THE CENTRAL BANK OF THE RUSSIAN FEDERATION

BANKING SUPERVISION REPORT 2012

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Contents

Foreword

Dear readers,

We are offering for your attention the Bank of Russia annual Banking Supervision Report.

The overall macroeconomic conditions for banking sector development in Russia were quite favourable in 2012, with GDP growing by 3.4% and investments in fixed capital increasing by 6.7%. Industrial capacity utilisation reached its highest level in the last few years; meanwhile, the unemployment rate reached a record low.

Against this background, the banking sector demonstrated sufficiently balanced growth: bank assets grew by approximately 19%, their capital rose by 17% and household deposits increased by 20%. With the stable quality of the loan portfolio, record profits of over one trillion roubles were posted.

However, due to substantial differences in lending to non-financial organisations and to households, excessive risks accumulated in the consumer lending segment, primarily in unsecured lending. This situation should be rectified according to the decisions taken by the Bank of Russia at the end of 2012 to refine prudential rules.

Bank liquidity risks remained moderate, which was assisted by Bank of Russia refinancing operations and by placements of Federal Treasury funds in bank deposits. Due to limited access to foreign capital via global financial markets, Russian banks widened their resource base by mobilising domestic sources, primarily private and corporate savings.

Good financial results provide opportunities for increasing bank capitalisation, which is highly relevant due to the new international capital adequacy and quality requirements (Basel III) that have to be implemented in Russia over the next few years.

The implementation of international best practices with respect to banking regulation and supervision and their adaptation to Russian conditions continued in 2012. The Bank of Russia has issued a number of regulations that are covered in this Report.

In light of the professional community's growing interest in banking sector stability issues, the Report includes analysis of global risks and an assessment of the banking sector systemic stability, including the analysis that involves stress-testing methods.

The Report also examines issues related to the operation of banks as participants in the payment system, taking into account the provisions of the Federal Law «On the National Payment System».

The Report pays significant attention to the outlook for banking regulation and supervision in Russia, based on objectives set in the Russian Banking Sector Development Strategy until 2015.

Sergey M. Ignatiev,
Bank of Russia Chairman

I

The State of the Russian Banking Sector

I.1. General Economic Conditions

I.1.1. Macroeconomics and external global risks

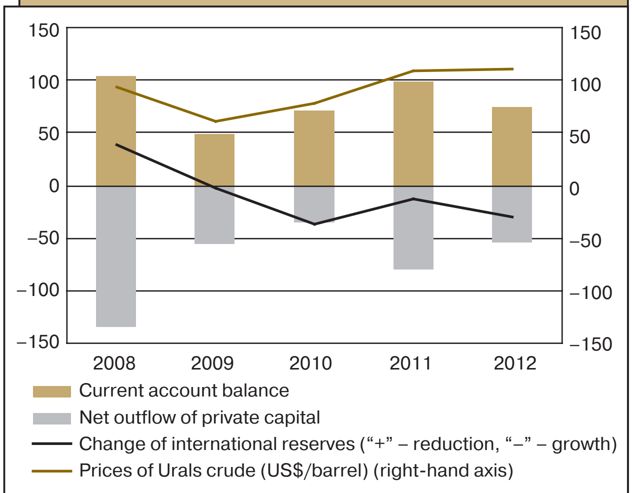
Macroeconomics

In 2012, the Russian economy remained sufficiently stable. Industrial production kept growing in most key sectors of the economy; meanwhile, unemployment decreased. High domestic demand remained a major factor driving economic growth. The volatile economies of Russia's trading partners, particularly the eurozone with its recession, resulted in low external demand for Russian exports, which affected economic activity. Inflation increased as compared with the previous year, due to rising fruit and vegetable prices.

Energy prices climbed on global markets in 2012, while prices for non-energy related goods declined. Overall, the price environment for Russian exporters improved slightly in comparison with the previous year. The average annual price of Urals crude on global markets increased by 1.1% year on year to $110.8 per barrel. Energy prices climbed by 1.9% on average, while prices for non-energy related goods went down by 11.7%.

The current accounts surplus decreased by 23.1% in 2012, to $74.8 billion. The trade surplus fell by 1.8%. The export of goods grew by 2.7%. This growth was mainly attributable to higher prices for Russian export goods. Energy goods accounted for 66% of all exports. The import of goods rose by 5.4% due to increased volumes, while prices remained basically unchanged. The deficit in the balance of services totalled $46.2 billion in 2012 as against $33.5 billion in 2011. Deficits in the balance of investment income, the balance of compensation to employees, and the balance of secondary income increased *(see Chart 1.1).*

Russia's balance of payments (billions of US dollars) *CHART 1.1*



The net outflow of private capital remained significant in 2012, although it fell to $54.1 billion (it had totalled $81.3 billion the year before). The increased volume of capital raised by banks was mainly related to the issue of new Eurobonds and to declining investment in foreign assets, which jointly led to a net capital inflow into the banking sector, which was estimated at $18.5 billion (in 2011, the net export of capital by banks totalled $23.9 billion). The net export of capital by non-financial organisations increased by $15.3 billion, to $72.7 billion. A substantial net outflow of private capital reflected investor desire to minimise risks.

Russia's international reserves grew by $39.0 billion, amounting to $537.6 billion as of January 1, 2013. The international reserve level necessary to comply with internationally recognised criteria of minimum adequacy was exceeded many times. Their volume at the beginning of 2013 could support the import of goods and services for 15 months in 2012 (as compared with 14 months in the previous year).

In 2012, the Bank of Russia exchange rate policy remained in line with the managed floating exchange rate regime with a gradual increase in the flexibility of the rouble exchange rate. The Bank of Russia continued to use the rouble value of the dual-currency basket (0.55 US dollars and 0.45 euros) as an operational indicator. The range of its fluctuations was determined by the floating operational band *(see Chart 1.2).*

The nominal effective exchange rate of the rouble grew by 2.1% in 2012 (December on previous December); its real effective exchange rate accelerated at 5.3% (as against 5.4% and 3.8% respectively in 2011).

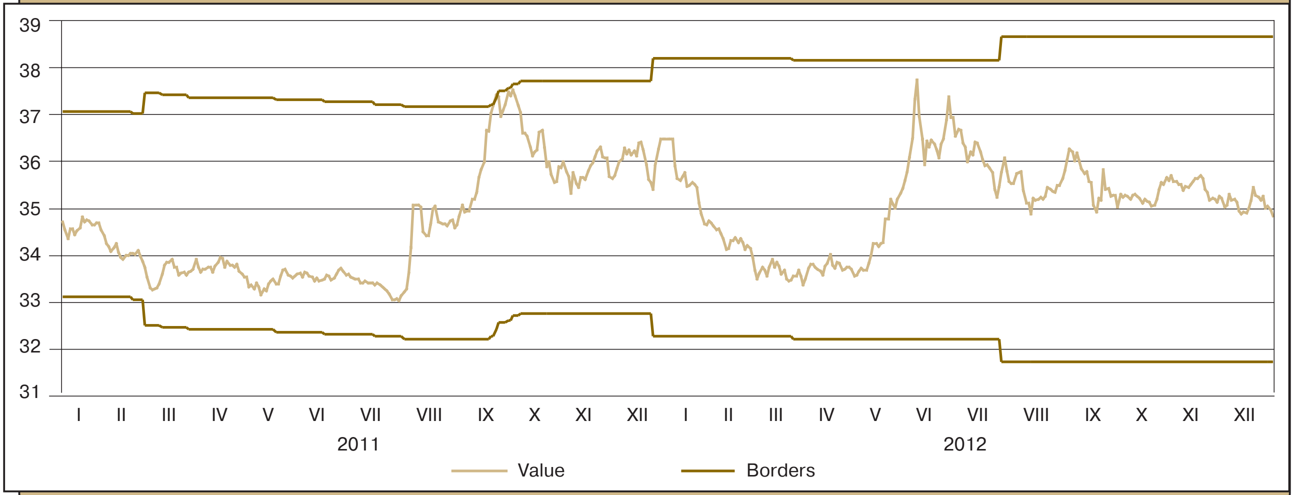
Russia's external debt grew by 17.2% during the reporting period and was estimated at $631.8 billion at the beginning of 2013. The external debt of banks rose by 23.8%, while that of other sectors by 11.1%. The debt burden on the country's economy[1] would not be considered critical when measured according to internationally-recognised criteria: the total external debt of the Russian Federation in 2012 was estimated at 31.4% of GDP as against 28.4% of GDP in 2011.

GDP grew by 3.4% in 2012 as against 4.3% in 2011. The largest contribution to GDP growth was made by higher output in the wholesale and retail trade, financial activity, and intensified real estate transactions.

The GDP growth rate declined in the second half of 2012. The Russian Federal State Statistics Service sur-

[1] Foreign debt to GDP.

Dual-currency basket value and operational band borders (roubles) *CHART 1.2*



veys indicated deteriorating sentiment among producers in the mining and manufacturing sectors in the second half of 2012. The following factors inhibiting production growth were mentioned: high taxes, economic uncertainty, lack of financial resources, and insufficient domestic demand (for manufactured goods). Industrial production increased by 2.6% in 2012 as against 4.7% in 2011. The average monthly growth of industrial output, adjusted to exclude seasonal and calendar factors, slowed down in comparison with the previous year. Industrial capacity utilisation practically reached its pre-crisis level, while agricultural production declined in 2012. The production growth rate slowed down in construction and transportation.

