOPERATION WITH INTERNATIONAL FINANCIAL ORGANISATIONS, BANKING REGULATORS AND SUPERVISORS

In 2018, Bank of Russia representatives worked in the Basel Committee on Banking Supervision (BCBS) and its working groups (subgroups):

- Group of Banking Supervisors from Central and Eastern Europe;
- Policy Development Group;
- Supervision and Implementation Group;
- Market Risk Group;
- Credit Risk Group;
- Operational Risk Working Group;
- Working Group on Capital;
- Working Group on Stress-testing;
- Working Group on Liquidity;
- Quantitative Impact Study Working Group;
- Task Force on Financial Technology;
- Pillar 2 Working Group and Working Group on Disclosure.

In 2018, the Bank of Russia participated in the development of new standards of the Basel Committee on Banking Supervision, including the standard on the calculation of market risk, which includes a new simplified standardised approach, and a revised standard on information disclosure under Pillar 3.

Furthermore, the Bank of Russia participated in the development of stress testing principles which were posted on the Basel Committee's website in late 2018.

In the context of cooperation with central banks and other foreign agencies responsible for banking supervision, the Bank of Russia inquired for information from foreign colleagues which is of interest to its supervisory divisions, and responded to foreign inquiries about credit institutions supervised by the Bank of Russia. The regulator exchanged information with supervisors of Hungary and India in the context of cooperation within supervisory colleges.

As of the end of 2018, the Bank of Russia had effective agreements on cooperation in banking supervision with supervisory authorities of 40 countries (jurisdictions). Furthermore, during the year, the regulator agreed upon draft memorandums of understanding (cooperation agreements) with banking supervisors of nine countries, including the update of the three effective documents and preparation of six new documents.

In 2018, the Agreement on Harmonisation of Financial Laws of EAEU Member States (concluded in Moscow on 6 November 2018) was finalised. At the first stage, financial laws and law enforcement practices of EAEU member states were assessed for compliance with international practices and standards.

As part of cooperation with the Eurasian Economic Commission and national (central) banks of EAEU member states, the Bank of Russia contributed to the efforts to continue building a common EAEU financial market by means of harmonisation of financial laws, developed the Concept for Shaping the Common Financial Market of the Eurasian Economic Union together with EAEU partners, prepared and agreed upon a draft Agreement on Mutual Permission to Place and Trade in Securities at Organised Trading in EAEU Member States, a road map for a common exchange of the Eurasian Economic Union, and the Agreement on the Permission for Brokers and Dealers of One EAEU Member State to Participate in Organised Trading at Exchanges of Other Member States.

Within its remit, the Bank of Russia prepared documents for the meetings of colleges of the Eurasian Economic Commission, the Eurasian Council of Central (National) Banks, and the Advisory Board on Monetary Policy of Central (National) Banks of Member States of the Eurasian Economic Union.

In 2018, a number of draft international agreements and memorandums were discussed. They include:

- a draft Agreement on Service Trade and Investment of CIS Member States;
- a draft memorandum of understanding between the Central Bank of the Russian Federation and the Financial Services Division of the Central Bank of Uruguay;
- a draft memorandum of understanding between financial market regulators of the Russian Federation and the Republic of Korea;
- a draft memorandum of understanding between the China Banking and Insurance Regulatory Commission and the Central Bank of the Russian Federation;
- a draft memorandum of cooperation and information exchange between the Central Bank of the Russian

Federation and the Committee for Financial Services Regulation of the Astana International Financial Centre (Republic of Kazakhstan);

- a draft Agreement on cooperation and the exchange of information (including confidential data) on financial market supervision between the Central Bank of the Russian Federation and the National Bank of the Republic of Kazakhstan (signed in St. Petersburg on 7 June 2018).

V. Appendices

V.1. KEY BANK OF RUSSIA REGULATIONS ADOPTED IN 2018

Document number and date	Document title
No. 4635-U, dated 6 December 2017 (effective since 27 January 2018)	Bank of Russia Ordinance 'On Amending Bank of Russia Instruction No. 180-I, Dated 28 June 2017, 'On Banks' Required Ratios'
No. 4681-U, dated 9 January 2018	Bank of Russia Ordinance 'On Amending Bank of Russia Ordinance No. 2395-U, Dated 8 February 2010, 'On the List of Information and Documents for State Registration of Liquidation of a Credit Institution, and on the Procedure for their Provision to the Bank of Russia'
No. 4729-U, dated 26 January 2018	Bank of Russia Ordinance 'On Amending Clause 2 of Bank of Russia Ordinance No. 4515-U, Dated 31 August 2017, 'On the Composition of Information from the Statements of Credit Institutions (Banking Groups) and Procedure for the Bank of Russia to Disclose it'
No. 4707-U, dated 29 January 2018	Bank of Russia Ordinance 'On Amending Clauses 2.1 and 2.3 of Bank of Russia Regulation No. 375-P, Dated 2 March 2012, 'On the Requirements for a Credit Institution's Internal Control Rules Designed to Counter the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'
No. 631-P, dated 7 February 2018	Bank of Russia Regulation 'On the Cases and Procedure for the Bank of Russia to Inspect the Activities of Credit Institutions'/Insurance Companies' Receivers'
No. 4730-U, dated 27 February 2018	Bank of Russia Ordinance 'On Amending Bank of Russia Regulation No. 234-P, Dated 10 July 2003, 'On the Procedure for Considering the Report by a Bank of Russia Regional Branch on the Results of the Liquidation of a Credit Institution and Taking the Decision by the Bank of Russia on the State Registration of a Credit Institution in Connection with Its Liquidation'
No. 4739-U, dated 15 March 2018	Bank of Russia Ordinance 'On the Requirements for Internal Controls and Auditing Conducted by a Clearing Organisation'
No. 639-P, dated 30 March 2018	Bank of Russia Regulation 'On the Procedure, Timeframes and Volume of Information to be Communicated to Credit Institutions and Non-bank Financial Institutions on the Cases of Refusal to Conduct Operations and to Execute Bank Account (Deposit) Agreement and (or) Cases of Terminating Bank Account (Deposit) Agreement with a Customer, on Eliminating Grounds for a Decision to Refuse to Conduct Operations and to Execute Bank Account (Deposit) Agreement, and on the Absence of Grounds for Terminating Bank Account (Deposit) Agreement with a Customer'
No. 4758-U, dated 30 March 2018	Bank of Russia Ordinance 'On Amending Bank of Russia Regulation No. 375-P, Dated 2 March 2012, 'On the Requirements for a Credit Institution's Internal Control Rules Designed to Counter the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'
No. 4760-U, dated 30 March 2018	Bank of Russia Ordinance 'On the Requirements for an Application, Composition of an Interagency Commission; Procedure and Timeframe for Considering by the Interagency Commission of the Application and Documents and (or) Data Submitted by the Applicant; Decision-making Based on Such Consideration; and Procedure for the Interagency Commission to Inform the Applicant and a Financial Institution about the Decision Made'
No. 4762-U, dated 2 April 2018	Bank of Russia Ordinance 'On the Organisation of Publication on the Bank of Russia Website of Information about Instruction Sent (Cancelled) in Connection with a Violation of the Procedure for Purchasing Shares (Stakes), Establishing Control over Shareholders (Participants) of Financial Organisations, Detection of Unsatisfactory Financial Standing and (or) Facts of Incompliance with Business Reputation Requirements, Detection of Facts of Non-provision or Violation of the Procedure or Timeframes for Provision to the Bank of Russia of Information about Financial Standing and (or) Business Reputation' (internal Bank of Russia regulation)
No. 4763-U, dated 2 April 2018	Bank of Russia Ordinance 'On Amending Bank of Russia Instruction No. 180-I, Dated 28 June 2017, 'On Banks' Required Ratios'
No. 4772-U, dated 9 April 2018	Bank of Russia Ordinance 'On Amending Bank of Russia Ordinance No. 3777-U, Dated 9 September 2015, 'On Compiling and Submitting Financial Statements and Other Information on Bank Holding Company Risks to the Bank of Russia'
No. 4779-U, dated 23 April 2018	Bank of Russia Ordinance 'On Amending Bank of Russia Ordinance No. 1874-U, Dated 13 August 2007, 'On the Treatment by Bank of Russia Regional Branches and Settlement Divisions of Credit Institutions That Have Had Their Banking Licences Revoked (Cancelled)'
No. 4789-U, dated 3 May 2018	Bank of Russia Ordinance 'On Amending Clauses 6.3 and 6.4 of Bank of Russia Ordinance No. 4336-U, Dated 3 April 2017, 'On Assessing Banks' Economic Situation'

Document number and date	Document title
No. 4795-U, dated 15 May 2018	Bank of Russia Ordinance ‘On the Procedure for Calculating the Approximate Average Monthly Payment of a Borrower Under Credit (Loan) Agreements, Which are Concluded with an Individual for Purposes not Related to Entrepreneurial Activity and Whereunder the Borrower’s Obligations are Secured by a Mortgage’
No. 4805-U, dated 1 June 2018	Bank of Russia Ordinance ‘On Amending Bank of Russia Ordinance No. 3234-U, Dated 18 April 2014, ‘On Unified Requirements Regarding Rules for Broker Activities When Making Certain Transactions at Customers’ Expense’
No. 4813-U, dated 5 June 2018	Bank of Russia Ordinance ‘On Amending Bank of Russia Ordinance No. 4482-U, Dated 7 August 2017, ‘On the Form and Procedure for a Credit Institution (Parent Credit Institution of a Banking Group) to Disclose Information on Risks Assumed, Risk Assessment Procedures and Risk and Capital Management Procedures’
No. 188-I, dated 21 June 2018	Bank of Russia Instruction ‘On the Procedure for Applying Measures to Credit Institutions (Parent Credit Institutions of Banking Groups) Envisaged by Article 74 of the Federal Law ‘On the Central Bank of the Russian Federation (Bank of Russia)’
No. 4829-U, dated 21 June 2018	Bank of Russia Ordinance ‘On the Organisation of Bank of Russia Inspections of the Activities of Credit Institutions’/Insurance Companies’ Receivers’
No. 4830-U, dated 21 June 2018	Bank of Russia Ordinance ‘On the Procedure for the Organisation of Work and Cooperation Between Bank of Russia Divisions in Selecting a Receiver or a Self-regulatory Organisation of Receivers Whose Member Should be Appointed as a Receiver in Bank Bankruptcy’
No. 4838-U, dated 27 June 2018	Bank of Russia Ordinance ‘On Amending Bank of Russia Ordinance No. 3624-U, Dated 15 April 2015, ‘On the Requirements for the Risk and Capital Management System of a Credit Institution or a Banking Group’
No. 645-P, dated 3 July 2018	Bank of Russia Regulation ‘On Savings Certificates and Certificates of Deposit of Credit Institutions’
No. 4846-U, dated 3 July 2018	Bank of Russia Ordinance ‘On the Procedure and Terms for the Bank of Russia to Send Notifications to Banks of Making a Decision Specified in Paragraph One of Clause 5.11 of Article 7 of the Federal Law ‘On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism’
No. 646-P, dated 4 July 2018	Bank of Russia Regulation ‘On the Methodology for Measuring Credit Institution Capital (Basel III)’ (new version of Regulation No. 395-P)
No. 647-P, dated 4 July 2018	Bank of Russia Regulation No. 647-P ‘On Measuring Exposure by Banks for Fund Raising Operations Through the Issuance of Debt Securities Whose Obligations Are Secured Fully or Partially by the Receipts from Assets Used as Collateral’
No. 4851-U, dated 4 July 2018	Bank of Russia Ordinance ‘On Amending Bank of Russia Instruction No. 180-I, Dated 28 June 2017, ‘On Banks’ Required Ratios’
No. 4859-U/01/01/782-18, dated 9 July 2018	Ordinance of the Bank of Russia and PJSC Rostelecom ‘On the List of Security Threats to Biometric Personal Data Processing, Including Collection and Storage, Verification and Transfer of Information about Their Correspondence to Biometric Personal Data of a Citizen of the Russian Federation Provided to Governmental Agencies, Banks and Other Institutions Indicated in Paragraph One of Part 1 of Article 14.1 of Federal Law No. 149-FZ, Dated 27 July 2006, ‘On Information, Information Technology and Information Protection’ Stored in the Unified Biometric System’
No. 4867-U, dated 17 July 2018	Bank of Russia Ordinance ‘On Amending Bank of Russia Regulation No. 467-P, Dated 22 April 2015, ‘On the Procedure for Accrediting a Representative Office of a Foreign Credit Institution, Accrediting Foreign Citizens, Who will Work at the Representative Office of a Foreign Credit Institution, and Monitoring the Activities of the Representative Office of a Foreign Credit Institution by the Bank of Russia’
No. 4870-U, dated 20 July 2018	Bank of Russia Ordinance ‘On Amending Bank of Russia Instruction No. 185-I, Dated 25 December 2017, ‘On Obtaining the Bank of Russia’s Consent (Approval) to the Acquisition of the Shares (Stakes) of a Financial Institution and (or) to Setting Control over the Shareholders (Members) of a Financial Institution; and on Notifying the Bank of Russia about Instances as a Result of Which a Person Entitled to Directly or Indirectly Dispose of More Than 10 Per Cent of the Shares (Stakes) of a Non-bank Financial Institution Has Completely Lost Such Right or Retained the Right to Directly or Indirectly Dispose of Less Than 10 Per Cent of the Shares (Stakes) of a Non-bank Financial Institution’
No. 4874-U, dated 26 July 2018	Bank of Russia Ordinance ‘On Amending Bank of Russia Regulation No. 590-P, Dated 28 June 2017, ‘On the Procedure for Making Loss Provisions by Credit Institutions for Loans, Loan and Similar Debts’
No. 4879-U, dated 3 August 2018	Bank of Russia Ordinance ‘On the Specifics of Cooperation Between Bank of Russia Divisions in Inspections of Credit Institutions and Consideration of their Results’
No. 4888-U, dated 30 August 2018	Bank of Russia Ordinance ‘On Invalidating Certain Bank of Russia Regulations on State Registration of Credit Institutions and Issuance of Banking Licences’
No. 4892-U, dated 31 August 2018	Bank of Russia Ordinance ‘On Types and Characteristics of Assets for Which Risk-based Capital Buffers are Set and on the Methodology for Applying These Buffers to the Said Types of Assets for Credit Institutions to Calculate Their Capital Adequacy Ratios’