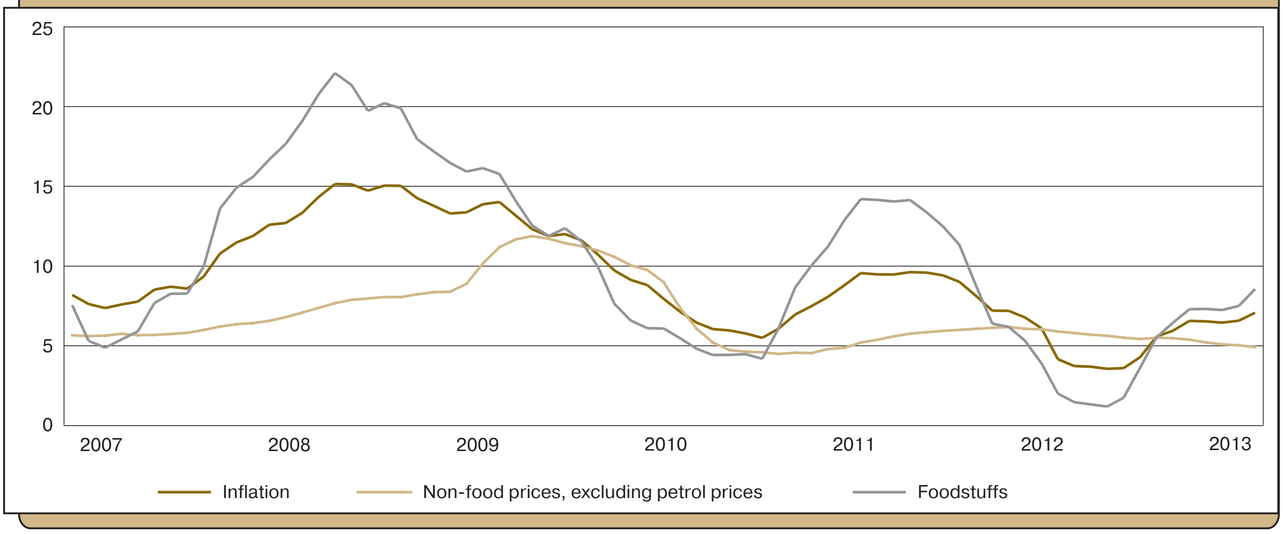
Employment continued to grow in 2012. The share of unemployed people dropped to 5.5% of the economically active population as against 6.5% in 2011. Overall unemployment is estimated to have been lower than the long-term trend.

High domestic demand remained the main economic driver during the reporting period; however, its growth rate decelerated from the year before. Investment activity somewhat decreased due to the substantial slowdown of non-financial organisation profit growth. Fixed capital investments increased by 6.6% during the reporting period as against 10.8% in 2011.

Growing real wages and increased borrowing activity among households contributed to a rise of real consumer spending. This indicator grew by 5.9% in 2012 as against 6.7% in 2011. Household propensity to save in deposits and securities was higher in 2012 than in 2011. This is partially related to the fact that major Russian banks increased interest rates on household deposits at the end of the reporting period.

In 2012, consumer prices rose by 6.6%, an increase of 0.5 percentage points as compared with 2011. In the reporting year, inflation exceeded the 2012 annual target (5%–6%) set in the "Guidelines for the Single State Monetary Policy in 2012 and for 2013 and 2014". That was driven mainly by a rise in food prices due to a lower harvest in 2012 than in 2011 *(see Chart 1.3)*.

Consumer prices, food prices, and non-food prices, excluding petrol prices (month on month of the previous year) *CHART 1.3*



Fruit and vegetable prices raised by 11.0% in the reporting year, while in 2011 they had fallen by 24.7%. Prices for other foodstuffs grew at a slower rate than they had the year before (7.1% as against 7.4%).

Prices for goods and services, excluding fruit and vegetable prices (amounting to approximately 97% of the consumer goods basket) increased at a slower rate in 2012 than in 2011: 6.4% as against 7.5%.

Non-food prices rose at a slower rate than in 2011 (5.2% as against 6.7%). The price growth rate for non-foodstuffs (excluding petrol), which was the component least affected by administrative factors, slowed down throughout 2012.

Prices and tariffs for paid services to households rose at a slower rate too: the growth rate dropped from 8.7% in 2011 to 7.3% in 2012. There was also a slowdown in the growth of administered prices and rates.

Core inflation in 2012 amounted to 5.7%, a decrease of 0.9 percentage points compared to the previous year.

In the reporting year, inflation was not boosted by consumer demand. The output gap was estimated as being close to zero throughout the year. The increased nominal effective exchange rate of the rouble kept prices down.

External global risks

The specific character of the Russian economy and the high share of oil and gas revenues in export earnings make falling energy prices and the deteriorating balance of payments the key factors that could negatively affect the situation. Additionally, the Russian economy is exposed to risks related to increased instability on global financial markets.

The 2012 European debt crisis was accompanied by a slowdown of economic growth and continued excessive volatility on global financial markets. In the midst of that situation, the regulators of leading countries took unprecedented measures to support their economies. The situation was mostly stabilised by the end of the year, but there are still significant risks that economic and financial imbalances will occur[1]. According to the consensus forecast from major financial institutions[2], the world economy is expected to somewhat recover within the next two years *(see Chart 1.4).*

During the reporting year, European regulators have overcome the most acute phase of the eurozone debt crisis, despite the complicated process of establishing a consensus on how to handle it. One key indicator of declining sovereign risks is the downward trend in the yields on the government ten-year bonds of the eurozone's distressed economies *(see Chart 1.5)*. The pivotal measures included the agreement to provide financial assistance to Greece; expanded outright monetary transactions for countries applying for financial assistance; and the establishment of the European Stability Mechanism (ESM). The European Central Bank (ECB) has improved conditions on the interbank loan market by providing long-term refinancing and lowering base loan and deposit rates. The European banking sector should also be strengthened by the decision to introduce the Single Supervisory Mechanism, which is designed to enhance the stability of the European financial system.

The US Federal Reserve System implemented extensive measures to revive economic growth and, where necessary, to increase employment (the third round of quantitative easing of monetary policy (QE3); the extension of the period in which interest rates were kept low; the initiation of a new round of purchasing out Treasury securities). The Bank of England and the Bank of Japan announced several expansions of their asset-purchase programmes within the framework of anti-crisis measures. The central banks of the major emerging economies (China, India, and Brazil) lowered their key rates during the year under review.

Due to regulator efforts, the global levels of risk went down in 2012, which was reflected in the upward trend on global financial markets and in the growing risk appetite among investors in the second half of 2012 *(see Chart 1.6 and Chart 1.7)*.

However, the persisting destabilising factors can bring back the negative trends.

Overcoming the eurozone recession *(see Chart 1.8)* would depend on the implementation of the planned fiscal and banking reforms. Improvement has manifested in the increased deposits and capital of credit institutions in the eurozone countries (including distressed economies), and in lowered interest rates on the interbank loan market, against the backdrop of excess liquidity in the European banking sector *(see Chart 1.9)*. Economic growth can be inhibited by such factors as low domestic and external demand; political disputes concerning fiscal measures; the disintegration of national financial systems (reflected in market player desire to avoid risks originating in distressed economies); and unresolved banking sector issues (the growing share of problem loans and the necessity of a further reduction of balances because of the need for financial deleveraging).

At the end of 2012, the risks associated with the so-called fiscal cliff and with the necessity to raise the nation's debt ceiling increased in the US.

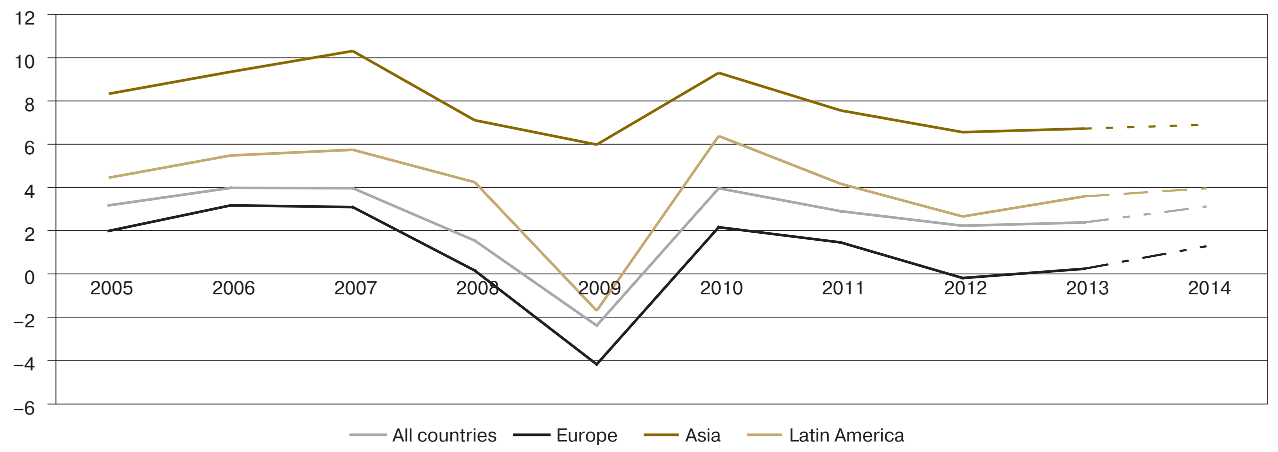
In addition, an excessive easing of the monetary policy in developed economies could lead to so-called financial bubbles and new risks to financial stability.

In the short term, the issue of currency imbalances might become aggravated. Since the summer of 2012, several major economies (China and the Republic of Korea) have been witnessing the appreciation of their national currencies, which negatively impacts the competitiveness of their exports. They will probably follow Japan's example and try to reduce the pressure on their currencies. It should be also kept in mind that many de-

[1] This forecast was partially confirmed by the Cyprus financial crisis early in 2013.
[2] Global financial institutions, national banks, non-bank financial organisations, etc.

GDP annual growth rates (%)*

CHART 1.4

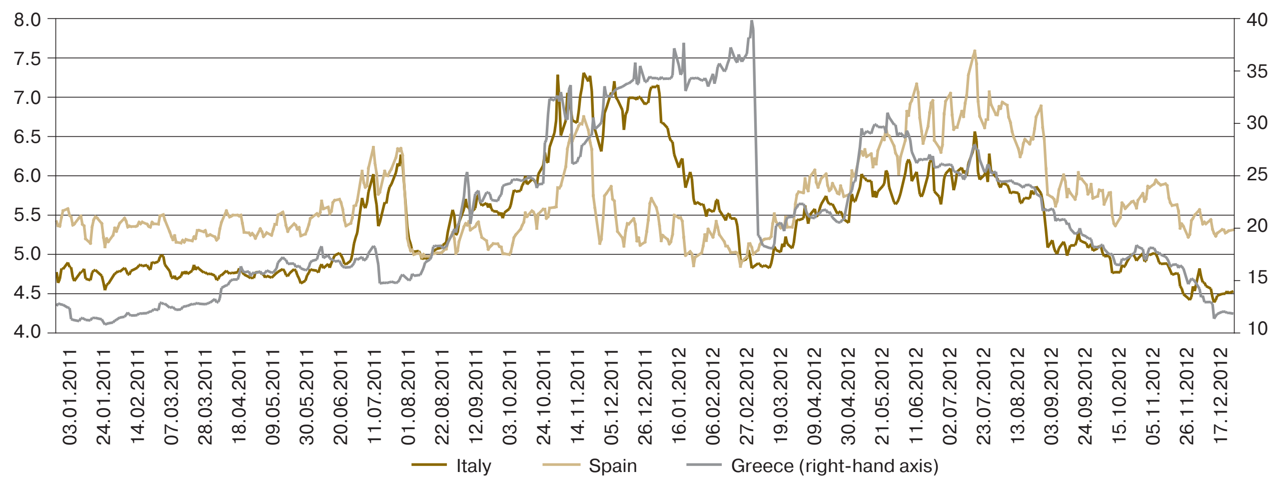


* Since 2013 – consensus forecast.

Source: Bloomberg.

Yields on government ten-year bonds of the eurozone's distressed economies (%)

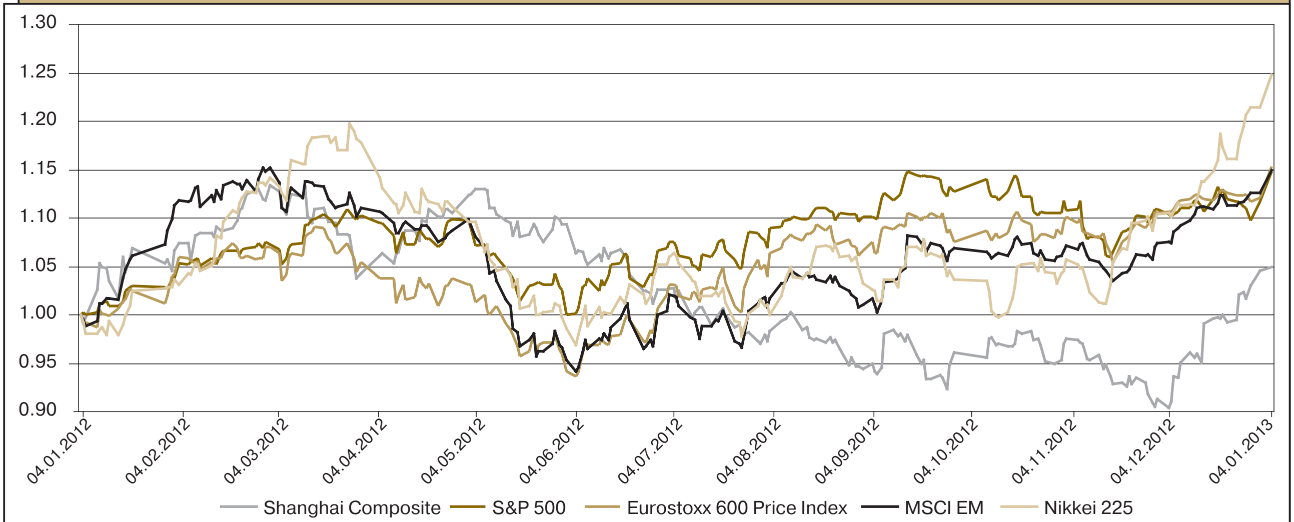
CHART 1.5



Source: Reuters Datastream.

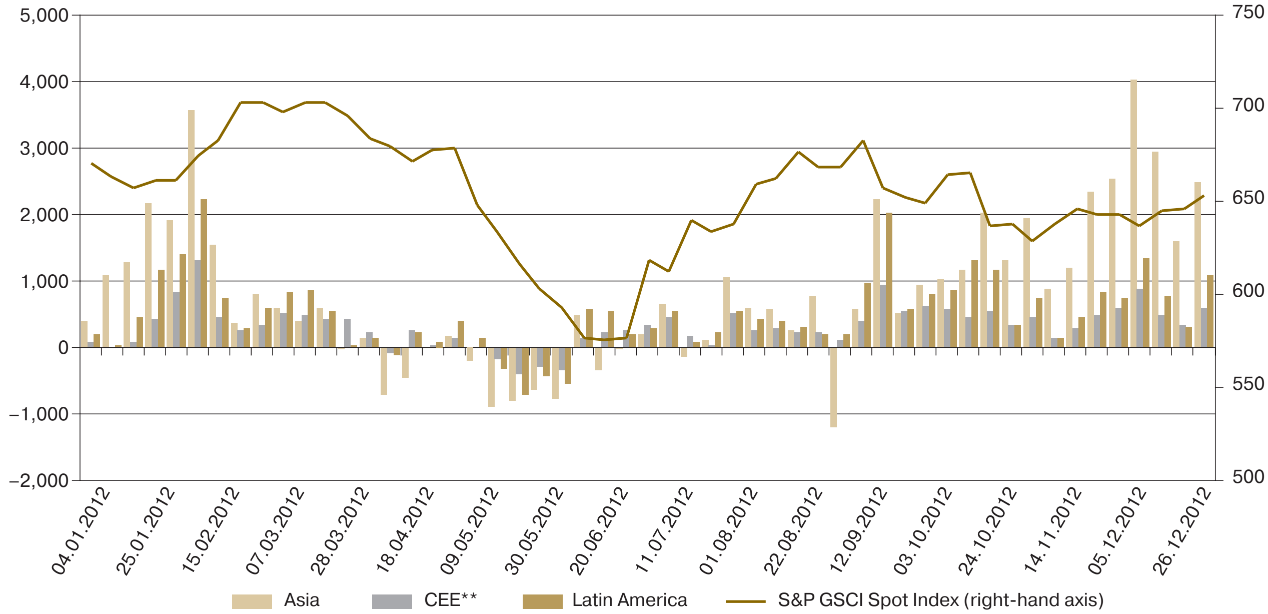
Global stock indices (January 4, 2012 = 1)

CHART 1.6



Source: Bloomberg.

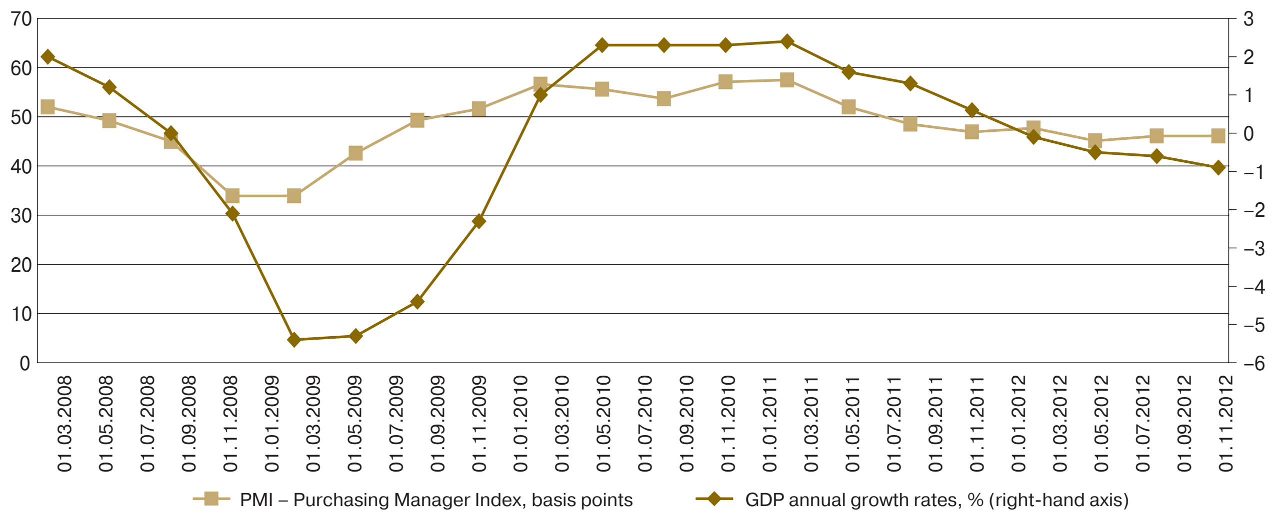
Investments in emerging market funds (weekly, millions of US dollars) and S&P GSCI* CHART 1.7



** The S&P GSCI Spot Index monitors the prices of 24 commodities.*
*** Central and Eastern Europe.*

Sources: EPFR, Bloomberg.

Annual GDP and PMI growth rates in the eurozone CHART 1.8



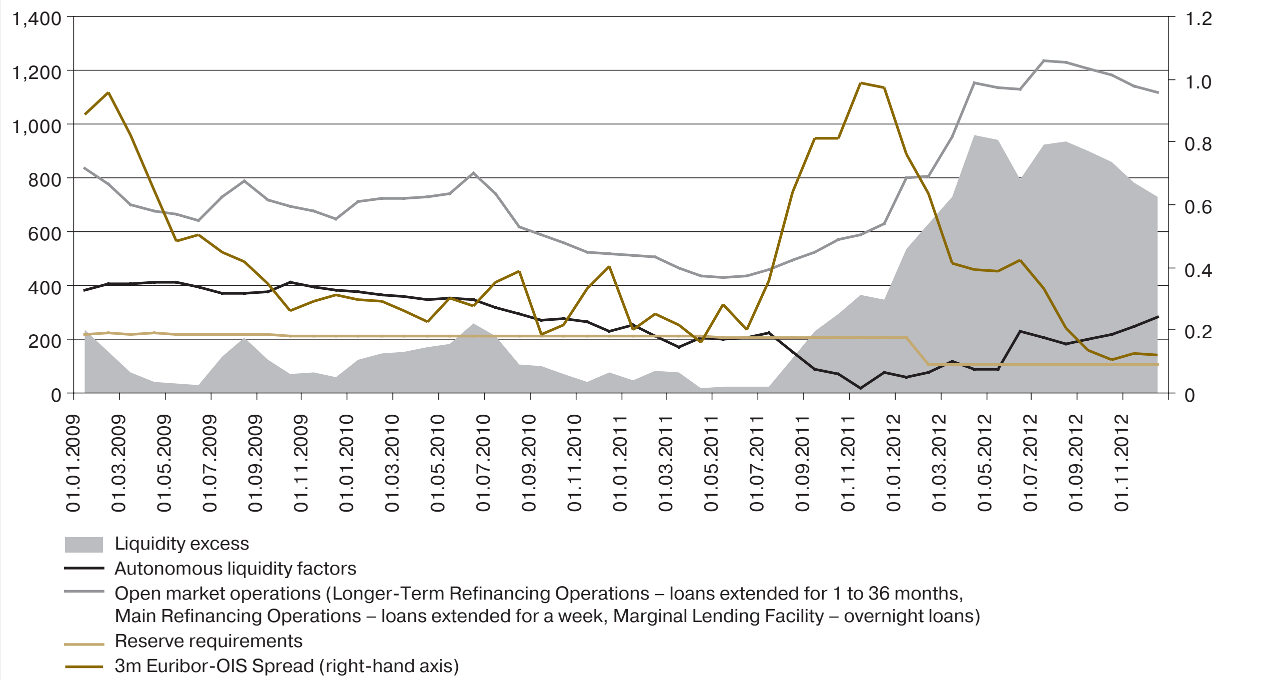
Source: Bloomberg.

veloping countries are frequently limited in their ability to support their national currency due to high inflation rates.