Document number and date	Document title
No. 652-P, dated 3 September 2018	Bank of Russia Regulation ‘On the Procedure for Calculating Operational Risk’
No. 4899-U, dated 3 September 2018	Bank of Russia Ordinance ‘On Amending Bank of Russia Instruction No. 180-I, Dated 28 June 2017, ‘On Banks’ Required Ratios’
No. 4904-U, dated 12 September 2018	Bank of Russia Ordinance ‘On the Requirements for the Central Depository to Exercise Internal Control and Internal Audit, for Internal Audit Rules and Action Plan of Internal Audit of the Central Depository’
No. 4905-U, dated 12 September 2018	Bank of Russia Ordinance ‘On the Requirements for the Central Depository’s Activity with Regard to Managing Risks Related to its Activity, as well as for Rules to Manage the Said Risks’
No. 4912-U, dated 18 September 2018	Bank of Russia Ordinance ‘On Amending Bank of Russia Regulation No. 551-P, Dated 22 July 2016, ‘On the Procedure for Notifying the Prosecutor General’s Office of the Russian Federation and the Federal Financial Monitoring Services of the Financial Operations of Credit Institutions (Their Customers) Bearing Signs of Illegal Operations Revealed in the Course of the Bank of Russia’s Performance of Banking Regulation and Supervision Functions’
No. 4917-U, dated 24 September 2018	Bank of Russia Ordinance ‘On the Procedure for a Credit Institution to Submit Documents to the Bank of Russia for the State Registration of Amendments to its Charter Due to Obtaining the Status of a Microfinance Company, and on the Procedure for a Credit Institution to Apply to the Bank of Russia for Cancelling its Banking Licence Due to Obtaining the Status of a Microfinance Company’
No. 4920-U, dated 26 September 2018	Bank of Russia Ordinance ‘On Amending Clauses 8.1 and 9.8 of Bank of Russia Instruction No. 149-I, Dated 25 February 2014, ‘On Organising Inspections by the Central Bank of the Russian Federation (Bank of Russia)’
No. 4921-U, dated 26 September 2018	Bank of Russia Ordinance ‘On the Procedure for Cooperation Between Bank of Russia Divisions in Inspections of Pledged Items Accepted by a Credit Institution as Collateral for a Loan and (or) Studying the Activity of a Credit Institution’s Borrower and (or) Pledger’
No. 4925-U, dated 5 October 2018	Bank of Russia Ordinance ‘On Amending 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’’
No. 4926-U, dated 8 October 2018	Bank of Russia Ordinance ‘On the Form and Procedure for Funds Transfer Operators, Payment System Operators, and Payment Infrastructure Operators to Inform the Bank of Russia about All Actual and (or) Attempted Funds Transfers Without the Customer’s Consent and Receive from the Bank of Russia’s Database Information about Actual and Attempted Funds Transfers Without the Customer’s Consent, and on the Procedure for Funds Transfer Operators, Payment System Operators, and Payment Infrastructure Operators to Counter Funds Transfers Without the Customer’s Consent’
No. 4936-U, dated 17 October 2018	Bank of Russia Ordinance ‘On the Procedure for Credit Institutions to Submit to the Authorised Body Information in Accordance with Articles 7 and 7.5 of the Federal Law ‘On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism’
No. 4940-U, dated 24 October 2018	Bank of Russia Ordinance ‘On Invalidating Paragraph 7 of Clause 2.1 and Clause 2.9 of Bank of Russia Instruction No. 182-I, Dated 21 November 2017, ‘On Acceptable Combinations of Banking Operations of Non-bank Credit Institutions Conducting Deposit and Credit Operations, on Required Ratios for Non-bank Credit Institutions Conducting Deposit and Credit Operations and on the Supervision over Their Compliance by the Bank of Russia’
No. 4944-U, dated 25 October 2018	Bank of Russia Ordinance ‘On Amending Bank of Russia Regulation No. 503-P, Dated 13 November 2015, ‘On the Procedure for Depositories to Open and Manage Depo and Other Accounts’
No. 4949-U, dated 29 October 2018	Bank of Russia Ordinance ‘On Amending Bank of Russia Regulation No. 595-P, Dated 6 July 2017, ‘On the Bank of Russia Payment System’
No. 4950-U, dated 29 October 2018	Bank of Russia Ordinance ‘On Amending Bank of Russia Regulation No. 638-P, Dated 28 March 2018, ‘On the Payment Procedure for Funds Transfer and Payment Infrastructure Services in the Bank of Russia Payment System’
No. 4956-U, dated 2 November 2018	Bank of Russia Ordinance ‘On the Requirements for Investment Advisers’
No. 4928-U, dated 8 November 2018	Bank of Russia Ordinance ‘On the Requirements for Brokerage with Regard to Certain Securities Transactions and Derivatives Contracts, Liquidity Criteria of Securities Serving as Collateral for Customers’ Obligations to the Broker Engaged in Such Transactions and Contracts, as well as the Required Ratios of Brokers Engaged in Such Transactions and Contracts’
No. 4967-U, dated 12 November 2018	Bank of Russia Ordinance ‘On Amending Bank of Russia Ordinance No. 4482-U, Dated 7 August 2017, ‘On the Form and Procedure for a Credit Institution (Parent Credit Institution of a Banking Group) to Disclose Information on Risks Assumed, Risk Assessment Procedures and Risk and Capital Management Procedures’
No. 4969-U, dated 15 November 2018	Bank of Russia Ordinance ‘On Amending Bank of Russia Regulation No. 511-P, Dated 3 December 2015, ‘On the Procedure for Calculating Market Risk by Credit Institutions’
No. 4976-U, dated 27 November 2018	Bank of Russia Ordinance ‘On Amending Bank of Russia Ordinance No. 4336-U, Dated 3 April 2017, ‘On Assessing Banks’ Economic Situation’

Document number and date	Document title
No. 4979-U, dated 27 November 2018	Bank of Russia Ordinance 'On the Requirements for Securities with Which Banks with a Basic Licence Are Entitled to Conduct Operations and Transactions When Operating in the Securities Market'
No. 4980-U, dated 27 November 2018	Bank of Russia Ordinance 'On the Procedure for Accrediting Software Programs to Provide Individual Investment Recommendations'
No. 4983-U, dated 27 November 2018	Bank of Russia Ordinance 'On the Forms, Procedure and Timeframe for Disclosing Information on Activities by Credit Institutions'
No. 4984-U, dated 27 November 2018	Bank of Russia Ordinance 'On Amending Bank of Russia Ordinance No. 2732-U, Dated 17 November 2011, 'On the Specifics of Credit Institutions' Loss Provisioning for Operations with Securities the Rights to Which Are Certified by Depositories'
No. 4986-U, dated 27 November 2018	Bank of Russia Ordinance 'On Amending Bank of Russia Regulation No. 590-P, Dated 28 June 2017, 'On the Procedure for Making Loss Provisions by Credit Institutions for Loans, Loan and Similar Debts'
No. 4987-U, dated 27 November 2018	Bank of Russia Ordinance 'On Amending Bank of Russia Regulation No. 646-P, Dated 4 July 2018, 'On the Methodology for Measuring Credit Institution Capital (Basel III)'
No. 4988-U, dated 27 November 2018	Bank of Russia Ordinance 'On Amending Bank of Russia Regulation No. 611-P, Dated 23 October 2017, 'On the Procedure for Credit Institutions to Make Loss Provisions'
No. 4989-U, dated 27 November 2018	Bank of Russia Ordinance 'On Amending Bank of Russia Instruction No. 180-I, Dated 28 June 2017, 'On Banks' Required Ratios'
No. 5013-U, dated 17 December 2018	Bank of Russia Ordinance 'On Amending Bank of Russia Regulation No. 481-P, Dated 27 July 2015, 'On Licensing Requirements for and Conditions of Professional Activity in the Securities Market, Restrictions on Holding Together Certain Types of Professional Activity in the Securities Market, and on the Procedure and Timeframes for Submitting to the Bank of Russia Reports on Terminating Obligations Related to Professional Activity in the Securities Market in Case of Cancellation of a Securities Market Professional Participant Licence'
No. 5014-U, dated 17 December 2018	Bank of Russia Ordinance 'On the Procedure for Profiling an Investment Adviser's Customer and the Requirements for Individual Investment Recommendation Form and Investment Advisory Services'
No. 5028-U, dated 19 December 2018	Bank of Russia Ordinance 'On Amending Clauses 1.6 and 7.4 of 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)'
No. 5029-U, dated 19 December 2018	Bank of Russia Ordinance 'On Amending Bank of Russia Instruction No. 149-I, Dated 25 February 2014, 'On Organising Inspections by the Central Bank of the Russian Federation (Bank of Russia)'
No. 5030-U, dated 19 December 2018	Bank of Russia Ordinance 'On Amending Bank of Russia Instruction No. 176-I, Dated 20 December 2016, 'On the Procedure for, and Instances of, Bank of Russia Authorised Representatives (Employees) to Examine the Loan Collateral and (or) Familiarise Themselves with the Activities of a Credit Institution's Borrower and (or) Collateral Provider'
No. 5034-U, dated 24 December 2018	Bank of Russia Ordinance 'On Amending Bank of Russia Regulation No. 577-P, Dated 31 January 2017, 'On the Internal Accounting Rules of Professional Securities Market Participants Engaged in Broker, Dealer, and Securities Management Activities'
No. 5043-U, dated 26 December 2018	Bank of Russia Ordinance 'On Amending Bank of Russia Regulation No. 590-P, Dated 28 June 2017, 'On the Procedure for Credit Institutions to Make Loss Provisions for Loans, Loan and Similar Debts'
No. 5045-U, dated 27 December 2018	Bank of Russia Ordinance 'On the Procedure for the Central Bank of the Russian Federation to Interact with the Federal Tax Service on Issues of the State Registration of Credit Institutions, State Registration of Amendments to the Charter of a Credit Institution, Amendments to the Credit Institution's Data Contained in the Unified State Register of Legal Entities Other than Amendments to its Charter, State Registration of Amendments to the Charter of a Microfinance Company Due to Obtaining the Status of a Credit Institution, State Registration of Amendments to the Charter of a Legal Entity Due to Obtaining the Status of a Non-bank Credit Institution – Central Counterparty'

V.2. STATISTICAL APPENDIX

KEY MACROECONOMIC INDICATORS (AS % OF PREVIOUS YEAR)

Table 1

	2016	2017	2018
Gross domestic product[1, 2]	100.3	101.6	102.3
Including[3]:			
– agriculture, forestry, hunting, fishery and fish farming	102.3	101.5	98.0
– mining and quarrying	102.0	102.4	103.9
– manufacturing	102.8	101.2	101.6
– electricity, gas and steam supply; air conditioning	101.3	98.6	101.5
– water supply and disposal, waste collection and utilisation, pollution elimination	100.7	97.7	101.2
– construction	101.7	98.8	104.7
– wholesale and retail trade, and other	96.0	102.5	102.2
– transportation and storage	101.6	100.1	103.0
– information and communications	96.4	101.3	101.8
GDP deflator index[2]	103.2	105.4	110.3
Consumer price index (December on previous December)[2]	105.4	102.5	104.3
Fixed capital investment[1, 2]	99.8	104.8	104.3
Retail trade turnover[1, 2]	95.2	101.3	102.8
Unemployment rate calculated according to ILO methodology (annual average), as % of labour force[2]	5.5	5.2	4.8
External trade (per balance of payments methodology)[4]			
– merchandise exports	82.5	125.5	125.3
– merchandise imports	99.2	124.4	104.4
– services exports	98.1	113.8	112.4
– services imports	84.0	119.1	106.6

[1] Index of quantity.

[2] Rosstat data.

[3] Gross value added in core prices.

[4] Bank of Russia data.

RUSSIAN BANKING SECTOR MACROECONOMIC INDICATORS

Table 2

	1 January 2014	1 January 2015	1 January 2016	1 January 2017	1 January 2018	1 January 2019
Banking sector assets (liabilities), ₽ billion	57,423	77,653	83,000	80,063	85,192	94,084
as % of GDP[1]	78.5	98.2	99.9	93.1	92.5	90.6
Banking sector capital, ₽ billion	7,064	7,928	9,009	9,387	9,397	10,269
as % of GDP[1]	9.7	10.0	10.8	10.9	10.2	9.9
as % of banking sector assets	12.3	10.2	10.9	11.7	11.0	10.9
Loans and other funds provided to non-financial organisations and households, including overdue debt, ₽ billion	32,456	40,866	43,985	40,939	42,366	48,273
as % of GDP[1]	44.4	51.7	52.9	47.6	46.0	46.5
as % of banking sector assets	56.5	52.6	53.0	51.1	49.7	51.3
Securities acquired by banks, ₽ billion	7,822	9,724	11,777	11,450	12,311	13,098
as % of GDP[1]	10.7	12.3	14.2	13.3	13.4	12.6
as % of banking sector assets	13.6	12.5	14.2	14.3	14.5	13.9
Household deposits, ₽ billion	16,958	18,553	23,219	24,200	25,987	28,460
as % of GDP[1]	23.2	23.5	27.9	28.1	28.2	27.4
as % of banking sector liabilities	29.5	23.9	28.0	30.2	30.5	30.2
as % of household monetary income	38.0	38.7	43.4	44.7	46.9	49.5
Deposits and funds on accounts of non-financial and financial organisations (other than credit institutions), ₽ billion[2]	16,901	23,419	27,064	24,322	24,843	28,006
as % of GDP[1]	23.1	29.6	32.6	28.3	27.0	27.0
as % of banking sector liabilities	29.4	30.2	32.6	30.4	29.2	29.8

[1] In connection with the updating of 2014–2018 GDP data, the indicators for these years differ from the values given in the Banking Supervision Report 2017.

[2] Excluding deposits, government and other extra-budgetary funds, funds of the Ministry of Finance, financial authorities, customers in factoring and forfeiting operations, float, and funds written off from customer accounts but not passed through a credit institution's correspondent account.