In the mid-term, an easy monetary policy might trigger the destabilisation of international capital flows. Measures that have been taken support risk appetites among investors, but there is a danger of capital flows becoming more volatile, which will complicate the management of accompanying risks in developing countries. One such risk involves increased profiteering and price imbalances that might occur due to a miscalculation of the risks by investors who invest in risky assets. The excessive inflow of foreign capital can also become one of the reasons for the real-estate market overheating in developing countries.

In the long-term, in developed economies, minimal interest rates, accompanied by a transformation of short-term loans into longer investments, might lead to the accumulation of substantial interest rate risks for investors and financial organisations that might occur in case interest rates increase. In such a case, the eventually inevitable phase-down of an "asset purchase" policy might lead to negative consequences. This makes issues such as

Changes in European banking liquidity (billions of euros) *CHART 1.9*



Источник: Bloomberg.

tactics and coordination among monetary, budget, fiscal, and supervisory authorities in the developed countries, which are responsible for normalising the economic situation, crucially important. An important factor of reviving stable economic growth and ensuring financial stability should be prevention of any shocks, including shocks that are of a regulatory nature.

I.1.2. National payment system

In 2012, the national payment system was not affected by any destabilising factors. Its development met the needs of credit institutions and their clients for payment services and was characterised by the expanded incorporation of modern technologies. A new institutional segment of the national payment system emerged in the second half of 2012: payment systems which had to be registered with the Bank of Russia. To help implement Federal Law No. 161-FZ, dated June 27, 2011, “On the National Payment System” (hereinafter referred to as Federal Law No. 161-FZ), efforts were made to form a regulatory base that set up rules for money transfers, defined payment system organisational and operational requirements, and established procedures for the supervision and oversight of the national payment system.

The volume and value of payments[1] made through the Russian banking system increased by 15.4% and by 22.6% respectively year on year, and totalled 3.8 billion transactions worth 1,591.0 trillion roubles. On average, 15.1 million payments totalling 6.4 trillion roubles were executed daily (13.2 million payments totalling 5.2 trillion roubles in 2011). The average payment stood at 421,900 roubles as against 397,100 roubles in 2011. The volume and value of payments effected in 2012 by credit institutions totalled 2.5 billion transactions and amounted to 440.5 trillion roubles as against 2.1 billion transactions worth 382.1 trillion roubles in 2011.

Compared to 2011, the structure of the own payments of credit institutions and the payments of their customers (individuals and legal entities other than credit institutions) remained basically unchanged. A significant proportion of the total volume and value of payments (62.0% and 98.4%) consisted of credit transfers[2]. At the same time, the transactions of legal entities dominated the structure of payments in terms of value (92.1%), while individual payments prevailed in terms of value (57.0%); mostly these had been remittances without opening bank accounts.

The share of direct debit payments remained insignificant. Only two out of every 100 payments were made as direct debiting, and they accounted for less than 1% of all payments. The development of this payment service should be boosted by explicit provisions in the national payment system legislation that support money transfers initiated by payees, as well as by increased interest in direct debiting on the part of credit institutions and their customers.

[1] Includes payments in roubles from the customer accounts of the Bank of Russia and credit institutions (individuals, credit institutions, legal entities other than credit institutions); own payments of the Bank of Russia and credit institutions; remittances made by individuals without opening bank accounts. Bank card payments are not included.
[2] A credit transfer is a payment service involving one-off or periodic write-downs from the payer’s account triggered by the payer.

In 2012, Russian banks continued their policy of expanding remote services and encouraging customers (by means of price incentives, among other things) to use these remote access channels to effect payments. During the reporting year, the number of remotely accessible customer accounts which were opened by credit institutions for individuals and legal entities other than credit institutions rose by more than one quarter and totalled 99.9 million. There was significant growth (40%) in the number of accounts accessible via the Internet or mobile phones. At the same time, despite the rapidly growing number of such accounts, their share of the total number of remotely accessible accounts remained relatively small: 30.8% of all accounts were accessible via the Internet as against 26.9% as of January 1, 2012 and 25.7% were accessible via mobile phones as against 22.5% as of January 1, 2012.

There were 4.0 billion non-cash payments (an increase of 42.7% year on year) that were made in 2012 on the basis of instructions remotely issued by bank customers (including payments made with banking cards); these were worth 319.3 trillion roubles (a growth of 14.1%). The share of payments effected via the Internet or mobiles was 20.3% in terms of volume and 64.0% in terms of value. Among payments made on the basis of remotely issued instructions, payment orders accounted for the largest share in terms of value (98.2%), and payment cards accounted for the largest share in terms of volume (77.6%).

The number of payment cards issued by Russian credit institutions grew by 19.7% in 2012 to 239.5 million, of which 70.6% were settlement (debit) cards, 9.4% were credit cards, and 20.1% were prepaid cards[1]. Credit card supply grew the fastest (it increased by 50%); the number of settlement (debit) cards and prepaid cards rose by 14.3% and 28.9% respectively. As of January 1, 2013, the share of active settlement cards[2] was 53.7% of their total number; the share of active credit cards was 44.4%. Unlike settlement and credit cards, the number of active prepaid cards is usually higher during a quarter than the number of valid prepaid cards at the end of the quarter because they are mainly used for small payments and usually issued for one-off transactions. The average quarterly number of active prepaid cards in 2012 was 47.4 million.

Compared to 2011, the volume and value of transactions conducted by card holders in the Russian Federation and abroad increased by 40.5% and 34.4% respectively, to 5.9 billion transactions and 23.8 trillion roubles. The share of cash withdrawals fell by 10.0 percentage points (to 48.2%) in terms of volume and by 3.4 percentage points (to 76.4%) in terms of value. The share of non-cash transactions using payment cards was 51.8% and 23.6% respectively.

Additionally, the Russian payment infrastructure serviced the payment cards of foreign issuers: in 2012, holders of payment cards issued by non-resident banks conducted 65.8 million transactions in Russia with a total value of 274.2 billion roubles; the share of non-cash transactions was 65.8% in terms of volume and 49.6% in terms of value.

One key factor contributing to the rapid growth of non-cash transactions with payment cards (70% in terms of volume and 60% in terms of value) was the development of the infrastructure for servicing payment cards. The number of devices (ATMs, electronic terminals, imprinters) used for paying for goods and services with payment cards grew by 27.5% and as of January 1, 2013, totalled 904,300.

In 2012, retail payments revealed a high demand for cash as a means of payment. The value of cash arriving at the cash desks of Bank of Russia divisions and credit institutions (hereinafter referred to as cash desks) from the sales of consumer goods totalled 12.3 trillion roubles, representing a 13.7% year-on-year increase; paid services totalled 3.6 trillion roubles (12.4%); sales of foreign currency to individuals stood at 1.9 trillion roubles (26.9%); and the sales of real estate totalled 0.5 trillion roubles (23.0%). Those payments represented 48.5% of the total amount of cash received by cash desks as against 50.6% in 2011.

Cash inflow via ATMs and the payment terminals of credit institutions increased 60%, to 3.5 trillion roubles; cash receipts per capita grew from 15,300 roubles in 2011 to 24,700 roubles in 2012. This growth was supported by the expansion of payment services available via these devices, including payments for government services.

The development of bank payment infrastructure was accompanied by the intensified activity of payment agents and bank payment agents receiving cash from individuals as payment for goods (works, services)[3]. These receipts grew 2-fold in comparison with 2011 and totalled 974.5 billion roubles. Of that amount, 89.5% was received by payment agents, and 10.5% was taken by bank payment agents.

Within the framework of establishing a supervision and oversight system for the national payment system, the Bank of Russia began to register payment system operators and develop a toolkit for monitoring supervised organisations. As of January 1, 2013, the register of payment system operators posted on the Bank of Russia website included 19 organisations, seven of which are not credit institutions. The largest payment systems whose operators were registered by the Bank of Russia include Visa and MasterCard, as well as the National Settlement Depository (NSD) Payment System, which makes money transfers on the organised market.

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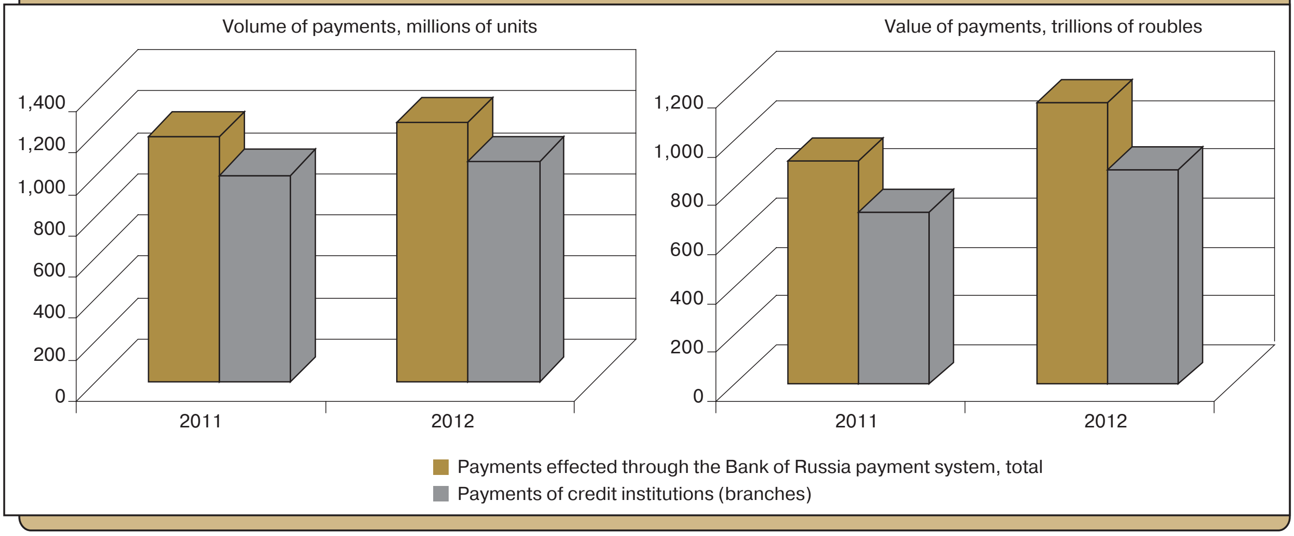
[1] According to Bank of Russia Ordinance No. 2862-U of August 10, 2012, “On Amending Bank of Russia Regulation No. 266-P, Dated December 24, 2004, on the Issue of Bank Cards and Operations Conducted Using Payment Cards”, a prepaid card as an electronic payment instrument is used for electronic money transactions.

[2] Active cards mean the cards that were used at least once per quarter to withdraw cash and/or to pay for goods and services.

[3] Including charges for residential premises.

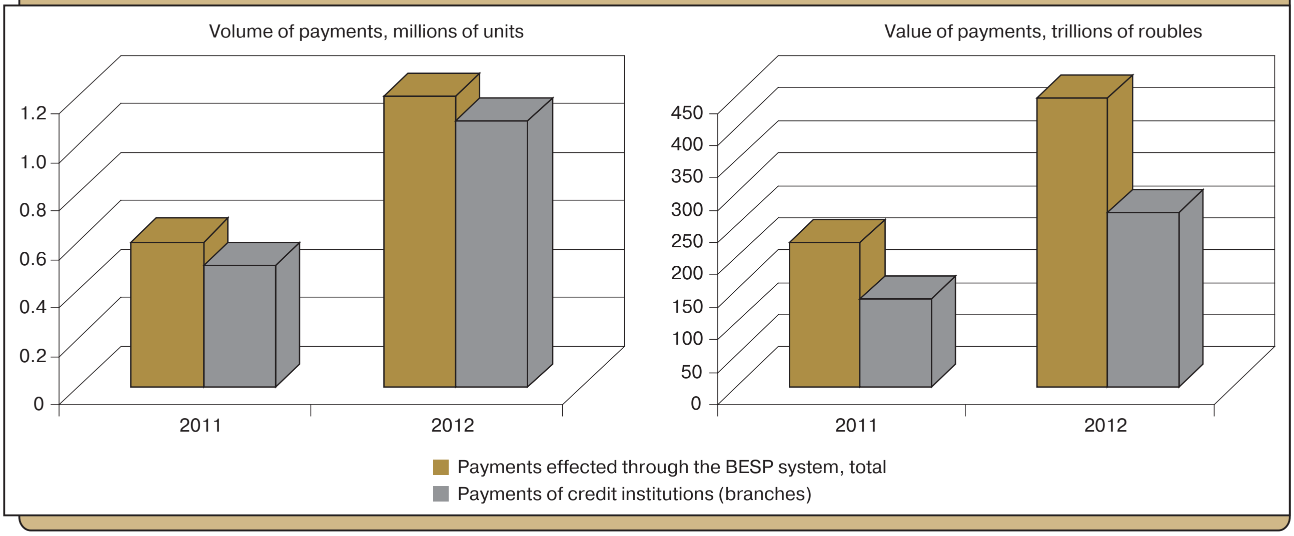
Payments effected through the Bank of Russia payment system

CHART 1.10



Payments effected through the BESP system

CHART 1.11



The NSD Payment System has been recognised by the Bank of Russia as systemically important, according to the criteria set forth by Federal Law No. 161-FZ.

The Bank of Russia payment system performance data for 2012 show a long-term trend: the payment turnover is growing alongside an increase in the use of the services that are offered to satisfy the demand for transactions. This increase is primarily generated by credit institutions.

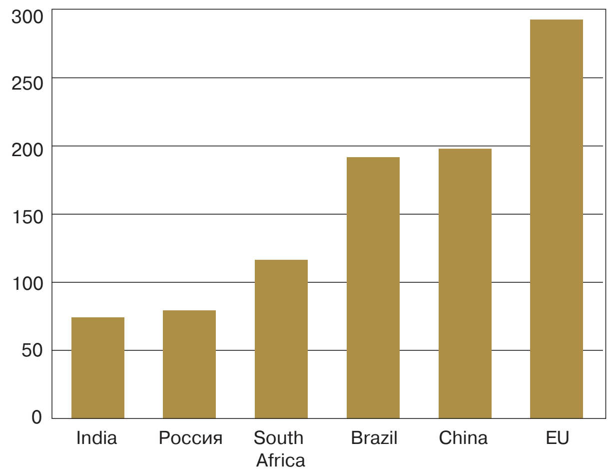
One of the key performance indicators for the Bank of Russia payment system, which has been monitored for a number of years, is the ratio of the value of payments made through this payment system to the GDP. In the reporting year, this ratio was 18.5 as against 16.8 in 2011.

In 2012, the volume of payments effected via the Bank of Russia payment system totalled 1,259.0 million and their value amounted to 1,150.5 trillion roubles (an increase of 6.0% and 25.6% respectively as compared with 2011). The average daily volume of payments effected through the Bank of Russia payment system grew from 4.8 million in 2011 to 5.1 million in 2012.

The number of credit institutions (branches) which were Bank of Russia customers decreased from 3,047 as of January 1, 2012, to 2,909 as of January 1, 2013, but the share of bank (branch) transfers in 2012, as in previous years, continued to dominate the total volume and value of transfers conducted through the Bank of Russia payment system (84.8% in volume and 76.4% in value). The volume and value of payments of credit institutions (branches) made through the Bank of Russia payment system grew by 6.3% and 24.6% respectively, amounting to 1,068.0 million in volume and 879.7 trillion roubles in value (as against 1,005.0 million and 706.1 trillion roubles in 2011) – see *Chart 1.10*. The average daily volume of payments of credit institutions (branches) that were processed by the Bank of Russia payment system rose from 4.1 million in 2011 to 4.3 million in 2012.

Payments processed by the Banking Electronic Speedy Payment System (BESP) in 2012 grew, both in

Banking sector assets/GDP ratio (%)* CHART 1.12



** Calculated based on the data of the IMF and national banks (Indian banking sector assets are given as of December 1, 2012).*

volume and in value. Consequently, the share of these payments in the overall value of payments made through the Bank of Russia payment system rose to 38.9% in value and to 0.09% in volume (as against 24.3% and 0.05% respectively in 2011). In 2012, the BESP processed 1,188,800 payments totalling 447.3 trillion roubles (*see Chart 1.11*), which is almost twice as much as in 2011 (626,100 payments totalling 222.8 trillion roubles). This growth occurred, among other reasons, due to the increased volume and value of BESP-processed payments made by credit institutions (branches). BESP-processed payments in excess of one million roubles accounted for 85.76% of the total volume of payments and 99.98% of the value of payments. The share of payments by credit institutions (branches) in the structure of BESP-processed payments remained the largest, as in 2011, and amounted to 95.5% by volume and 60.4% by value. As of January 1, 2013, the number of BESP participants (credit institutions and their branches) totalled 2,727 and accounted for 97.4% of the total number of credit institutions (branches) involved in the electronic document exchange with the Bank of Russia. Their correspondent accounts (sub-accounts) are opened with Bank of Russia cash settlement centres.

I.1.3. Banking sector macroeconomic performance

In 2012, most of the key indicators that reflected the banking sector's role in the economy exhibited positive dynamics. The ratio of banking sector assets to GDP increased from 74.6% to 79.1% during the year. In Russia, this indicator remains comparable with the level of some BRICS countries[1] *(see Chart 1.12)*.

The ratio of banking sector capital to GDP measured 9.8%, representing an increase of 0.4 percentage points during the year.

In the reporting period, customer funds remained the main resource for credit institutions; their share of GDP rose by 1.4 percentage points to 48.1%, with the share of households deposits growing to 22.8% of GDP (an increase of 1.5 percentage points) and the share of corporate deposits (excluding credit institutions) went up by 0.4 percentage points to 15.4% of GDP).

In 2012, as in the previous year, loans prevailed in the structure of banking sector assets. The total loans[2] to GDP ratio increased by 2.8 percentage points to 54.3%, while their share in banking sector total assets decreased by 0.4 percentage points to 68.6%.The ratio of loans to non-financial organisations and households to GDP rose by 2.6 percentage points to 44.3%.

[1] BRICS countries include Brazil, Russia, India, China, and South Africa.

[2] Loans and other placed funds made available to resident non-financial organisations, non-resident legal entities, government financial bodies and extra-budgetary funds, and individuals, as well as loans, deposits and other placed funds made available to the financial sector.

I.2. The Institutional Aspects of Banking Sector Development

I.2.1. Quantitative characteristics

In 2012, the number of operating credit institutions decreased by 22 to 956 institutions *(see Chart 1.13)*. During the year, twenty three credit institutions had their licences revoked, seven credit institutions were struck off the State Register following post-merger reorganisations and eight new credit institutions received a banking licence. Thus, the trend of recent years toward a reduction in the number of credit institutions continued in 2012.

Large multi-branch banks continued to optimise their regional units in 2012. The number of branches of operating credit institutions in Russia decreased by 16.3% and on January 1, 2013, their number totalled 2,349 (2,807 on January 1, 2012).

At the same time, the total number of internal divisions of credit institutions and their branches grew by 2,148 to 42,758 as of January 1, 2013 (40,610 as of January 1, 2012). The number of additional offices increased from 22,565 to 23,347, along with cash and credit offices – from 1,725 to 2,161, operations offices – from 5,360 to 7,447, and mobile banking vehicles – from 100 to 118. Meanwhile, the total number of external cash desks decreased from 10,860 to 9,685.

As a result, the number of internal divisions per 100,000 residents rose from 28.4 at the end of 2011 to 29.8 at the end of 2012.