REGISTRATION AND LICENSING OF CREDIT INSTITUTIONS[1]

Table 3

Operating credit institutions	As of 1 January 2018	As of 1 January 2019
1. Credit institutions licensed to conduct banking operations, total [2]	561	484
including:		
– banks	517	440
– non-bank credit institutions	44	44
1.1. Credit institutions holding licences (permits):		
– to take household deposits	468	400
– to conduct operations in foreign currency	358	475
– general licences	189	–
– to conduct operations with precious metals	149	214
1.2. Credit institutions with a foreign stake in authorised capital, total	160	141
including:		
– credit institutions with 100% foreign stake	65	61
– credit institutions with a 50%-plus foreign stake	19	16
1.3. Credit institutions registered with the compulsory deposit insurance system	472	407
2. Registered authorised capital of operating credit institutions (₽ million)	2,635,098	2,655,403
3. Branches of operating credit institutions in Russia, total	890	709
including:		
– Sberbank[3]	93	90
4. Branches of operating credit institutions abroad	6	6
5. Representative offices of Russian operating credit institutions, total[4]	224	316
including:		
– in Russia	196	292
– abroad	28	24
6. Additional offices of credit institutions (branches), total	20,263	20,499
including Sberbank	11,813	13,160
7. External cash desks of credit institutions (branches), total	3,033	1,068
including Sberbank	1,711	219
8. Cash and credit offices of credit institutions (branches), total	1,972	1,918
including Sberbank	0	0
9. Operations offices of credit institutions (branches), total	7,743	6,015
including Sberbank	600	581
10. Mobile cash points of credit institutions (branches), total	275	283
including Sberbank	272	279

Table 3 (end)

Registration of credit institutions	As of 1 January 2018	As of 1 January 2019
11. Credit institutions registered by the Bank of Russia or a registration authority, in line with Bank of Russia decisions, total[5]	923	881
including:		
– banks	867	826
– non-bank credit institutions	56	55
11.1. 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)	0	0
including:		
– banks	0	0
– non-bank credit institutions	0	0

[1] Information is based on data received from the registration authority as of the reporting date.

[2] Credit institutions registered with the Bank of Russia (until 1 July 2002) or a registration authority and entitled to conduct banking operations.

[3] Sberbank branches put on the State Register of Credit Institutions and assigned with a serial number.

[4] Representative offices of Russian credit institutions abroad include the offices of whose opening abroad the Bank of Russia has been notified.

[5] 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.

INSTITUTIONAL CHARACTERISTICS OF THE BANKING SECTOR

Table 4

No.	Region	As of 1 January 2019		
		Number of credit institutions	Number of branches and internal structural divisions of credit institutions with head office in given region	Number of branches and internal structural divisions of credit institutions with head office in another region
	Russian Federation	484	–	–
1	CENTRAL FEDERAL DISTRICT	272	7,026	887
1	Belgorod Region	2	7	382
2	Bryansk Region	0	0	162
3	Vladimir Region	1	5	280
4	Voronezh Region	0	0	595
5	Ivanovo Region	5	40	162
6	Kaluga Region	3	34	166
7	Kostroma Region	4	11	98
8	Kursk Region	1	30	203
9	Lipetsk Region	1	20	249
10	Moscow Region	6	21	1,355
11	Orel Region	0	0	163
12	Ryazan Region	3	23	185
13	Smolensk Region	0	0	141
14	Tambov Region	1	10	226
15	Tver Region	2	6	174
16	Tula Region	1	3	260
17	Yaroslavl Region	3	3	240
18	Moscow	239	2,127	532
2	NORTH-WESTERN FEDERAL DISTRICT	41	455	2,508
19	Republic of Karelia	1	0	133
20	Republic of Komi	1	16	199
21	Arkhangelsk Region	0	0	219
	including Nenets Autonomous Area	0	0	15
	Arkhangelsk Region, excluding Nenets Autonomous Area	0	0	204
22	Vologda Region	3	31	222
23	Kaliningrad Region	1	16	184
24	Leningrad Region	1	0	309
25	Murmansk Region	2	6	166
26	Novgorod Region	2	9	141
27	Pskov Region	2	1	139
28	Saint Petersburg	28	236	936
3	SOUTHERN FEDERAL DISTRICT	25	748	2,575
29	Republic of Adygeya (Adygeya)	2	3	81
30	Republic of Kalmykia	0	0	31
31	Republic of Crimea	3	231	42
32	Krasnodar Territory	8	243	1,032
33	Astrakhan Region	3	20	175
34	Volgograd Region	1	0	494

Table 4 (continued)

No.	Region	As of 1 January 2019		
		Number of credit institutions	Number of branches and internal structural divisions of credit institutions with head office in given region	Number of branches and internal structural divisions of credit institutions with head office in another region
35	Rostov Region	7	109	783
36	Sevastopol	1	14	65
4	NORTH CAUCASIAN FEDERAL DISTRICT	12	51	761
37	Republic of Dagestan	3	11	86
38	Republic of Ingushetia	0	0	11
39	Kabardino-Balkar Republic	3	8	77
40	Karachay-Cherkess Republic	2	0	37
41	Republic of North Ossetia – Alania	1	4	55
42	Chechen Republic	0	0	47
43	Stavropol Territory	3	24	452
5	VOLGA FEDERAL DISTRICT	67	1,150	5,703
44	Republic of Bashkortostan	3	44	825
45	Mari El Republic	2	14	118
46	Republic of Mordovia	3	71	152
47	Republic of Tatarstan (Tatarstan)	16	342	714
48	Udmurt Republic	3	35	277
49	Chuvash Republic – Chuvashia	3	20	264
50	Perm Territory	4	45	638
51	Kirov Region	3	71	246
52	Nizhny Novgorod Region	7	124	667
53	Orenburg Region	4	56	468
54	Penza Region	1	26	284
55	Samara Region	10	54	547
56	Saratov Region	7	65	438
57	Ulyanovsk Region	1	10	238
6	URALS FEDERAL DISTRICT	23	583	2,229
58	Kurgan Region	2	12	263
59	Sverdlovsk Region	9	183	719
60	Tyumen Region	6	82	807
	including: Khanty-Mansi Autonomous Area – Yugra	3	47	385
	Yamalo-Nenets Autonomous Area	0	0	146
	Tyumen Region, excluding Khanty-Mansi Autonomous Area – Yugra and Yamalo-Nenets Autonomous Area	3	35	276
61	Chelyabinsk Region	6	189	557
7	SIBERIAN FEDERAL DISTRICT	28	253	3,396
62	Altai Republic	1	4	36
63	Republic of Tuva	1	0	52
64	Republic of Khakassia	2	26	86
65	Altai Territory	2	23	622
66	Krasnoyarsk Territory	2	222	399

Table 4 (end)

No.	Region	As of 1 January 2019		
		Number of credit institutions	Number of branches and internal structural divisions of credit institutions with head office in given region	Number of branches and internal structural divisions of credit institutions with head office in another region
67	Irkutsk Region	5	17	422
68	Kemerovo Region	6	30	443
69	Novosibirsk Region	5	63	560
70	Omsk Region	3	2	430
71	Tomsk Region	1	11	201
8	FAR-EASTERN FEDERAL DISTRICT	16	496	1,388
72	Republic of Buryatia	0	0	169
73	Republic of Sakha (Yakutia)	1	23	255
74	Trans-Baikal Territory	0	0	208
75	Kamchatka Territory	2	16	84
76	Primorye Territory	8	89	331
77	Khabarovsk Territory	0	0	289
78	Amur Region	2	45	144
79	Magadan Region	0	0	54
80	Sakhalin Region	3	5	114
81	Jewish Autonomous Region	0	0	37
82	Chukotka Autonomous Area	0	0	21

DENSITY OF BANKING SERVICES IN RUSSIAN REGIONS AS OF 1 JANUARY 2018

Table 5.1

Region	Number of credit institutions, branches, additional, operations, and cash and credit offices	Loans extended to resident organisations and households and other placements, ₽ million[1]	Household deposits, ₽ million[1]	Gross Regional Product (GRP) in 2017, ₽ billion	Population, thousands	Per capita income (monthly average in 2017, 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]
CENTRAL FEDERAL DISTRICT	8,547	17,673,321	12,891,541	26,164	39,311	40,919	1.02	1.29	1.42	1.23
Memo item: CENTRAL FEDERAL DISTRICT excluding Moscow	*5,656*	*5,941,130*	*3,717,731*	*10,439*	*26,805*	*30,686*	*0.99*	*1.09*	*0.80*	*0.95*
Belgorod Region	417	334,965	210,904	786	1,550	30,045	1.26	0.81	0.80	0.94
Bryansk Region	192	181,188	104,908	308	1,211	26,299	0.74	1.12	0.58	0.79
Vladimir Region	313	172,969	183,262	416	1,378	23,891	1.06	0.79	0.98	0.94
Voronezh Region	640	428,108	318,773	865	2,334	29,316	1.28	0.94	0.82	1.00
Ivanovo Region	219	92,899	120,886	186	1,015	24,657	1.01	0.95	0.85	0.94
Kaluga Region	224	199,435	139,883	417	1,012	28,075	1.03	0.91	0.87	0.94
Kostroma Region	151	72,352	77,407	166	643	24,653	1.10	0.83	0.86	0.92
Kursk Region	240	276,901	106,405	388	1,115	26,335	1.01	1.36	0.64	0.96
Lipetsk Region	289	203,091	130,244	498	1,150	29,218	1.17	0.78	0.69	0.86
Moscow Region	1,375	2,675,882	1,409,359	3,803	7,503	41,508	0.86	1.34	0.80	0.97
Orel Region	169	119,958	80,402	214	747	24,002	1.06	1.07	0.79	0.96
Ryazan Region	234	164,982	137,044	361	1,121	24,731	0.98	0.87	0.87	0.91
Smolensk Region	145	116,591	96,612	282	949	25,346	0.71	0.79	0.71	0.74
Tambov Region	253	144,521	89,293	301	1,034	25,854	1.14	0.92	0.59	0.85
Tver Region	199	160,420	142,636	384	1,284	23,957	0.72	0.80	0.82	0.78
Tula Region	300	360,236	178,998	556	1,492	27,704	0.94	1.24	0.77	0.96
Yaroslavl Region	296	236,633	190,716	511	1,266	27,570	1.09	0.88	0.97	0.98
Moscow	2,891	11,732,192	9,173,811	15,725	12,506	62,850	1.08	1.42	2.06	1.47
NORTH-WESTERN FEDERAL DISTRICT	3,302	4,066,675	3,042,468	8,195	13,952	33,955	1.11	0.95	1.14	1.06
Republic of Karelia	160	100,368	74,859	253	622	26,642	1.20	0.76	0.80	0.90
Republic of Komi	227	126,437	122,453	574	841	31,004	1.26	0.42	0.83	0.76
Arkhangelsk Region	258	175,817	161,360	744	1,155	33,009	1.04	0.45	0.75	0.71
Vologda Region	320	167,212	137,850	508	1,177	26,409	1.27	0.63	0.78	0.86
Kaliningrad Region	213	241,467	159,564	417	995	26,639	1.00	1.10	1.07	1.06
Leningrad Region	340	442,909	152,634	966	1,814	28,169	0.88	0.88	0.53	0.74
Murmansk Region	202	144,563	158,748	446	754	37,008	1.25	0.62	1.01	0.92
Novgorod Region	170	89,116	59,573	269	606	25,366	1.31	0.63	0.69	0.83
Pskov Region	149	68,532	56,419	152	637	23,043	1.09	0.86	0.68	0.86
Saint Petersburg	1,263	2,510,255	1,959,010	3,866	5,352	42,413	1.10	1.24	1.53	1.28
SOUTHERN FEDERAL DISTRICT	3,490	2,576,991	1,632,522	5,362	16,442	26,995	0.99	0.92	0.65	0.84
Republic of Adygeya (Adygeya)	86	49,913	21,452	99	453	24,678	0.89	0.96	0.34	0.66
Republic of Kalmykia	36	28,708	9,828	67	275	14,667	0.61	0.82	0.43	0.60

Table 5.1 (continued)

Region	Number of credit institutions, branches, additional, operations, and cash and credit offices	Loans extended to resident organisations and households and other placements, ₽ million[1]	Household deposits, ₽ million[1]	Gross Regional Product (GRP) in 2017, ₽ billion	Population, thousands	Per capita income (monthly average in 2017, 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]
Republic of Crimea	302	53,866	78,856	359	1,914	20,136	0.74	0.29	0.36	0.42
Krasnodar Territory	1,307	1,293,202	706,047	2,226	5,603	33,233	1.09	1.11	0.67	0.93
Astrakhan Region	207	115,374	79,361	421	1,018	22,504	0.95	0.52	0.61	0.67
Volgograd Region	503	290,734	236,182	771	2,521	21,298	0.93	0.72	0.78	0.81
Rostov Region	956	736,191	475,404	1,347	4,220	27,641	1.06	1.04	0.72	0.93
Sevastopol	93	9,003	25,392	71	437	24,941	1.00	0.24	0.41	0.46
NORTH CAUCASIAN FEDERAL DISTRICT	876	643,007	406,968	1,865	9,823	24,076	0.42	0.66	0.30	0.44
Republic of Dagestan	127	65,776	58,659	623	3,064	29,312	0.19	0.20	0.12	0.17
Republic of Ingushetia	10	9,728	4,709	56	488	15,250	0.10	0.33	0.11	0.15
Kabardino-Balkar Republic	82	69,013	34,814	138	866	20,401	0.44	0.95	0.35	0.53
Karachay-Cherkess Republic	41	54,464	16,351	75	466	17,139	0.41	1.39	0.36	0.59
Republic of North Ossetia – Alania	60	51,145	39,296	128	702	22,749	0.40	0.76	0.44	0.51
Chechen Republic	46	40,036	11,657	179	1,437	22,376	0.15	0.43	0.06	0.16
Stavropol Territory	510	352,847	241,482	665	2,801	23,388	0.85	1.01	0.65	0.83
VOLGA FEDERAL DISTRICT	6,738	5,276,135	3,363,364	11,027	29,543	25,836	1.07	0.91	0.78	0.91
Republic of Bashkortostan	771	680,207	364,631	1,396	4,063	28,430	0.89	0.93	0.56	0.77
Mari El Republic	151	108,571	51,685	169	682	18,984	1.03	1.22	0.71	0.96
Republic of Mordovia	205	140,168	63,573	213	805	18,026	1.19	1.25	0.78	1.05
Republic of Tatarstan (Tatarstan)	926	903,223	524,602	2,114	3,894	31,756	1.11	0.82	0.75	0.88
Udmurt Republic	360	402,173	141,469	556	1,513	23,896	1.11	1.38	0.69	1.02
Chuvash Republic – Chuvashia	290	141,166	118,554	271	1,231	17,858	1.10	1.00	0.95	1.02
Perm Territory	757	609,092	318,049	1,191	2,623	28,606	1.35	0.98	0.75	1.00
Kirov Region	335	143,268	119,892	307	1,283	21,489	1.22	0.89	0.77	0.94
Nizhny Novgorod Region	769	600,013	475,629	1,260	3,235	30,680	1.11	0.91	0.85	0.95
Orenburg Region	477	308,172	173,682	823	1,978	22,621	1.13	0.71	0.69	0.82
Penza Region	255	169,830	121,297	365	1,332	21,532	0.89	0.89	0.75	0.84
Samara Region	682	589,287	529,653	1,350	3,194	26,946	1.00	0.83	1.09	0.97
Saratov Region	491	299,886	236,058	669	2,463	19,760	0.93	0.86	0.86	0.88
Ulyanovsk Region	269	181,079	124,590	341	1,247	23,075	1.01	1.01	0.77	0.92
URALS FEDERAL DISTRICT	2,775	3,951,855	1,838,653	10,678	12,356	32,958	1.05	0.71	0.80	0.84
Kurgan Region	157	83,589	54,759	201	846	20,672	0.87	0.79	0.55	0.73
Sverdlovsk Region	930	1,348,105	661,669	2,143	4,325	35,272	1.00	1.20	0.77	0.97
Tyumen Region	957	1,793,595	730,531	6,986	3,692	42,268	1.21	0.49	0.83	0.79
Chelyabinsk Region	731	726,566	391,694	1,349	3,493	23,366	0.98	1.03	0.85	0.95
SIBERIAN FEDERAL DISTRICT	4,094	3,640,171	1,949,568	7,758	19,287	23,880	0.99	0.90	0.75	0.87
Altai Republic	44	27,382	8,851	45	218	18,455	0.94	1.17	0.39	0.75

Table 5.1 (end)

Region	Number of credit institutions, branches, additional, operations, and cash and credit offices	Loans extended to resident organisations and households and other placements, ₽ million[1]	Household deposits, ₽ million[1]	Gross Regional Product (GRP) in 2017, ₽ billion	Population, thousands	Per capita income (monthly average in 2017, 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]
Republic of Buryatia[6]	198	103,287	55,594	202	985	25,046	0.94	0.98	0.40	0.72
Republic of Tuva	54	28,123	8,673	59	322	14,118	0.78	0.91	0.34	0.62
Republic of Khakassia	114	63,828	36,380	208	538	21,206	0.99	0.59	0.56	0.69
Altai Territory	487	261,938	173,147	509	2,350	22,092	0.97	0.98	0.59	0.83
Trans-Baikal Territory[6]	238	156,208	70,586	301	1,073	23,201	1.04	0.99	0.50	0.80
Krasnoyarsk Territory	601	801,573	301,351	1,882	2,876	28,052	0.98	0.81	0.66	0.81
Irkutsk Region	505	521,241	260,515	1,192	2,404	22,390	0.98	0.83	0.86	0.89
Kemerovo Region	507	714,995	257,050	1,058	2,695	21,793	0.88	1.29	0.77	0.96
Novosibirsk Region	653	524,299	464,019	1,141	2,789	25,356	1.09	0.88	1.16	1.04
Omsk Region	471	254,646	188,378	651	1,960	25,143	1.12	0.75	0.68	0.83
Tomsk Region	222	182,651	125,025	511	1,078	24,450	0.96	0.68	0.84	0.82
FAR-EASTERN FEDERAL DISTRICT	1,607	1,419,234	966,401	3,878	6,165	33,781	1.22	0.70	0.82	0.89
Republic of Sakha (Yakutia)	291	340,958	104,739	917	964	39,796	1.41	0.71	0.48	0.78
Kamchatka Territory	110	74,735	74,639	202	316	42,397	1.63	0.71	0.99	1.04
Primorye Territory	460	417,465	300,853	778	1,913	33,068	1.12	1.02	0.84	0.99
Khabarovsk Territory	305	306,965	226,197	666	1,328	37,627	1.07	0.88	0.80	0.91
Amur Region	200	113,908	85,130	266	798	30,599	1.17	0.82	0.62	0.84
Magadan Region	52	40,013	40,588	158	144	53,361	1.69	0.48	0.93	0.91
Sakhalin Region	121	95,447	111,501	771	490	48,869	1.15	0.24	0.82	0.61
Jewish Autonomous Region	46	13,548	12,056	53	162	23,229	1.33	0.49	0.57	0.72
Chukotka Autonomous Area	22	16,194	10,699	69	49	70,567	2.08	0.45	0.54	0.80
TOTAL for Russian Federation	31,429	39,247,389	26,091,486	74,927	146,880	31,430	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 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).

[6] Included in the Far Eastern Federal District by Presidential Decree No. 632, dated 3 November 2018.

DENSITY OF BANKING SERVICES IN RUSSIAN REGIONS AS OF 1 JANUARY 2019

Table 5.2

Region	Number of credit institutions, branches, additional, operations, and cash and credit offices	Loans extended to resident organisations and households and other placements, ₽ million[1]	Household deposits, ₽ million[1]	Gross Regional Product (GRP) in 2017, ₽ billion	Population, thousands	Per capita income (monthly average in 2017, 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]
CENTRAL FEDERAL DISTRICT	7,815	20,586,644	14,208,619	29,442	39,379	41,531	0.98	1.31	1.46	1.23
Memo item: CENTRAL FEDERAL DISTRICT excluding Moscow	*5,134*	*7,206,607*	*4,105,821*	*11,747*	*26,763*	*31,691*	*0.95*	*1.15*	*0.81*	*0.96*
Belgorod Region	388	378,714	225,649	884	1,547	30,770	1.24	0.80	0.80	0.93
Bryansk Region	162	203,632	113,981	346	1,200	27,231	0.67	1.10	0.59	0.76
Vladimir Region	278	200,078	195,243	468	1,366	24,153	1.01	0.80	0.99	0.93
Voronezh Region	594	587,063	347,852	974	2,328	30,517	1.26	1.13	0.82	1.06
Ivanovo Region	204	103,034	128,354	209	1,004	23,966	1.01	0.92	0.89	0.94
Kaluga Region	199	234,043	149,530	469	1,009	28,213	0.98	0.94	0.88	0.93
Kostroma Region	113	74,187	78,885	187	637	23,373	0.88	0.75	0.89	0.83
Kursk Region	223	287,380	116,291	436	1,107	27,438	1.00	1.24	0.64	0.93
Lipetsk Region	270	247,494	138,745	560	1,144	29,832	1.17	0.83	0.68	0.87
Moscow Region	1,277	3,266,289	1,609,050	4,279	7,600	43,711	0.83	1.43	0.81	0.99
Orel Region	163	150,715	87,006	241	739	24,283	1.09	1.17	0.81	1.01
Ryazan Region	208	200,075	152,838	406	1,114	25,420	0.92	0.92	0.91	0.92
Smolensk Region	133	123,479	107,388	317	942	26,009	0.70	0.73	0.74	0.72
Tambov Region	235	190,779	96,806	338	1,016	25,985	1.15	1.06	0.62	0.91
Tver Region	179	201,282	154,379	432	1,270	25,579	0.70	0.87	0.80	0.79
Tula Region	263	473,900	196,208	626	1,479	27,961	0.88	1.42	0.80	1.00
Yaroslavl Region	245	284,464	207,616	575	1,260	26,422	0.96	0.93	1.05	0.98
Moscow	2,681	13,380,037	10,102,798	17,695	12,616	62,405	1.05	1.42	2.15	1.48
NORTH-WESTERN FEDERAL DISTRICT	2,895	4,825,965	3,346,834	9,222	13,972	34,200	1.03	0.98	1.18	1.06
Republic of Karelia	133	114,194	82,284	284	618	27,587	1.07	0.75	0.81	0.87
Republic of Komi	205	152,270	130,511	646	830	31,977	1.22	0.44	0.82	0.76
Arkhangelsk Region	219	181,617	177,257	837	1,144	33,045	0.95	0.41	0.79	0.67
Vologda Region	256	190,243	156,530	572	1,168	26,552	1.09	0.62	0.85	0.83
Kaliningrad Region	198	289,637	176,278	470	1,002	26,840	0.98	1.16	1.10	1.08
Leningrad Region	306	548,099	163,462	1,087	1,848	28,847	0.82	0.95	0.51	0.74
Murmansk Region	169	182,892	165,634	502	748	36,974	1.12	0.68	1.00	0.92
Novgorod Region	152	114,419	64,460	303	600	24,971	1.25	0.71	0.72	0.86
Pskov Region	134	81,600	62,653	171	630	23,321	1.05	0.90	0.72	0.88
Saint Petersburg	1,123	2,970,995	2,167,764	4,351	5,384	42,380	1.03	1.28	1.59	1.28
SOUTHERN FEDERAL DISTRICT	3,210	2,939,811	1,784,710	6,034	16,455	28,071	0.97	0.91	0.65	0.83
Republic of Adygeya (Adygeya)	84	55,874	22,902	112	455	27,426	0.92	0.94	0.31	0.64
Republic of Kalmykia	31	34,551	10,723	75	273	15,249	0.56	0.87	0.43	0.60

Table 5.2 (continued)

Region	Number of credit institutions, branches, additional, operations, and cash and credit offices	Loans extended to resident organisations and households and other placements, ₽ million[1]	Household deposits, ₽ million[1]	Gross Regional Product (GRP) in 2017, ₽ billion	Population, thousands	Per capita income (monthly average in 2017, 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]
Republic of Crimea	268	80,173	91,008	404	1,912	22,229	0.69	0.37	0.36	0.45
Krasnodar Territory	1,189	1,445,716	770,717	2,505	5,648	33,895	1.04	1.08	0.68	0.91
Astrakhan Region	191	128,677	85,826	474	1,014	22,965	0.93	0.51	0.62	0.66
Volgograd Region	495	329,690	257,212	868	2,507	21,997	0.98	0.71	0.78	0.82
Rostov Region	874	853,242	518,382	1,516	4,202	28,883	1.03	1.06	0.72	0.92
Sevastopol	78	11,888	27,939	80	443	26,804	0.87	0.28	0.39	0.46
NORTH CAUCASIAN FEDERAL DISTRICT	775	708,274	439,760	2,098	9,866	24,019	0.39	0.63	0.31	0.42
Republic of Dagestan	99	78,577	63,198	701	3,086	27,832	0.16	0.21	0.12	0.16
Republic of Ingushetia	10	11,420	5,112	63	497	15,598	0.10	0.34	0.11	0.16
Kabardino-Balkar Republic	65	67,674	36,183	156	866	21,459	0.37	0.81	0.33	0.46
Karachay-Cherkess Republic	38	57,642	16,559	84	466	17,374	0.40	1.29	0.34	0.56
Republic of North Ossetia – Alania	52	58,905	42,058	144	699	22,785	0.37	0.77	0.44	0.50
Chechen Republic	47	47,087	13,352	201	1,457	23,125	0.16	0.44	0.07	0.17
Stavropol Territory	464	386,969	263,298	749	2,795	23,983	0.82	0.97	0.66	0.81
VOLGA FEDERAL DISTRICT	6,721	5,852,326	3,616,956	12,408	29,397	26,436	1.13	0.88	0.78	0.92
Republic of Bashkortostan	869	769,407	385,215	1,571	4,051	28,645	1.06	0.92	0.56	0.82
Mari El Republic	132	114,423	56,211	191	680	19,198	0.96	1.13	0.72	0.92
Republic of Mordovia	220	159,567	67,494	240	796	18,048	1.37	1.25	0.79	1.10
Republic of Tatarstan (Tatarstan)	1,016	942,425	576,982	2,379	3,899	33,130	1.29	0.74	0.75	0.90
Udmurt Republic	314	505,103	153,744	626	1,507	24,415	1.03	1.51	0.70	1.03
Chuvash Republic – Chuvashia	286	169,312	128,681	305	1,223	18,094	1.16	1.04	0.98	1.06
Perm Territory	667	664,153	336,857	1,340	2,611	28,777	1.27	0.93	0.75	0.96
Kirov Region	318	166,651	130,951	346	1,272	21,908	1.24	0.90	0.79	0.96
Nizhny Novgorod Region	780	695,412	519,121	1,418	3,215	31,631	1.20	0.92	0.86	0.98
Orenburg Region	504	360,408	187,436	926	1,963	23,839	1.27	0.73	0.67	0.85
Penza Region	304	207,534	131,773	411	1,318	21,571	1.14	0.95	0.78	0.94
Samara Region	598	579,193	561,373	1,519	3,183	27,507	0.93	0.72	1.08	0.89
Saratov Region	464	312,029	250,177	753	2,441	20,555	0.94	0.78	0.84	0.85
Ulyanovsk Region	249	206,710	130,941	383	1,238	22,846	1.00	1.01	0.78	0.92
URALS FEDERAL DISTRICT	2,772	4,423,586	2,000,751	12,016	12,350	33,254	1.11	0.69	0.82	0.86
Kurgan Region	272	100,532	58,934	226	835	20,829	1.61	0.83	0.57	0.91
Sverdlovsk Region	900	1,487,270	713,775	2,411	4,316	36,110	1.03	1.16	0.77	0.97
Tyumen Region	860	1,936,946	805,604	7,861	3,724	41,603	1.14	0.46	0.87	0.77
Chelyabinsk Region	740	898,839	422,438	1,518	3,476	23,899	1.05	1.11	0.85	1.00
SIBERIAN FEDERAL DISTRICT	3,551	3,666,928	1,993,716	8,730	17,173	24,088	1.02	0.79	0.81	0.87
Altai Republic	40	27,141	9,652	50	219	19,315	0.91	1.01	0.38	0.71