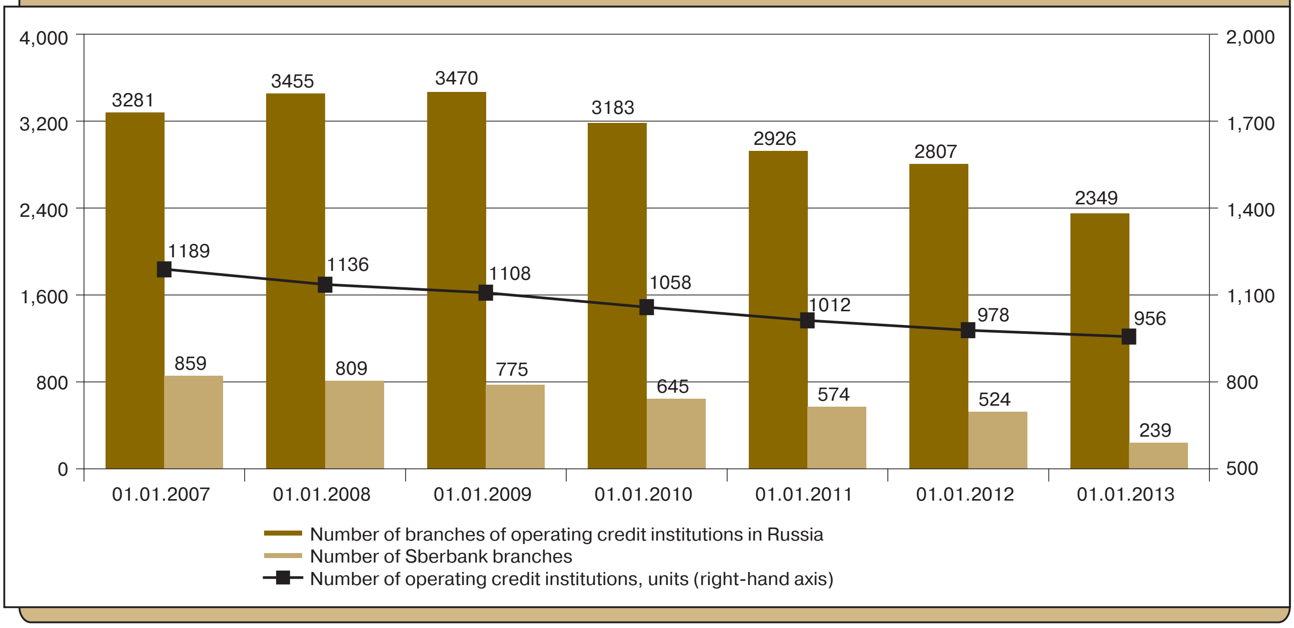
I.2.2. Regional banking

The number of operating credit institutions declined in most of Russian regions in 2012: the number of regional banks dwindled from 466 to 450. In 2012, the asset growth rates of regional banks (15.3%) were lower than the asset growth rates of the banking sector as a whole (18.9%). As a result, the regional bank share in banking sector total assets decreased from 12.0% to 11.6% during the year. Regional bank capital increased by 15.0% and their profits rose by 17.1%; these figures were somewhat lower than the sector average in 2012. It has to be noted that regional bank profitability lags the overall banking sector performance.

The aggregate index of the density of banking services in the regions has not changed significantly since the beginning of 2012. This indicator was the highest in the Central Federal District (primarily in Moscow), the North-Western Federal District (primarily in St Petersburg), and in the Southern Federal District. In the Far Eastern, Siberian, and Urals Federal Districts, this indicator grew in 2012.

In the reporting year, the aggregate index of the density of banking services in the regions recorded the minimum value in the North-Caucasian Federal District, including the Republic of Ingushetia and the Republic of Daghestan *(see Statistical Appendix, Table 7.2)*.

Number of credit institutions and their branches *CHART 1.13*



I.2.3. Banking services concentration

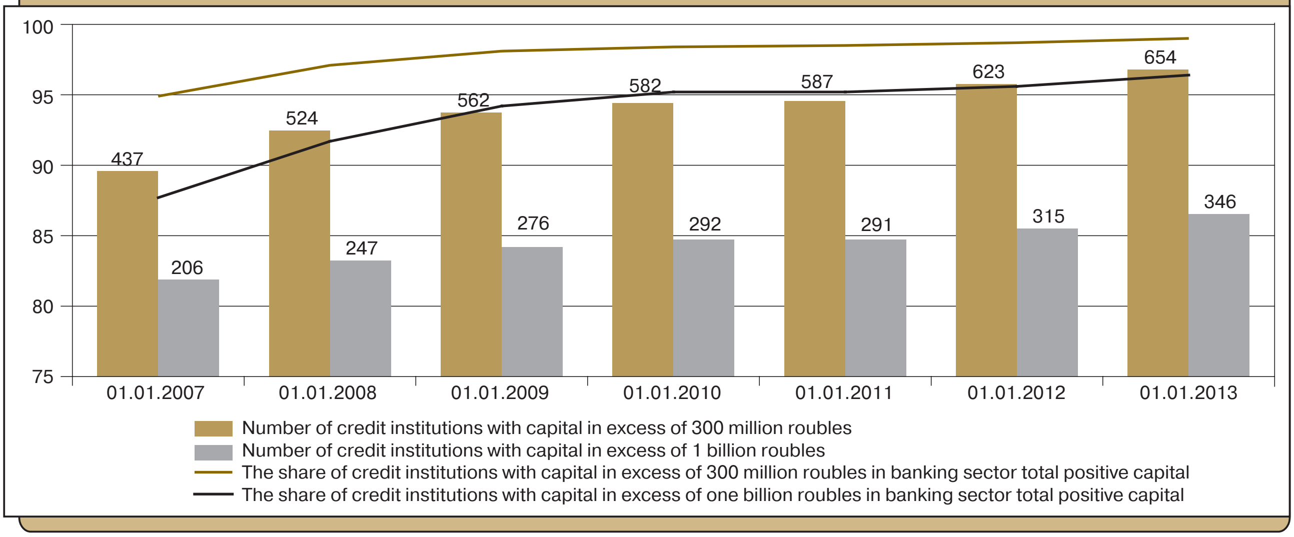
In 2012, banking concentration indicators continued to increase. The share of the top 200 credit institutions in terms of assets in banking sector total assets didn't change significantly in 2012, amounting to 94.3% at the end of the year as against 94.1% in 2011; this indicator appreciated by 2.7 percentage points over the last five years (2008 to 2012). In the reporting year, the share of the five largest banks in terms of assets rose from 50.0% to 50.3%, and over a five year period this share expanded by 8 percentage points.

The top 200 credit institutions in terms of capital accounted for 92.8% of banking sector total capital as of January 1, 2013 (92.5% as of January 1, 2012), with the five largest banks accounting for 48.4% (50.1% as of January 1, 2012).

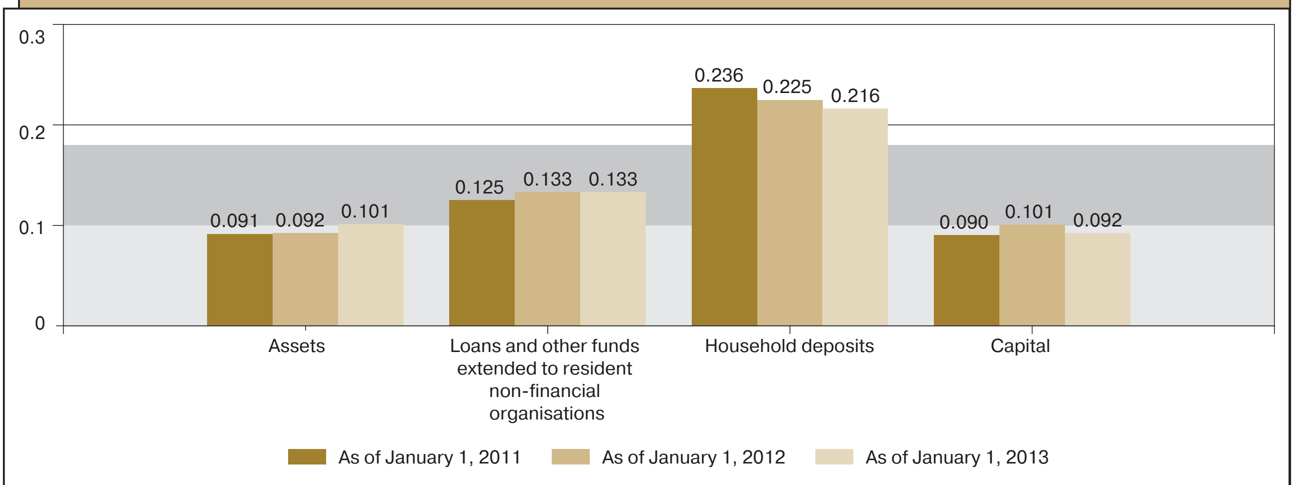
The number of credit institutions with capital in excess of one billion roubles increased from 315 to 346 in 2012; they held almost 96.4% of banking sector total positive capital *(see Chart 1.14)*. The number of credit institutions with capital in excess of 300 million roubles[1] grew from 623 to 654 in 2012, and their share of banking sector total positive capital went up from 98.7% to 99.0%.

Quantitative estimates that are commonly used internationally reveal that the concentration of banking assets in 2012 remained moderate – see *Chart 1.15* for the Herfindahl-Hirschman Index (HHI) dynamics. This was due, among other factors, to a large number of small credit institutions. The asset concentration index grew to a moderate level of 0.101 as of January 1, 2013, exceeding the levels of the three preceding years (0.087–0.092). The concentration of capital in the reporting period went

Number of banks with capital in excess of 300 million roubles and of one billion roubles and their share of banking sector total capital (%) *CHART 1.14*



Russian banking sector concentration indices (HHI) *CHART 1.15*

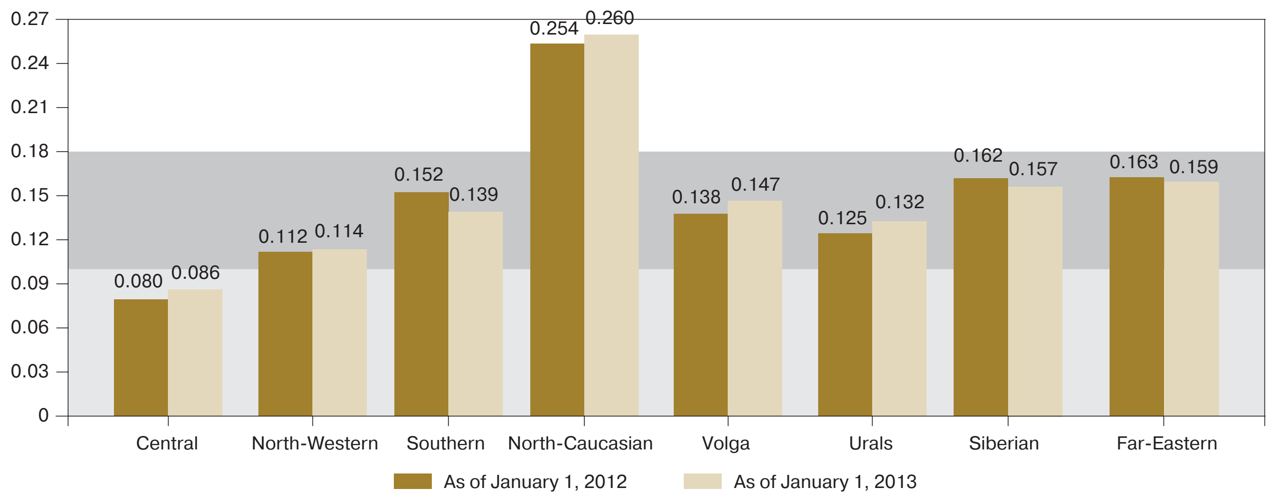


[1] Taking account of enacted Federal Law No. 391-FZ, dated December 3, 2011, "On Amending the Federal Law on Banks and Banking Activities", that increases the minimum capital to 300 million roubles for newly established banks as of January 1, 2012, and for all banks – since January 1, 2015.