Table 5.2 (end)

Region	Number of credit institutions, branches, additional, operations, and cash and credit offices	Loans extended to resident organisations and households and other placements, ₽ million[1]	Household deposits, ₽ million[1]	Gross Regional Product (GRP) in 2017, ₽ billion	Population, thousands	Per capita income (monthly average in 2017, 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]
Republic of Tuva	53	37,093	9,711	66	324	14,109	0.81	1.05	0.36	0.67
Republic of Khakassia	101	61,577	40,838	234	536	21,527	0.93	0.49	0.59	0.65
Altai Territory	596	289,555	184,916	572	2,333	22,370	1.27	0.95	0.59	0.89
Krasnoyarsk Territory	589	824,737	332,090	2,118	2,874	28,425	1.02	0.73	0.68	0.80
Irkutsk Region	440	573,435	286,933	1,341	2,398	22,715	0.91	0.80	0.88	0.86
Kemerovo Region	466	781,558	281,514	1,191	2,674	21,904	0.86	1.23	0.81	0.95
Novosibirsk Region	624	579,059	508,612	1,284	2,793	25,267	1.11	0.85	1.21	1.04
Omsk Region	433	288,992	205,563	733	1,944	25,237	1.10	0.74	0.70	0.83
Tomsk Region	209	203,782	133,886	575	1,077	24,873	0.96	0.66	0.84	0.81
FAR-EASTERN FEDERAL DISTRICT	1,886	1,955,637	1,125,524	4,364	8,189	34,880	1.14	0.84	0.66	0.86
Republic of Buryatia	169	121,274	59,669	227	983	24,639	0.85	1.00	0.41	0.71
Republic of Sakha (Yakutia)	274	393,407	111,129	1,031	967	42,232	1.40	0.72	0.46	0.77
Trans-Baikal Territory	208	138,736	77,940	338	1,066	24,094	0.97	0.77	0.51	0.72
Kamchatka Territory	102	103,555	78,553	227	315	41,966	1.61	0.86	1.00	1.11
Primorye Territory	423	444,549	338,524	875	1,903	34,285	1.10	0.95	0.87	0.97
Khabarovsk Territory	288	364,123	241,512	749	1,321	39,614	1.08	0.91	0.77	0.91
Amur Region	189	135,563	92,314	299	793	31,718	1.18	0.85	0.62	0.85
Magadan Region	54	98,072	42,188	177	141	52,077	1.89	1.04	0.96	1.24
Sakhalin Region	122	116,368	117,745	868	490	49,474	1.23	0.25	0.82	0.63
Jewish Autonomous Region	36	15,838	13,071	59	160	23,777	1.12	0.50	0.58	0.69
Chukotka Autonomous Area	21	24,154	12,548	77	50	72,802	2.10	0.59	0.58	0.89
TOTAL for Russian Federation	29,625	44,959,171	28,516,869	84,314	146,781	32,598	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 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).

BANKING SECTOR KEY INDICATORS

Table 6

	1 January 2018	Growth in 2017, %	1 February 2018	1 March 2018	1 April 2018	1 May 2018	1 June 2018	1 July 2018	1 August 2018	1 September 2018	1 October 2018	1 November 2018	1 December 2018	1 January 2019	Year to date growth, %
Assets															
Assets, ₽ billion	85,192		84,049	83,000	83,601	86,422	86,068	86,586	86,627	88,745	89,089	90,577	91,974	94,084	
growth for one month, %		–													
in nominal terms	1.5	6.4	–1.3	–1.2	0.7	3.4	–0.4	0.6	0.0	2.4	0.4	1.7	1.5	2.3	10.4
excluding credit institutions with revoked licences	1.5	7.7	–1.3	–1.2	0.8	3.5	–0.4	0.6	0.1	2.5	0.4	1.8	1.6	2.3	11.1
adjusted for foreign currency revaluation	1.8	7.7	–0.8	–1.0	0.1	1.6	–0.6	0.5	0.0	0.6	1.3	1.6	1.3	1.4	6.2
excluding credit institutions with revoked licences	1.8	9.0	–0.8	–1.0	0.2	1.6	–0.6	0.6	0.1	0.6	1.3	1.7	1.3	1.4	6.9
share of foreign currency funds, %	22.3		21.9	21.2	21.9	23.0	22.5	22.2	21.8	23.2	22.7	22.0	22.0	22.4	
Loans to non-financial organisations and households, ₽ billion	42,366		42,556	42,552	43,199	44,240	44,342	44,695	45,151	46,577	47,064	47,402	47,811	48,273	
growth for one month, %		–													
in nominal terms	0.4	3.5	0.4	0.0	1.5	2.4	0.2	0.8	1.0	3.2	1.0	0.7	0.9	1.0	13.9
excluding credit institutions with revoked licences	0.5	5.0	0.5	0.0	1.6	2.5	0.3	0.8	1.1	3.2	1.1	0.8	0.9	1.0	14.6
adjusted for foreign currency revaluation	0.7	4.7	0.9	0.2	0.9	0.8	0.0	0.7	1.0	1.5	1.9	0.7	0.6	0.1	10.0
excluding credit institutions with revoked licences	0.8	6.2	0.9	0.3	1.0	0.9	0.1	0.8	1.1	1.5	1.9	0.7	0.6	0.1	10.7
share of foreign currency loans, %	21.4	0.0	20.9	20.1	20.3	20.9	20.5	20.3	19.9	21.0	21.0	20.4	19.9	20.1	
Loans to non-financial organisations, ₽ billion	30,193		30,296	30,181	30,627	31,439	31,287	31,398	31,591	32,684	32,891	32,986	33,077	33,372	
growth for one month, %		–													
in nominal terms	0.4	1.8	0.3	–0.4	1.5	2.7	–0.5	0.4	0.6	3.5	0.6	0.3	0.3	0.9	10.5
excluding credit institutions with revoked licences	0.1	2.1	0.3	–0.3	1.6	2.8	–0.5	0.4	0.7	3.5	0.6	0.4	0.3	0.9	11.2
adjusted for foreign currency revaluation	0.4	1.8	1.0	–0.1	0.7	0.4	–0.8	0.3	0.6	1.1	1.8	0.2	–0.1	–0.3	5.1
excluding credit institutions with revoked licences	0.5	3.7	1.0	0.0	0.8	0.5	–0.7	0.3	0.7	1.1	1.8	0.3	–0.1	–0.3	5.8
share of foreign currency loans, %	29.7		29.0	28.1	28.3	29.0	28.8	28.5	28.2	29.6	29.8	29.0	28.4	28.8	
SME loans, ₽ billion	4,170		4,281	4,316	4,317	4,410	4,394	4,455	4,512	4,262	4,225	4,224	4,253		
growth for one month, %		–											0.0		
in nominal terms	2.3	–6.7	2.7	0.8	0.0	2.1	–0.4	1.4	1.3	–5.5	–0.9	0.0	0.7		

Table 6 (continued)

	1 January 2018	Growth in 2017, %	1 February 2018	1 March 2018	1 April 2018	1 May 2018	1 June 2018	1 July 2018	1 August 2018	1 September 2018	1 October 2018	1 November 2018	1 December 2018	1 January 2019	Year to date growth, %
excluding credit institutions with revoked licences	2.6	1.1	2.7	1.0	0.5	2.6	–0.3	1.6	1.3	–5.5	–0.8	0.3	0.8		
adjusted for foreign currency revaluation	2.3	–6.5	2.8	0.9	–0.1	1.8	–0.4	1.4	1.3	–5.9	–0.7	0.0	0.6		
excluding credit institutions with revoked licences	2.6	1.3	2.8	1.1	0.4	2.2	–0.3	1.6	1.3	–5.8	–0.6	0.3	0.8		
share of foreign currency loans, %	3.8	3.8	3.7	3.7	3.8	4.6	4.6	4.6	4.4	4.6	4.3	4.2	4.1		
Household loans, ₽ billion	12,174		12,261	12,371	12,572	12,801	13,056	13,296	13,561	13,893	14,173	14,416	14,734	14,901	
growth for one month, %		–													
in nominal terms	1.4	12.7	0.7	0.9	1.6	1.8	2.0	1.8	2.0	2.5	2.0	1.7	2.2	1.1	22.4
excluding credit institutions with revoked licences	1.4	13.2	0.7	0.9	1.7	1.9	2.0	1.9	2.0	2.5	2.0	1.7	2.3	1.1	22.9
adjusted for foreign currency revaluation	1.4	12.7	0.7	0.9	1.6	1.8	2.0	1.8	2.0	2.4	2.0	1.7	2.2	1.1	22.3
excluding credit institutions with revoked licences	1.5	13.2	0.7	0.9	1.6	1.8	2.0	1.9	2.0	2.4	2.1	1.7	2.3	1.1	22.8
share of foreign currency loans, %	0.9		0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.6	0.7	
Housing mortgage loans[1], ₽ billion	5,344		5,380	5,470	5,580	5,701	5,803	5,915	6,018	6,152	6,274	6,364	6,527	6,579	
growth for one month, %		–													
in nominal terms	2.3	15.8	0.7	1.7	2.0	2.2	1.8	1.9	1.7	2.2	2.0	1.4	2.6	0.8	23.1
excluding credit institutions with revoked licences	2.3	16.1	0.7	1.7	2.0	2.2	1.8	1.9	1.7	2.2	2.0	1.4	2.6	0.8	23.3
adjusted for foreign currency revaluation	2.3	15.9	0.7	1.7	2.0	2.1	1.8	1.9	1.7	2.1	2.0	1.4	2.5	0.8	22.9
excluding credit institutions with revoked licences	2.3	16.2	0.7	1.7	2.0	2.1	1.8	1.9	1.7	2.1	2.0	1.4	2.6	0.8	23.1
share of foreign currency loans, %	1.2	1.2	1.1	1.1	1.1	1.1	1.0	1.0	0.9	1.0	0.9	0.8	0.8	0.8	
Unsecured consumer loans (homogeneous loans), ₽ billion	6,021		6,080	6,111	6,203	6,295	6,441	6,568	6,716	6,896	7,028	7,174	7,322	7,386	
growth for one month, %	0.7	11.0	1.0	0.5	1.5	1.5	2.3	2.0	2.3	2.7	1.9	2.1	2.1	0.9	22.7
excluding credit institutions with revoked licences	0.7	11.3	1.0	0.5	1.5	1.5	2.3	2.0	2.3	2.7	1.9	2.1	2.1	0.9	22.8

Table 6 (continued)

	1 January 2018	Growth in 2017, %	1 February 2018	1 March 2018	1 April 2018	1 May 2018	1 June 2018	1 July 2018	1 August 2018	1 September 2018	1 October 2018	1 November 2018	1 December 2018	1 January 2019	Year to date growth, %
Car loans, ₽ billion	713		709	708	717	730	739	745	755	770	782	795	806	817	
growth for one month, %	2.2	14.5	–0.6	–0.1	1.2	1.8	1.2	0.8	1.3	2.0	1.6	1.6	1.4	1.4	14.5
excluding credit institutions with revoked licences	2.2	15.0	–0.6	–0.1	1.2	1.8	1.2	0.8	1.3	2.0	1.6	1.6	1.4	1.4	15.4
Loans to resident financial organisations (other than credit institutions), ₽ billion	3,627		3,537	3,754	3,931	4,056	4,011	4,008	3,966	4,061	4,226	4,270	4,322	4,639	
growth for one month, %		–													
in nominal terms	3.8	30.6	–2.5	6.1	4.7	3.2	–1.1	–0.1	–1.0	2.4	4.1	1.0	1.2	7.4	27.9
excluding credit institutions with revoked licences	3.8	31.8	–2.5	6.1	4.7	3.3	–1.1	0.0	–1.0	2.4	4.1	1.1	1.2	7.4	28.2
adjusted for foreign currency revaluation	3.9	31.5	–2.2	6.4	4.1	1.4	–1.3	–0.2	–1.0	0.6	4.8	1.0	1.0	6.5	23.6
excluding credit institutions with revoked licences	3.9	32.7	–2.2	6.4	4.1	1.5	–1.3	–0.1	–1.0	0.6	4.8	1.0	1.0	6.5	23.9
share of foreign currency loans, %	12.8		11.8	20.1	20.3	22.8	23.1	23.5	21.2	21.9	19.9	18.5	18.4	19.7	
Interbank loans to residents, ₽ billion	8,070		6,635	6,448	5,275	5,947	5,335	5,649	5,407	5,861	5,942	6,522	7,174	7,613	
growth for one month, %		–													
in nominal terms	–0.4	13.3	–17.8	–2.8	–18.2	12.7	–10.3	5.9	–4.3	8.4	1.4	9.8	10.0	6.1	–5.7
excluding credit institutions with revoked licences	–0.4	13.5	–17.8	–2.7	–18.2	12.7	–10.3	5.9	–4.3	8.4	1.4	9.8	10.1	6.1	–5.0
adjusted for foreign currency revaluation	–0.2	14.6	–17.5	–2.7	–18.6	11.2	–10.5	5.8	–4.3	6.4	2.3	9.7	9.7	5.2	–9.0
excluding credit institutions with revoked licences	–0.2	14.8	–17.5	–2.6	–18.6	11.2	–10.5	5.8	–4.3	6.4	2.3	9.7	9.8	5.2	–8.4
share of foreign currency loans, %	22.1		12.4	12.9	16.4	17.3	18.2	20.5	18.3	23.4	22.9	18.7	18.6	20.7	
Interbank loans to non-residents, ₽ billion	1,735		1,683	1,712	1,737	1,770	1,715	1,468	1,445	1,468	1,419	1,414	1,630	1,723	
growth for one month, %		–													
in nominal terms	6.0	–11.8	–3.0	1.7	1.4	1.9	–3.1	–14.4	–1.6	1.6	–3.4	–0.4	15.3	5.7	–0.7
excluding credit institutions with revoked licences	6.0	–11.8	–3.0	1.7	1.4	1.9	–3.1	–14.4	–1.6	1.6	–3.4	–0.4	15.3	5.7	–0.7
adjusted for foreign currency revaluation	7.2	–7.7	–1.0	2.7	–1.1	–5.2	–3.9	–14.6	–1.6	–5.6	0.0	–0.6	13.9	1.7	–16.5
excluding credit institutions with revoked licences	7.2	–7.7	–1.0	2.7	–1.1	–5.2	–3.9	–14.6	–1.6	–5.6	0.0	–0.6	13.9	1.7	–16.5
share of foreign currency loans, %	88.7		89.6	89.6	89.4	91.0	90.7	87.4	90.5	91.3	91.1	90.6	91.8	93.2	