TABLE 1.1

	01.01.2009	01.01.2010	01.01.2011	01.01.2012	01.01.2013
HHI by deposit, %	0.274	0.251	0.236	0.255	0.216
Sberbank share in total deposit volume, %	51.6	51.9	47.9	46.6	45.7
The share of the top 5 banks with the largest deposit volumes in total deposit volume, %	63.1	61.3	60.0	59.4	58.3

Asset concentrations (HHI) by federal district CHART 1.16



down insignificantly, from 0.101 to 0.092. The concentration of loans to non-financial organisations remained moderate (the HHI did not change in 2012, remaining at 0.133).

The largest concentration is on the household deposit market, although in 2012 a declining trend persisted there *(see Table 1.1).*

In 2012, the existing differences in terms of banking service concentration among the regions remained unchanged *(see Chart 1.16)*. Meanwhile, most federal districts[1] demonstrated a moderate level of asset concentration (the HHI from 0.10 to 0.18). This may be explained by the development of regional networks by credit institutions.

I.2.4. Interaction between the banking sector and other financial institutions and financial markets

The corporate securities market

In 2012, the Russian corporate securities market was affected by turbulences on the global financial and commodity markets and by investor changing attitudes towards risks. Under these circumstances, Russian credit institutions mostly pursued conservative investment strategies, reducing their rouble-denominated debt and equity securities portfolios that featured a high level of risk.

On the domestic ***stock market***, prices fluctuated within a broad horizontal band. Trading in stocks and shares on the primary and secondary markets slowed down.

At the end of 2012, the MICEX index and the RTS index rose by 5.2% and 10.5% respectively compared to the end of December 2011. The capitalisation of the Moscow Exchange stock market[2] went up by 2.1% to 25.2 trillion roubles. The total turnover of secondary trades in Russian stocks on the major Russian exchanges (the Moscow Exchange and St Petersburg Exchange) decreased by 41% in 2012 year on year to 11.5 trillion roubles. The share of bank stocks in the total secondary trade turnover of the above-specified stock exchanges remained almost unchanged (approximately 40%).

In the reporting year, the domestic ***corporate bond market*** saw the highest yearly volume of corporate bonds ever issued; these bonds were predominantly placed by prime borrowers. The Moscow Exchange placed 255 new corporate bond issues and two additional placements with a total par value of 1,218.4 billion roubles. Of these, credit institutions accounted for about 36% of the total par value of corporate bonds.

As a result, the 2012 portfolio of corporate bonds traded on the domestic market increased compared to late 2011 by 21%, and totalled 4,165.7 billion roubles

[1] The Central Federal District and the North-Caucasian Federal District are two exceptions.
[2] Stock market capitalisation data in the Moscow Exchange Main Market sector.

at par value[1]. Bank securities accounted for the largest share of the total corporate bond portfolio: approximately 30% of the total portfolio value.

In the reporting year, the secondary trade of corporate bonds on the Moscow Exchange grew by 2.7% year on year to 5.3 trillion roubles. Bank bonds accounted for 35% of the total Moscow Exchange secondary-trade turnover of corporate bonds.

In 2012, the yields on corporate bonds traded on the secondary market fluctuated; however, in general, they remained close to the level reached at the end of 2011. Average annual yields on these bonds grew by 1.1 percentage points to 8.7% p.a. year on year.

The money market

The Russian money market operated in 2012 in an environment that was characterised by a structural liquidity deficit that had continued from the second half of 2011. The demand of banks for liquidity grew during the reporting year; by December 19, the debt on the Bank of Russia repo operations reached a historical high of 2 trillion roubles. Since Russian credit institutions became net borrowers in relation to the Bank of Russia, the domestic money market condition was defined, first of all, by bank demand for liquidity and by Bank of Russia rates.

Russian banks held substantial amounts of liquid rouble-denominated funds at the beginning of 2012 due to the massive budget expenditures that took place in the last ten-day period of December 2011. Interbank loan rates somewhat decreased for that reason. In January and February of 2012, the average MIACR on interbank overnight rouble loans stood at 4.6% p.a. as against 5.1% p.a. in the fourth quarter of 2011.

In March–June 2012, interbank loan rates increased (*see Chart 1.17*) along with bank growing demand for rouble liquidity. In July and August, interbank loan rates declined somewhat, but then went up again after the Bank of Russia rose its rates in mid-September. In March-September, the average MIACR on interbank overnight rouble loans was 5.5% p.a.

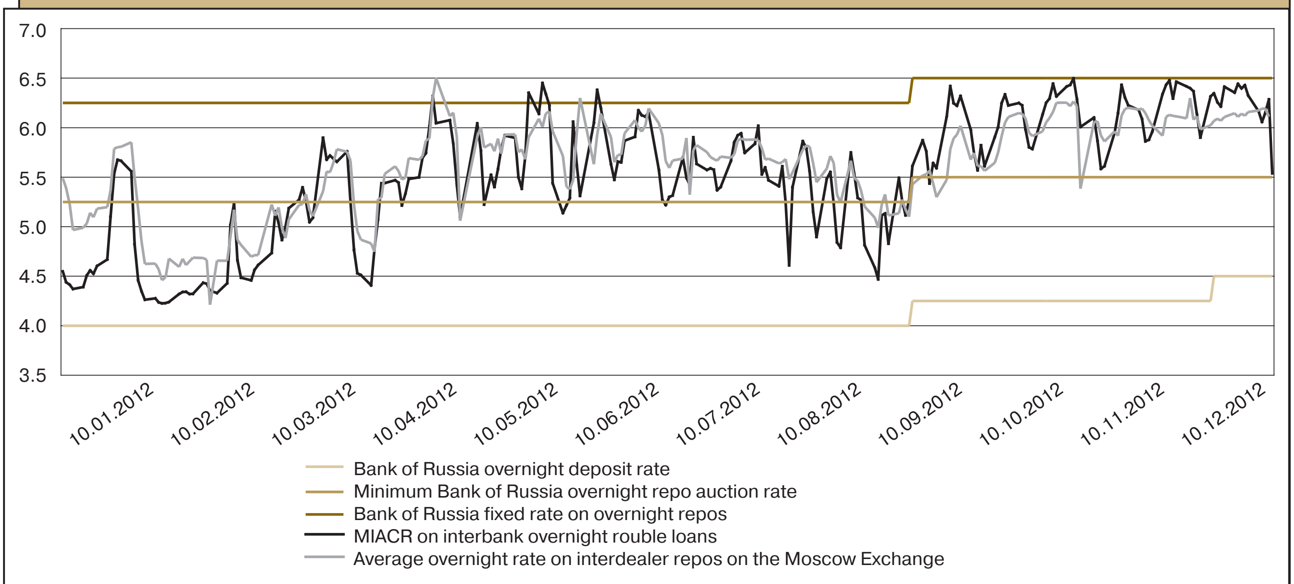
Demand for liquidity slowed down in the fourth quarter of 2012, as banks adjusted to the structural liquidity deficit. Consequently, interbank loan rates stopped growing. In October-December, the average MIACR on interbank overnight rouble loans stood at 6.1% p.a., which was not much different from the level witnessed at the end of September.

The average MIACR on interbank overnight rouble loans was 5.5% p.a. in 2012, which was 1.6 percentage points higher than in 2011. Due to Bank of Russia timely implemented measures that allowed it to increase the refinancing volume, the rising needs for rouble-denominated liquidity in the banking sector and higher interbank loan rates did not resulted in the destabilisation of the money market. On average, the share of overdue loans in the total volume of interbank loans placed by Russian banks on the domestic market amounted to 0.33% as against 0.36% in 2011 *(see Chart 1.18).*

The average spread between the MIACR-B (actual rate on credits to banks with a speculative grade credit rating) and MIACR-IG (actual rate on credits to banks with an investment grade credit rating) on overnight loans amounted to 32 basis points in 2012 as against 30 basis points in 2011. The volatility of money market rates remained moderate too, with relatively low local peaks usually related to mandatory payments made by banks or their customers.

The value of transactions on the money market, particularly on the interdealer repo market, grew during the reporting year. The value of open positions on the exchange interdealer repo market stood at 400–550 billion roubles in 2012 (*see Chart 1.19*). A dramatic decline in

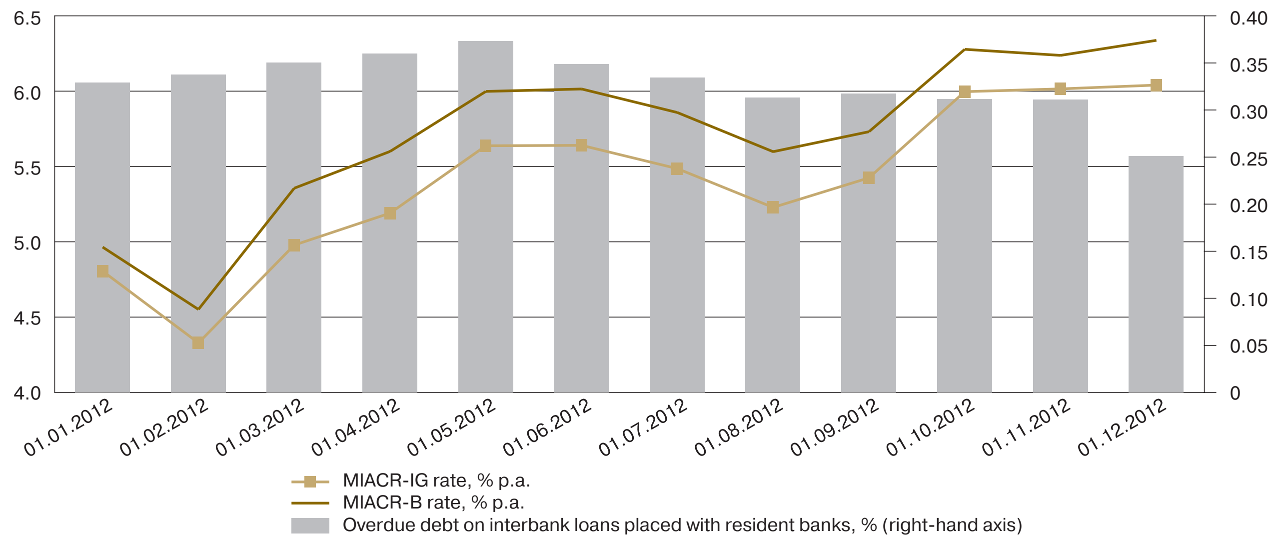
Russian money market interest rates in 2012 (% p.a.) *CHART 1.17*



[1] Source: Cbonds.ru news agency.