Table 6 (continued)

	1 January 2018	Growth in 2017, %	1 February 2018	1 March 2018	1 April 2018	1 May 2018	1 June 2018	1 July 2018	1 August 2018	1 September 2018	1 October 2018	1 November 2018	1 December 2018	1 January 2019	Year to date growth, %
Liabilities															
Household deposits, ₽ billion	25,987		25,472	25,766	26,055	26,744	26,703	26,992	27,065	27,369	26,934	27,074	27,156	28,460	
growth for one month, %		–													
in nominal terms	4.0	7.4	–2.0	1.2	1.1	2.6	–0.2	1.1	0.3	1.1	–1.6	0.5	0.3	4.8	9.5
excluding credit institutions with revoked licences	4.1	9.5	–2.0	1.2	1.2	2.7	–0.1	1.2	0.5	1.1	–1.6	0.7	0.4	4.8	10.6
adjusted for foreign currency revaluation	4.2	8.6	–1.5	1.4	0.6	1.0	–0.3	1.0	0.3	–0.6	–0.8	0.5	0.0	3.9	5.5
excluding credit institutions with revoked licences	4.3	10.7	–1.5	1.4	0.7	1.1	–0.3	1.1	0.5	–0.6	–0.8	0.6	0.1	3.9	6.5
share of foreign currency funds, %	20.6		20.7	20.2	20.2	20.6	20.5	20.3	20.5	21.7	21.1	20.9	21.3	21.5	
Deposits and funds on organisations' accounts (other than credit institutions), ₽ billion	24,843		25,220	24,616	24,893	25,211	25,399	25,504	25,046	25,941	25,971	25,807	26,701	28,006	
growth for one month, %		–													
in nominal terms	2.3	2.1	1.5	–2.4	1.1	1.3	0.7	0.4	–1.8	3.6	0.1	–0.6	3.5	4.9	12.7
excluding credit institutions with revoked licences	2.3	2.8	1.5	–2.4	1.2	1.3	0.8	0.4	–1.7	3.6	0.1	–0.6	3.5	4.9	13.2
adjusted for foreign currency revaluation	2.8	4.1	2.4	–2.0	0.1	–1.7	0.4	0.3	–1.8	0.5	1.6	–0.7	3.0	3.3	5.6
excluding credit institutions with revoked licences	2.8	4.8	2.4	–2.0	0.1	–1.7	0.4	0.3	–1.8	0.5	1.6	–0.7	3.0	3.3	6.0
share of foreign currency funds, %	36.7		37.8	36.7	38.0	39.0	39.1	37.8	37.7	38.2	38.1	37.9	37.3	37.0	
Bank of Russia loans	2,016	–26.0	2,007	1,821	2,333	2,685	2,677	2,710	2,956	2,765	3,128	3,101	3,050	2,607.4	29.3
share of liabilities, %	2.4		2.4	2.2	2.8	3.1	3.1	3.1	3.4	3.1	3.5	3.4	3.3	2.8	
Capital and financial result															
Capital	9,397		9,259	9,328	9,755	9,833	9,916	9,512	9,587	9,784	10,003	10,086	10,172	10,269	
growth for one month, %	2.7	0.1	–1.5	0.7	4.6	0.8	0.8	–4.1	0.8	2.0	2.2	0.8	0.9	1.0	9.3
excluding credit institutions with revoked licences	2.8	1.3	–1.5	0.8	4.7	0.7	0.9	–4.0	0.4	2.1	2.3	0.8	0.9	1.0	9.9
N1.0 capital adequacy, %	12.1		12.4	12.5	13.0	12.7	12.8	12.2	12.2	12.2	12.5	12.4	12.3	12.2	
Loss provisions[2]	6,916		7,061	7,072	7,057	7,142	7,286	7,348	7,500	7,625	7,522	7,540	7,624	7,538.8	
growth for one month, %	3.8		2.1	0.2	–0.2	1.2	2.0	0.9	2.1	1.7	–1.3	0.2	1.1	–1.1	9.0

Table 6 (end)

	1 January 2018	Growth in 2017, %	1 February 2018	1 March 2018	1 April 2018	1 May 2018	1 June 2018	1 July 2018	1 August 2018	1 September 2018	1 October 2018	1 November 2018	1 December 2018	1 January 2019	Year to date growth, %
excluding credit institutions with revoked licences	3.9		2.1	0.2	–0.1	1.6	2.1	0.9	2.2	1.7	–1.3	0.5	1.2	–1.1	10.1
Current year profit	790		71	178	353	537	527	634	776	901	1,068	1,183	1,279	1,344.8	70.3
Return on assets[3], %	1.0		0.9	0.9	1.0	0.9	0.8	0.8	0.8	0.8	1.4	1.5	1.4	1.5	
Return on equity[3], %	8.3		7.9	8.0	8.5	8.1	7.0	6.8	6.8	7.3	12.4	13.3	12.4	13.8	
Assets and liabilities in foreign currency (in US dollar terms), $ billion															
Assets	329.9	–10.0	327.2	316.3	319.8	320.5	309.2	305.8	301.3	301.9	307.7	302.6	303.3	303.9	
Liabilities	322.5	–7.9	325.7	314.2	316.0	312.2	306.2	301.4	296.7	293.2	297.6	296.3	296.7	299.7	
Foreign currency balance	7.3		1.5	2.1	3.9	8.3	3.0	4.4	4.6	8.7	10.1	6.3	6.6	4.2	

[1] Includes data on overdue loans from Section 1 of Form 0409316 'Loans to individuals' and data on the acquired housing mortgage loans from the Memo Item subsection of this form.

[2] Balance sheet statement data (not corresponding with the income statement data as bad debt provision has been partially written off from the balance sheet).

[3] Over 12 months preceding the reporting date.

BANK ASSETS GROUPED BY INVESTMENT

Table 7

Assets		1 January 2018	1 April 2018	1 July 2018	1 October 2018	1 January 2019
1	Money, precious metals and gemstones, total	1,904	1,642	1,861	1,842	1,998
1.1	Including money	1,735	1,524	1,720	1,735	1,890
2	Accounts with the Bank of Russia and authorised bodies of other countries, total	4,735	4,939	5,543	4,857	4,329
	Including:					
2.1	Bank correspondent accounts with the Bank of Russia	1,887	1,720	2,297	2,032	1,850
2.2	Bank required reserves transferred to the Bank of Russia	503	504	522	559	574
2.3	Deposits and other funds placed with the Bank of Russia	2,342	2,709	2,718	2,261	1,902
3	Correspondent accounts with credit institutions, total	1,281	1,450	1,186	1,284	1,744
	Including:					
3.1	Correspondent accounts with correspondent credit institutions	433	370	263	276	478
3.2	Correspondent accounts with non-resident banks	848	1,080	923	1,008	1,267
4	Securities acquired by credit institutions, total	12,311	12,505	12,856	12,994	13,098
	Including:					
4.1	Debt investment	9,948	10,433	10,692	10,836	10,857
4.2	Equity investment	480	465	517	482	494
4.3	Discounted promissory notes	137	130	129	131	133
4.4	Shares of subsidiaries and affiliated joint-stock companies	1,747	1,477	1,518	1,545	1,614
5	Other stakes in authorised capital	1,180	1,196	1,233	1,250	1,351
6	Financial derivatives	505	462	475	592	729
7	Loans, total	58,122	56,257	58,345	61,193	65,124
	Including:					
7.1	Loans, deposits and other placements	58,006	56,138	58,213	61,047	64,969
	including overdue debt	2,993	3,151	3,121	3,184	3,051
	Including:					
7.1.1	Loans and other placements with non-financial organisations	30,193	30,627	31,398	32,891	33,372
	including overdue debt	1,942	2,102	2,112	2,174	2,093
7.1.2	Loans and other funds extended to households	12,174	12,572	13,296	14,173	14,901
	including overdue debt	849	839	814	815	760
7.1.3	Loans, deposits and other placements with credit institutions	9,805	7,012	7,117	7,361	9,336
	including overdue debt	146	125	111	115	119
8	Fixed assets, other real estate, intangible assets and inventories	1,513	1,564	1,571	1,570	1,626
8.1	Including real estate temporarily unused in core activities	208	265	263	255	255
9	Disposition of profits	328	114	200	261	330
	including profit tax	306	91	195	255	323
10	Other assets, total	3,313	3,473	3,316	3,244	3,755
	Including:					
10.1	Float	1,238	1,358	1,164	1,055	1,678
10.2	Debtors	489	487	527	568	534
10.3	Deferred expenses	45	40	38	35	32
Total assets		85,192	83,601	86,586	89,089	94,084

BANK LIABILITIES GROUPED BY SOURCE OF FUNDS *Table 8*

	Liabilities	1 January 2018	1 April 2018	1 July 2018	1 October 2018	1 January 2019
1	Bank funds and profits, total	8,963	8,785	8,698	9,011	9,306
	Including:					
1.1	Funds	4,866	4,789	4,863	4,854	4,883
1.2	Profits (losses), including previous-year financial results	4,041	3,997	3,828	4,165	4,447
	Including:					
1.2.1	Current-year profits (losses)	790	353	634	1,068	1,345
2	Loans, deposits and other funds received by credit institutions from the Bank of Russia	2,016	2,333	2,710	3,128	2,607
3	Bank accounts, total	775	742	661	635	880
	Including:					
3.1	Correspondent accounts of correspondent banks	396	331	223	240	431
3.2	Correspondent accounts of non-resident banks	253	299	332	295	339
4	Loans, deposits and other funds received from other credit institutions, total	9,265	6,566	7,095	7,547	9,190
5	Customer funds, total[1]	53,703	54,396	56,351	57,584	60,702
	Including:					
5.1	Budget funds in settlement accounts	10	37	53	44	11
5.2	Government and extra-budgetary funds in settlement accounts	1	0	1	1	0
5.3	Organisations' funds in settlement and other accounts	9,104	9,446	9,508	9,441	9,772
5.4	Customer float	537	603	568	643	631
5.5	Deposits and other funds raised by legal entities (other than credit institutions)	17,900	18,108	19,083	20,357	21,652
5.6	Household deposits	25,987	26,055	26,992	26,934	28,460
5.7	Customer funds in factoring and forfeiting operations	23	15	19	21	22
6	Bonds	1,211	1,269	1,211	1,274	1,329
7	Promissory notes and bank acceptances	428	402	391	431	439
8	Financial derivatives	337	323	322	403	504
9	Other liabilities, total	8,493	8,786	9,147	9,076	9,127
	Including:					
9.1	Loss provisions	6,916	7,057	7,348	7,522	7,539
9.2	Float	666	754	561	516	635
9.3	Creditors	209	261	525	266	228
9.4	Deferred income	16	14	17	17	19
9.5	Accrued interest and interest/coupon liabilities on securities	630	652	650	708	658
	Including:					
9.6	Overdue interest	0	0	1	1	1
Total liabilities		85,192	83,601	86,586	89,089	94,084

[1] Including certificates of deposit and savings certificates.

QUALITY OF THE BANKING SECTOR'S LOAN PORTFOLIO

Table 9

	1 January 2018	1 February 2018	1 March 2018	1 April 2018	1 May 2018	1 June 2018	1 July 2018	1 August 2018	1 September 2018	1 October 2018	1 November 2018	1 December 2018	1 January 2019
Legal entities													
Share of overdue loans in total value of loans to non-financial organisations, %	6.4	6.8	6.9	6.9	6.9	6.8	6.7	6.8	6.7	6.6	6.7	6.6	6.3
Share of overdue loans in total value of loans to resident financial institutions (other than credit institutions), %	1.5	1.6	1.5	2.1	2.1	2.1	2.1	2.1	2.0	1.9	1.8	1.8	1.7
Share of quality category IV and quality category V loans in total corporate loans (excluding credit institutions), %	12.0	12.1	12.3	12.2	12.3	12.6	12.7	12.6	12.4	12.2	12.2	12.4	12.2
Loss provisions for loans to legal entities (other than credit institutions), as % of total value of such loans	10.1	10.2	10.3	10.3	10.3	10.6	10.5	10.5	10.3	10.1	10.1	10.2	10.0
Individuals													
Share of overdue loans in total value of household loans, %	7.0	7.0	6.9	6.7	6.4	6.3	6.1	6.0	5.9	5.8	5.6	5.5	5.1
Share of loans not repaid on the due date in a month preceding the reporting date	9.9	9.6	8.3	8.3	8.5	8.0	8.2	8.2	7.8	8.7	8.5	8.8	7.9
Share of quality category IV and quality category V loans in total loan value, %	9.8	9.8	9.7	9.5	9.1	9.0	8.8	9.2	9.0	8.4	8.3	8.1	7.6
Loan loss provisions, as % of total value of such loans	10.4	10.3	10.2	10.0	9.8	9.7	9.5	9.9	9.8	9.1	9.0	8.8	8.5
Loss provisions for loans with arrears exceeding 90 days, as % of total value of such loans	91.3	91.3	91.5	91.3	91.2	91.1	91.1	91.4	91.3	91.2	91.2	91.3	93.6
mortgage loans	85.7	85.7	85.9	86.1	86.0	85.3	85.9	86.1	85.7	85.5	85.6	85.2	85.5
car loans	94.0	94.0	94.1	93.9	93.7	93.4	93.3	93.4	93.4	93.2	93.1	93.3	93.4
unsecured consumer loans	91.5	91.5	91.6	91.5	91.4	91.4	91.4	91.6	91.6	91.5	91.5	91.6	94.3

HOUSING MORTGAGE LOANS (HML)[1]

Table 10

	1 January 2018	1 February 2018	1 March 2018	1 April 2018	1 May 2018	1 June 2018	1 July 2018	1 August 2018	1 September 2018	1 October 2018	1 November 2018	1 December 2018	1 January 2019
Outstanding HMLs, total, ₽ billion[2]	5,344	5,380	5,470	5,580	5,701	5,803	6,019	6,018	6,152	6,274	6,364	6,527	6,579
including overdue HMLs, ₽ billion	69	70	70	70	71	72	71	72	74	73	73	73	73
share of overdue loans in total HMLs, %	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.1	1.1	1.1
Value of HMLs extended year-to-date, ₽ billion	2,022	148	347	582	831	1,067	1,309	1,556	1,816	2,071	2,371	2,672	3,013
HMLs extended year-to-date, thousands	1,087	78	181	299	425	543	663	785	911	1,033	1,175	1,315	1,472
HMLs in foreign currency													
Value of HMLs in foreign currency extended year-to-date, ₽ billion	0.54	0.04	0.06	0.08	0.11	0.12	0.17	0.21	0.38	0.38	0.39	0.39	0.41
Volume of HMLs in foreign currency extended year-to-date, pieces	11	4	4	5	5	5	6	9	11	12	12	12	12
growth for one month, pieces	1	4	0	1	0	0	1	3	2	1	0	0	0
share in total HMLs, %	0.001	0.005	0.002	0.002	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001
Outstanding HMLs in foreign currency, ₽ billion	65	61	59	59	62	61	59	56	61	56	53	52	52
Outstanding HMLs in foreign currency, $ billion	1.1	1.1	1.1	1.0	1.0	1.0	0.9	0.9	0.9	0.8	0.8	0.8	0.7
Ruble HMLs													
Outstanding ruble HMLs, ₽ billion	5,280	5,318	5,411	5,521	5,639	5,743	5,857	5,963	6,091	6,218	6,311	6,474	6,527
Value of ruble HMLs extended year-to-date, ₽ billion	2,021	148	347	582	831	1,067	1,309	1,556	1,816	2,070	2,370	2,672	3,013

[1] Housing mortgage loans pledged with real estate extended to borrowers according to the procedure stipulated by Federal Law No. 102-FZ, dated 16 July 1998, 'On Mortgage (Mortgage Security)'.

[2] Includes data on overdue loans from Section 1 of Form 0409316 'Loans to individuals' and data on the acquired housing mortgage loans from the Memo Item subsection of this form.

WEIGHTED AVERAGE INTEREST RATES ON FUNDS RAISED AND PLACED IN REPORTING MONTH WITH MATURITIES OF OVER ONE YEAR

Table 11

	2018											
	January	February	March	April	May	June	July	August	September	October	November	December
Ruble funds												
Loans to non-financial organisations	8.61	9.23	9.22	8.51	8.61	8.45	8.61	9.05	9.24	9.16	9.45	9.17
including small and medium-sized enterprises	11.28	10.65	10.62	10.77	9.95	9.39	9.70	10.21	10.20	10.14	9.69	10.08
Deposits of non-financial organisations	6.65	6.38	6.30	5.67	6.28	5.99	6.30	7.18	6.09	6.03	6.92	6.69
Household loans	13.52	13.42	13.39	13.25	13.20	13.00	12.94	12.87	12.50	12.50	12.38	12.50
housing mortgage loans	9.85	9.75	9.64	9.57	9.56	9.48	9.57	9.42	9.41	9.41	9.52	9.66
Household deposits	6.66	6.37	6.21	5.84	5.98	5.69	5.73	5.70	6.02	6.56	6.75	6.83
US dollar funds												
Loans to non-financial organisations	5.85	5.74	5.50	5.50	5.02	6.00	5.12	5.00	6.86	6.32	5.91	4.73
including small and medium-sized enterprises	6.97	7.77	5.11	7.48	6.64	7.05	10.53	4.78	7.00	7.48	7.24	7.79
Deposits of non-financial organisations	2.49	3.16	2.29	2.27	2.66	2.84	2.56	3.66	3.63	4.17	3.55	3.05
Household loans	7.78	9.77	5.80	6.59	7.48	7.63	9.75	7.53	6.08	9.91	9.60	7.79
Household deposits	1.62	1.62	1.56	1.53	1.96	2.30	2.18	2.28	2.60	3.17	3.27	3.34
Euro funds												
Loans to non-financial organisations	3.83	5.24	4.18	3.50	2.90	3.97	3.27	3.87	4.17	4.66	3.99	3.66
including small and medium-sized enterprises	4.18	4.78	5.14	2.33	4.40	3.47	4.48	5.34	5.47	6.18	4.35	3.43
Deposits of non-financial organisations	–	0.50	1.16	0.45	0.25	0.26	0.66	0.30	1.21	–	0.64	0.63
Household loans	–	–	8.19	5.69	–	6.06	6.66	–	–	6.50	–	–
Household deposits	0.57	0.58	0.34	0.48	0.39	0.52	0.46	0.47	0.44	0.54	0.61	0.57

INDICATORS OF INDIVIDUAL GROUPS OF CREDIT INSTITUTIONS[1]

Table 12

Group of credit institutions	Number of credit institutions	Share of banking sector		Share of banking sector institutions	
		1 January 2018	1 January 2019	1 January 2018	1 January 2019
Banks under resolution	28	12.1	10.6	–0.5	–5.9
Non-bank credit institutions	44	3.8	4.4	0.8	1.0
Banks with a basic licence	149	0.4	0.4	0.8	0.7
State-controlled banks	18	57.9	59.5	67.6	72.8
Foreign-controlled banks	62	11.6	11.7	15.4	16.0
Other	183	14.2	13.5	15.9	15.5
Total	484	100	100	100	100

[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.
Groups of credit institutions as of 1 January 2019.

BANKING SECTOR CAPITAL STRUCTURE, %[1]

Table 13

Indicators	1 January 2018	1 April 2018	1 July 2018	1 October 2018	1 January 2019
1. Capital growth factors	132.2	126.9	130.8	128.6	130.2
1.1. Authorised capital	28.4	26.9	27.5	26.5	26.3
1.2. Share premium	18.8	17.9	18.3	17.7	17.2
1.3. Profit and funds of credit institutions	58.6	58.0	59.2	59.0	61.4
1.4. Subordinated loans received	24.5	22.1	23.2	23.1	22.7
1.5. Revaluation surplus	1.9	1.7	1.8	1.7	1.6
1.6. Other factors	0.0	0.4	0.7	0.6	1.0
2. Capital reducing factors	32.2	26.9	30.8	28.6	30.2
2.1. Losses	15.8	15.6	17.9	17.6	19.2
2.2. Intangible assets	3.2	3.2	3.3	3.2	3.4
2.3. Treasury shares (stakes)	0.2	0.2	0.3	0.2	0.2
2.4. Sources of capital formed from improper assets	0.1	0.0	0.0	0.0	0.0
2.5. Subordinated loans issued	2.9	2.3	2.5	2.4	2.3
2.6. Bank share (stakes) portfolio	7.3	3.0	4.1	3.3	3.3
2.7. Other factors	2.7	2.6	2.7	1.9	1.8
Capital, total	100.0	100.0	100.0	100.0	100.0

[1] Calculated using bank reporting Form 0409123.

CATEGORISED INDICATORS ON CREDIT INSTITUTIONS RANKED BY CAPITAL VALUE

Table 14

Credit institutions by capital value	Number of credit institutions		Return on equity,[1] %		Return on assets,[1] %	
	1 January 2018	1 January 2019	1 January 2018	1 January 2019	1 January 2018	1 January 2019
Up to ₽300 million	56	48	–[2]	–[2]	–8.4	–18.1
₽300 million to ₽1 billion	206	158	0.7	7.6	0.1	1.5
₽1 billion to ₽10 billion	214	190	9.3	10.0	1.6	1.7
₽10 billion to ₽25 billion	43	46	10.0	8.1	1.6	1.2
₽25 billion to ₽50 billion	21	20	3.8	8.4	0.3	1.1
₽50 billion to ₽100 billion	9	9	32.0	14.0	3.9	1.1
₽100 billion to ₽250 billion	5	7	–19.0	10.1	–2.3	1.2
₽250 billion and over	7	6	16.4	20.6	2.1	2.8
Total for banking sector	561	484	8.4	13.6	1.0	1.6

[1] Over 12 months preceding the reporting date.

[2] Return is not calculated for groups with negative capital value.

BANKING SECTOR INFORMATION ON BANKS' REQUIRED RATIOS

Table 15

Ratio	Acceptable numerical value of the ratio, %	Actual numerical value of the ratio,[1] %								
		1 January 2017	1 April 2017	1 July 2017	1 October 2017	1 January 2018	1 April 2018	1 July 2018	1 October 2018	1 January 2019
N1.0	Since 1 January 2016, no less than 8%	13.1	13.4	12.9	11.8	12.1	13.0	12.2	12.5	12.2
N1.1	Since 1 January 2016, no less than 4.5%	8.9	9.5	9.0	8.2	8.2	9.4	8.5	8.9	8.3
N1.2	No less than 6%	9.2	9.9	9.4	8.6	8.5	10.0	9.0	9.5	8.9
N1.4[2]	No less than 3%	–	–	–	–	–	9.5	8.6	9.0	8.4
N2	No less than 15%	106.6	114.9	109.7	125.5	118.5	120.6	119.5	117.8	128.7
N3	No less than 50%	144.9	169.2	170.7	180.7	167.4	174.5	182.2	168.3	166.4
N4	No more than 120%	52.3	50.9	52.0	54.0	55.4	53.5	55.5	56.0	57.5
N6[3]	No more than 25%									
N7	No more than 800%	219.6	213.5	220.9	224.4	226.1	206.7	219.3	202.4	204.7
N9.1[4]	No more than 50%	3.6	3.7	4.4	4.8	3.2	2.9	3.1	2.7	–
N10.1	No more than 3%	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
N12	No more than 25%	12.0	12.8	13.0	15.8	13.3	11.3	12.0	11.5	12.7
N25[3]	No more than 20%									

[1] Ratio in the sector overall as of the reporting date.

[2] The N1.4 ratio has been effective since 1 January 2018.

[3] The N6 and N25 ratios are calculated for each borrowers of each bank.

[4] The N9.1 ratio has been cancelled since 8 October 2018.

BANKING SECTOR INFORMATION ON THE NUMBER OF CREDIT INSTITUTIONS VIOLATING REQUIRED RATIOS DURING THE REPORTING PERIOD

Table 16

Ratio	2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
N1.0	9	6	6	3	5	5	6	4
N1.1	5	6	7	3	8	5	4	5
N1.2	8	7	9	6	11	8	6	5
N1.4[1]					6	5	3	3
N2	7	7	1	3	6	3	0	1
N3	10	10	7	5	7	2	2	1
N4	4	2	3	0	2	1	0	0
N6	18	14	16	18	22	16	22	21
N7	5	2	3	2	4	5	4	3
N9.1[2]	0	0	2	0	0	0	0	0
N10.1	0	1	1	0	2	2	1	0
N12	2	1	2	1	1	1	1	1
N25[3]	7	5	7	5	7	7	6	4

[1] The N1.4 ratio has been effective since 1 January 2018.

[2] The N9.1 ratio has been cancelled since 8 October 2018.

[3] The N25 ratio has been effective since 1 January 2017.

BASIC RETURN ON DEPOSITS UNDER AGREEMENTS WITH HOUSEHOLDS, %[1]

Table 17

Period	In Russian rubles					In US dollars					In euros				
	Call deposits[2]	Up to 90 days	From 91 days to 180 days	From 181 days to one year	More than one year	Call deposits[2]	Up to 90 days	From 91 days to 180 days	From 181 days to one year	More than one year	Call deposits[2]	Up to 90 days	From 91 days to 180 days	From 181 days to one year	More than one year
January 2017	6.907	9.193	9.327	9.458	9.732	0.780	0.592	1.228	1.928	2.313	0.597	0.210	0.236	0.460	0.856
February 2017	7.012	9.262	9.339	9.712	9.790	0.831	0.796	1.311	2.076	2.606	0.600	0.222	0.183	0.333	0.824
March 2017	6.865	9.108	9.304	9.695	9.604	0.805	0.789	1.172	2.063	2.444	0.597	0.256	0.373	0.256	0.612
April 2017	6.794	9.046	9.123	9.591	9.340	0.779	0.834	1.110	2.104	2.282	0.587	0.256	0.174	0.260	0.568
May 2017	7.140	8.961	9.171	9.610	9.544	0.664	0.724	1.202	2.035	2.370	0.369	0.383	0.226	0.385	0.697
June 2017	7.249	8.797	8.865	9.256	9.035	0.708	0.860	1.311	2.130	2.367	0.429	0.270	0.251	0.408	0.547
July 2017	7.035	8.651	8.870	9.100	8.990	0.761	0.679	1.302	1.935	2.465	0.369	0.355	0.337	0.476	0.612
August 2017	6.987	8.061	8.320	8.793	8.510	0.757	0.803	1.467	1.958	2.632	0.458	0.342	0.279	0.480	0.897
September 2017	6.907	8.475	8.635	8.705	8.633	0.716	0.926	1.185	1.834	2.381	0.455	0.273	0.251	0.346	0.432
October 2017	6.449	8.127	8.275	8.161	8.404	0.397	0.961	1.332	1.840	2.285	0.096	0.073	0.053	0.116	0.335
November 2017	6.464	7.668	8.078	7.906	7.886	0.413	0.895	1.369	1.804	2.296	0.096	0.090	0.059	0.146	0.245
December 2017	6.378	7.305	7.929	7.804	7.794	0.380	1.019	1.221	1.911	2.467	0.062	0.167	0.105	0.182	0.245
January 2018	6.406	7.316	7.944	7.832	7.923	0.465	0.773	1.244	1.881	2.465	0.062	0.157	0.099	0.176	0.266
February 2018	6.331	7.846	7.921	7.777	8.144	0.419	1.348	1.491	1.982	2.651	0.062	1.006	0.411	0.490	0.675
March 2018	6.211	6.995	7.821	7.850	8.123	0.523	1.626	1.429	1.989	2.685	0.073	0.010	0.084	0.180	0.305
April 2018	5.970	6.384	7.508	7.344	7.749	0.511	1.038	1.162	1.919	2.548	0.073	0.010	0.109	0.205	0.268
May 2018	5.928	7.042	7.449	7.547	7.841	0.504	1.611	1.748	2.109	2.748	0.016	0.033	0.012	0.205	0.263
June 2018	5.902	6.235	7.197	7.330	7.569	0.478	1.636	1.634	2.193	2.617	0.016	0.088	0.109	0.205	0.274
July 2018	5.735	6.680	7.074	7.060	7.473	0.472	1.560	1.704	2.357	3.143	0.016	0.125	0.187	0.308	0.344
August 2018	5.809	6.265	6.994	7.105	7.204	0.829	1.454	1.994	2.696	3.416	0.016	0.340	0.320	0.506	0.505
September 2018	5.829	6.660	6.992	7.062	7.442	0.854	2.030	2.003	2.764	3.402	0.016	0.358	0.421	0.605	0.624
October 2018	5.779	6.939	6.972	7.117	7.691	0.861	1.932	1.988	2.885	3.558	0.016	0.474	0.366	0.554	0.605
November 2018	5.997	7.397	7.009	7.474	7.839	0.889	2.550	2.317	3.034	3.605	0.016	0.791	0.656	0.785	0.928
December 2018	6.086	7.274	7.364	7.739	7.985	0.964	2.985	2.781	3.754	4.309	0.257	0.525	0.815	0.692	1.054

[1] The calculation is based on maximum interest rates on deposits calculated by banks which cumulatively raised two thirds of total household deposits with Russian banks as of the reporting dates. Banks disclose maximum interest rates on deposits in compliance with Bank of Russia Ordinance No. 3606-U, dated 23 March 2015, 'On Amending Bank of Russia Ordinance No. 3194-U, Dated 27 February 2014, 'On the Procedure for Disclosing by Credit Institutions Information about Interest Rates on Household Bank Deposit Agreements'.

[2] Basic return on sight deposits is based on bank account agreements.

AVERAGE MARKET VALUE OF THE EFFECTIVE INTEREST RATE ON CONSUMER LENDING (EIR), % P.A.

Table 18

		2017 Q3 (average EIR+1/3 value limit will be applied in 2018 Q1)	Marginal value in 2018 Q1	2017 Q4 (average EIR+1/3 value limit will be applied in 2018 Q2)	Marginal value in 2018 Q2	2018 Q1 (average EIR+1/3 value limit was applied in 2018 Q3)	Marginal value in 2018 Q3	2018 Q2 (average EIR+1/3 value limit was applied in 2018 Q4)	Marginal value in 2018 Q4	2018 Q3 (average EIR+1/3 value limit will be applied in 2019 Q1)	Marginal value in 2019 Q1	2018 Q4 (average EIR+1/3 value limit will be applied in 2019 Q2)	Marginal value in 2019 Q2
1	**Consumer car loans secured by cars**												
1.1	Used cars (from 0 to 1000 km)	13.7	18.3	13.9	18.5	13.7	18.3	13.0	17.4	12.7	16.9	12.5	16.7
1.2	Used cars (more than 1000 km)	20.8	27.7	19.6	26.2	19.3	25.7	18.6	24.8	18.4	24.5	17.7	23.6
2	**Consumer loans with lending limit (by lending limit as of the agreement date)**												
2.1	Up to ₽30,000	22.5	30.0	22.7	30.3	23.1	30.8	21.2	28.3	20.3	27.0	20.1	26.7
2.2	From ₽30,000 to ₽100,000	25.1	33.5	24.4	32.5	23.5	31.4	21.8	29.1	21.3	28.4	20.7	27.6
2.3	From ₽100,000 to ₽300,000	24.6	32.8	24.1	32.2	24.6	32.8	25.2	33.7	24.4	32.5	23.7	31.5
2.4	More than ₽300,000	23.3	31.0	23.0	30.7	23.8	31.8	25.5	34.0	25.0	33.3	23.3	31.1
3	**Unsecured targeted consumer loans issued through transfer of borrowed funds to a point of sales as payment for goods (services) under the respective agreement with the point of sales (POS-loans)**												
3.1	Up to one year, including:												
3.1.1	Up to ₽30,000	21.9	29.2	20.6	27.5	19.1	25.4	19.3	25.8	17.8	23.7	17.6	23.4
3.1.2	From ₽30,000 to ₽100,000	22.3	29.8	19.9	26.5	20.3	27.1	18.8	25.0	18.5	24.7	17.8	23.8
3.1.3	More than ₽100,000	21.1	28.1	19.3	25.8	18.7	24.9	18.5	24.6	18.2	24.3	17.7	23.6
3.2	More than one year, including:												
3.2.1	Up to ₽30,000	18.6	24.9	16.8	22.4	15.4	20.5	14.6	19.4	13.7	18.2	11.7	15.7

Table 18 (end)

		2017 Q3 (average EIR+1/3 value limit will be applied in 2018 Q1)	Marginal value in 2018 Q1	2017 Q4 (average EIR+1/3 value limit will be applied in 2018 Q2)	Marginal value in 2018 Q2	2018 Q1 (average EIR+1/3 value limit was applied in 2018 Q3)	Marginal value in 2018 Q3	2018 Q2 (average EIR+1/3 value limit was applied in 2018 Q4)	Marginal value in 2018 Q4	2018 Q3 (average EIR+1/3 value limit will be applied in 2019 Q1)	Marginal value in 2019 Q1	2018 Q4 (average EIR+1/3 value limit will be applied in 2019 Q2)	Marginal value in 2019 Q2
3.2.2	From ₽30,000 to ₽100,000	16.5	22.0	15.1	20.1	14.4	19.3	13.7	18.3	13.2	17.5	13.1	17.5
3.2.3	More than ₽100,000	19.1	25.5	16.3	21.7	16.6	22.1	16.1	21.4	15.0	19.9	13.5	18.0
4	**General purpose loans, unsecured targeted consumer loans (other than POS-loans), consumer debt refinancing loans**												
4.1	Up to one year, including:												
4.1.1	Up to ₽30,000	26.8	35.7	28.7	38.3	29.5	39.4	27.7	36.9	24.9	33.2	28.8	38.4
4.1.2	From ₽30,000 to ₽100,000	17.3	23.1	16.2	21.6	15.9	21.2	16.5	21.9	16.2	21.6	16.5	22.0
4.1.3	From ₽100,000 to ₽300,000	16.5	22.1	15.6	20.8	15.3	20.3	15.0	20.0	15.0	20.0	15.8	21.0
4.1.4	More than ₽300,000	14.9	19.8	14.2	18.9	13.0	17.3	11.9	15.9	12.2	16.3	12.5	16.7
4.2	More than one year, including:												
4.2.1	Up to ₽30,000	20.2	26.9	19.5	26.0	19.2	25.6	19.0	25.4	18.7	25.0	20.3	27.1
4.2.2	From ₽30,000 to ₽100,000	19.3	25.7	18.6	24.8	18.1	24.2	19.0	25.4	18.8	25.1	18.9	25.2
4.2.3	From ₽100,000 to ₽300,000	18.8	25.1	18.0	24.0	17.5	23.3	18.1	24.2	18.0	24.0	18.2	24.2
4.2.4	More than ₽300,000	16.6	22.2	15.5	20.7	15.1	20.1	14.9	19.9	14.7	19.5	15.1	20.1

ABBREVIATIONS

AML/CFT – anti-money laundering and combating the financing of terrorism

BCBS – Basel Committee on Banking Supervision

CBR-Composite – a composite index calculated on the basis of the Lind Market Power Index and the Market Competitiveness Index (GAP)

CCCH – Central Catalogue of Credit Histories

CDS – credit default swap

CHB – credit history bureau

CIS – Commonwealth of Independent States

CPC – clearing participation certificate

CPI – Consumer Price Index

CUIF – closed-end unit investment fund

DBR – debt burden ratio

DIA – State Corporation Deposit Insurance Agency

DIS – deposit insurance system

EAEU – Eurasian Economic Union

ECB – European Central Bank

EIR – effective interest rate

E-money – electronic money

EPI – electronic payment instrument

EU – European Union

EXIAR – Russian Agency for Export Credit and Investment Insurance

FBSC – Fund of Banking Sector Consolidation

FinCERT – Financial Sector Computer Emergency Response Team of the Bank of Russia Information Security Department

FinCERT AIPS – FinCERT Automated Incidents Processing System

FPS – Faster Payments System

FSRP – financial stability recovery plans

GDP – gross domestic product

HHI – Herfindahl-Hirschman Index

HML – housing mortgage loans

ICAAP – Internal Capital Adequacy Assessment Process

IFRS – International Financial Reporting Standards

IFX-Cbonds – a corporate bond yields index calculated by Interfax and Cbonds.ru

IMDR – interbank market dependence ratio

IRB – internal ratings-based approach

ISM Manufacturing (Institute for Supply Management Manufacturing) – an index of US manufacturing companies' business activity calculated by the Institute for Supply Management

Markit PMI Manufacturing (Purchasing Managers' Index Manufacturing) – a business activity index for the euro area calculated by Markit Economics

MFO – microfinance organisation

MIACR – Moscow Interbank Actual Credit Rate

MOEXREPO (MOEX CCP Bond Repo Rate) – the Moscow Exchange rate on bond repos with a central counterparty

MOEXREPOEQ (MOEX CCP Equity Repo Rate) – the Moscow Exchange rate on equity repos with a central counterparty

NCHB – National Credit History Bureau

NCI – non-bank credit institution

NCI JSC NSD – Non-bank Credit Institution Joint-stock Company National Settlement Depository

NCI NCC (JSC) – Non-bank Credit Institution – Central Counterparty National Clearing Centre (Joint-stock Company)

NFI – non-bank financial institution

NPCS – National Payment Card System

NPS – national payment system

OBR – Bank of Russia bonds

OFZ – federal government bonds

PSP – Public Services Portal

RTS – Russian Trading System

RUONIA (Ruble OverNight Index Average) – the reference weighted rate of overnight ruble deposits in the Russian interbank market

S&P 500 (Standard & Poor's 500) – a stock market index that tracks 500 US joint-stock companies with large capitalisation

Shanghai Composite – a stock index of the Shanghai Stock Exchange

SIBSD – Systematically Important Banks Supervision Department

SICI – systemically important credit institutions

SME – small and medium-sized enterprises

SOBS – Service for Ongoing Banking Supervision

US Fed – US Federal Reserve System

USIA – Unified System of Identification and Authentication

USIEC – Unified System of Interdepartmental Electronic Collaboration

VAT – value added tax

GLOSSARY

Average cost of capital (funding cost) – calculated as a percentage ratio (percentage per annum) of interest expenses for the past 12 months and average interest-bearing liabilities.

Average return on placement – calculated as a percentage ratio (percentage per annum) of interest income for the past 12 months and the average chronological amount of interest-earning assets.

Bad loans – quality category IV and V loans in accordance with Bank of Russia Regulation No. 590-P, dated 28 June 2017, 'On the Procedure for Making Loss Provisions by Credit Institutions for Loans, Loan and Similar Debts'.

Bank claims on the Bank of Russia – claims of credit institutions on deposits, required reserves and balances in correspondent accounts with the Bank of Russia, and investment in Bank of Russia bonds.

Banks and non-bank credit institutions (NCI) under resolution – institutions undergoing resolution through the State Corporation Deposit Insurance Agency (DIA) and Limited Liability Company Banking Sector Consolidation Fund Management Company (UK FKBS).

Capital conservation buffer – the minimum requirement for the excess of a bank's capital adequacy ratios over the required ratios applied to all banks with a universal licence.

Capital shortfall – recapitalisation which non-compliant banks need to comply with capital adequacy requirements.

Capital stock – bank capital in excess of the level needed to comply with capital adequacy ratios and buffers. It is only determined for banks compliant with ratios and buffers.

Corporate lending – loans to non-financial organisations.

Cost-of-risk – calculated as a percentage ratio of net additional loss provisions for the past 12 months and the average chronological amount of overdue loans.

Cost-to-income ratio – a percent ratio between administrative expenses and net income for 12 months calculated as financial result (income less expenses), except for income/expenses from provision creation/recovery and administrative expenses. The ratio shows the share of net income used to cover administrative expenses.

Countercyclical buffer – is the minimum requirement for the excess of a bank's capital over the required values established depending on the phase of the economic cycle. The buffer applies to all banks with a universal licence. During upturns, banks are supposed to accumulate additional capital, whereas during downturns they may have lower capital stock.

Emerging market economies – countries with fast emerging markets and the most promising economic development.

Foreign-controlled banks – Banks directly or indirectly controlled by foreign legal entities and foreign nationals, and banks where the direct or indirect (via third parties) share held by foreign legal entities and foreign nationals who are the ultimate owners of shareholders (participants) of the bank exceeds 50% of the total number of voting shares (equities) in the bank.

Gross profit – financial result of profit-making credit institutions.

Interest rate spread – the difference between the average return on placement and the average cost of capital in percentage points.

Internal ratings-based approach (IRB approach) – an approach to the calculation of credit risk that applies borrower ratings assigned by banks.

Leading PMI index (Purchasing Managers' Index) – a leading index calculated on the basis of a survey of purchasing managers. If the index equals 50, the current situation is expected to continue in the short term; if the index exceeds 50, an improvement is expected; if the index is below 50, a deterioration is expected.

Loans to the private sector – total loans to non-financial organisations and households (residents and non-residents).

Net interest margin – calculated as a percentage ratio (percentage per annum) of net interest income for the past 12 months and the average chronological amount of interest-earning assets.

Net profit – aggregate financial result for the banking sector as a whole (the sum of financial results of profit and loss-making credit institutions).

Non-resident banks – non-resident credit institutions of the Russian Federation.

Overdue loan – payments overdue by at least one day.

Retail lending – loans to households.

Return on assets/capital – the ratio between financial result (before tax) for the 12 months before the reporting date and the average chronological amount of assets (capital) in the same period.

State-controlled banks – credit institutions directly or indirectly controlled by the Government or the Bank of Russia.

Systemic capital buffer – the minimum requirement for the excess of a bank's capital adequacy ratios over the total required ratios applied to systemically important banks in addition to the capital conservation buffer and the countercyclical buffer.

LIST OF FIGURES

LIST OF TABLES

Appendices