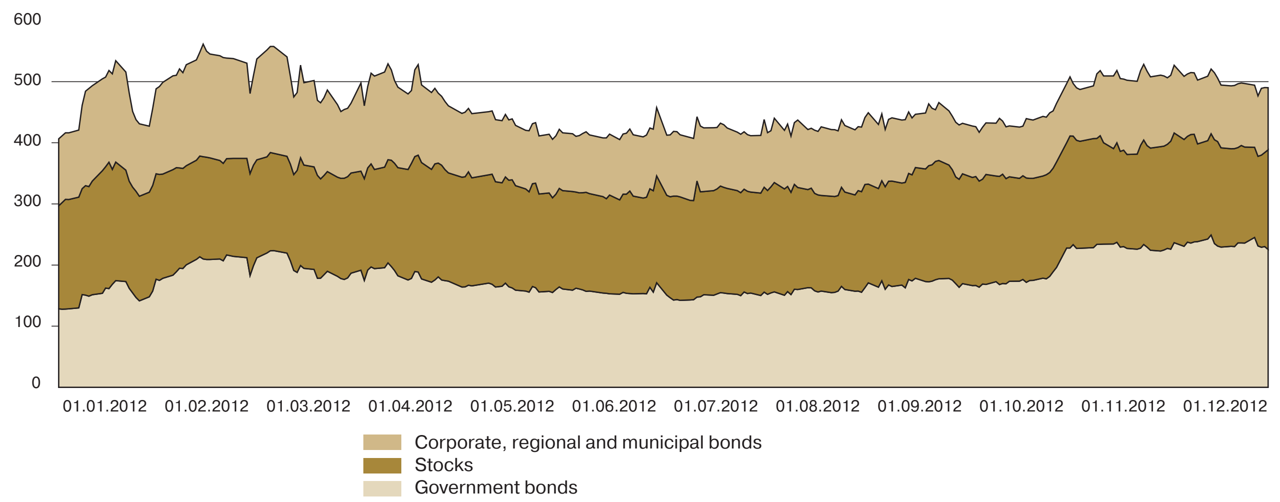
Credit risk indicators for the Russian interbank loan market

CHART 1.18



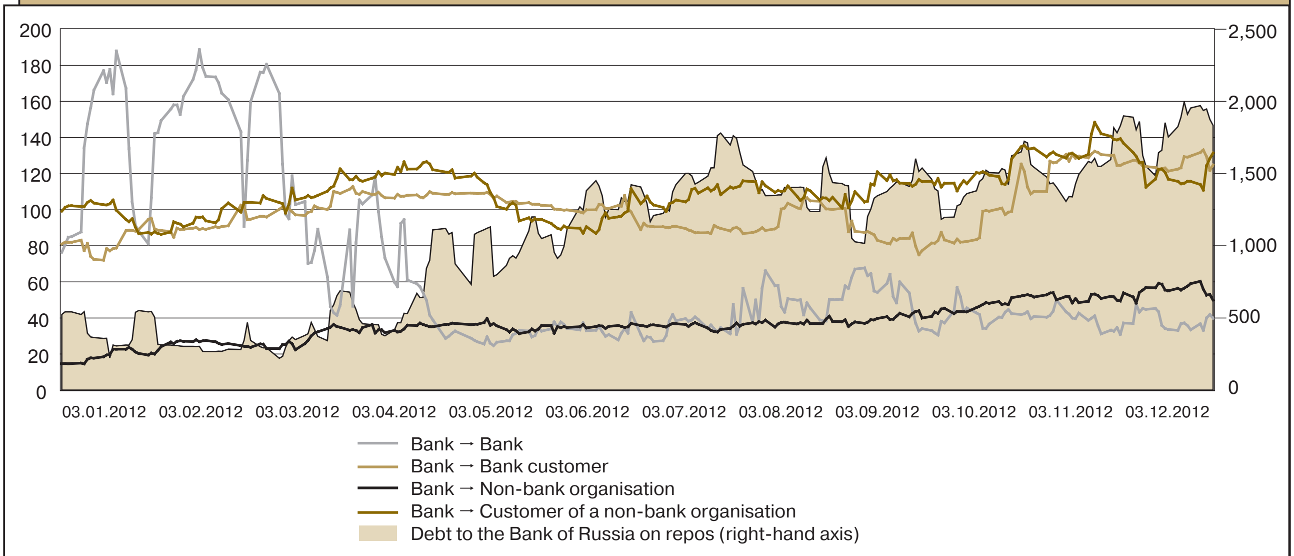
The value of open positions on the interdealer repo market (billions of roubles)

CHART 1.19

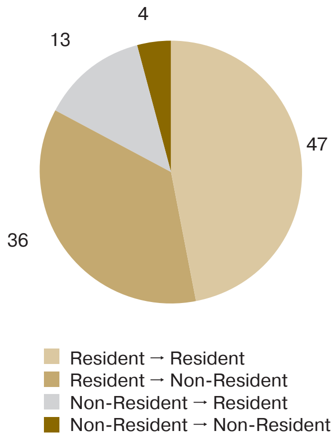


The value of open positions on the interdealer repo market by transaction type (billions of roubles)

CHART 1.20



Transactions on the interdealer repo market by participant in 2012 (%) CHART 1.21



the value of the interdealer repo market in the middle of the year resulted from the fact that banks replaced money market borrowings with funds raised from the Bank of Russia *(see Chart 1.20)*. Despite a substantially increased demand for liquidity, interdealer repo rates remained within the Bank of Russia interest rate band, reaching its ceiling in the middle and at the end of the year *(see Chart 1.17)*.

In 2012, banks were the main lenders on the interdealer repo market (approximately 70% of open position value on average), and customers of banks and non-bank institutions were borrowers (approximately 60%). Since May 2012, the bulk of transactions involved bank lending to the customers of banks or non-bank institutions (approximately 45% of the value of open positions in 2012 on average). An important role on the market was played by the non-resident customers of banks and non-bank institutions. The value of borrowing by non-residents amounted to approximately 40% of the value of open positions. However, the value of lending by non-residents totalled approximately 17% *(see Chart 1.21)*.

Non-bank financial institutions

Regulatory requirements tightened since January 1, 2012, regarding the capitalisation level of insurance companies, were one of the main reasons why the number of insurance companies decreased by 95 to 484 in the first nine months of 2012. Conversely, their total authorised capital increased by 2%, to 189.1 billion roubles[1]. According to the data reported by 458 insurers that provided statements for the first nine months of 2012, the value of insurance premiums grew by 22.0% (to 608.2 billion roubles) and that of indemnities by 17.3% (to 262.0 billion roubles) year on year[2]. According to Expert RA rating agency estimates, approximately 11% of insurance policies in the first six months of 2012 were sold through banks as intermediaries.

The number of unit investment funds (PIFs) grew by 128 during the reporting year, to 1,598, and half of that growth was provided by real estate PIFs[3]. The number of credit funds investing mainly in monetary claims and collateral used to secure bank loans grew by 6, to 81 as of January 1, 2013. The total value of PIF net assets increased by 27.8% to 559.5 billion roubles, driven predominantly by closed-end funds[4]. Retail funds (open-end and interval) witnessed a net outflow of their shareholder funds in 2012 totalling 4.2 billion roubles, mainly as a result of the dropping share value of most PIFs and of investor negative expectations related to their further dynamics. Experts estimate that shareholders transferred some of the withdrawn funds to bank accounts and deposits.

The number of non-government pension funds (NPFs) in the first nine months of 2012 decreased by 8, to 138[5]. Their total own property grew by 22.5% to 1,470.9 billion roubles as of October 1, 2012, mainly at the expense of funds transferred from the Pension Fund of the Russian Federation. In the first nine months of 2012, pension accruals increased by 53.7% (to 605.2 billion roubles), and pension reserves rose by 6.6% (to 746.6 billion roubles). The number of NPF mandatory pension insurance participants (15.8 million as of October 1, 2012) exceeded the number of NPF non-government insurance participants 2.3-fold. Over 25% of NPF assets as of October 1, 2012, were placed in bank accounts and on deposit.

[1] Source: the Federal Financial Markets Service.
[2] Here and below, excluding mandatory medical insurance.
[3] Source: Cbonds.ru news agency.
[4] Here and below, excluding PIFs for qualified investors.
[5] Source: the Federal Financial Markets Service

I.3. Banking Operations

I.3.1. Dynamics and structure of borrowed funds

The resource base of banks in 2012 was affected by global market turbulences and by a structural liquidity deficit *(see Chart 1.22).*

Only the largest Russian banks had access to external funding sources during most of 2012. Under those conditions, the Russian banking sector intensified its use of domestic sources, in particular by offering attractive, and frequently rather high interest rates on deposits.

In general, the value of bank customer accounts[1] increased by 15.5% to 30,120.0 billion roubles in the reporting year (as against 23.7% in 2011). As of January 1, 2013, the share of this source of banking sector liabilities totalled 60.8% (62.7% as of the beginning of 2012). The growth rate of raised funds is evidence of a sufficiently high level of confidence in banks, which remains an important factor that characterises the banking sector soundness.

Household deposits rose by 20.0% to 14,251.0 billion roubles in 2012 as against 20.9% in 2011, while the share of this source of funding in total banking sector liabilities grew from 28.5% to 28.8%.

Rouble deposits dominated the deposit structure (82.5%), while deposits with maturities in excess of one year prevailed by maturity (58.9%). These included the deposits with maturities of more than three years, which accounted for 8.7% of the total.

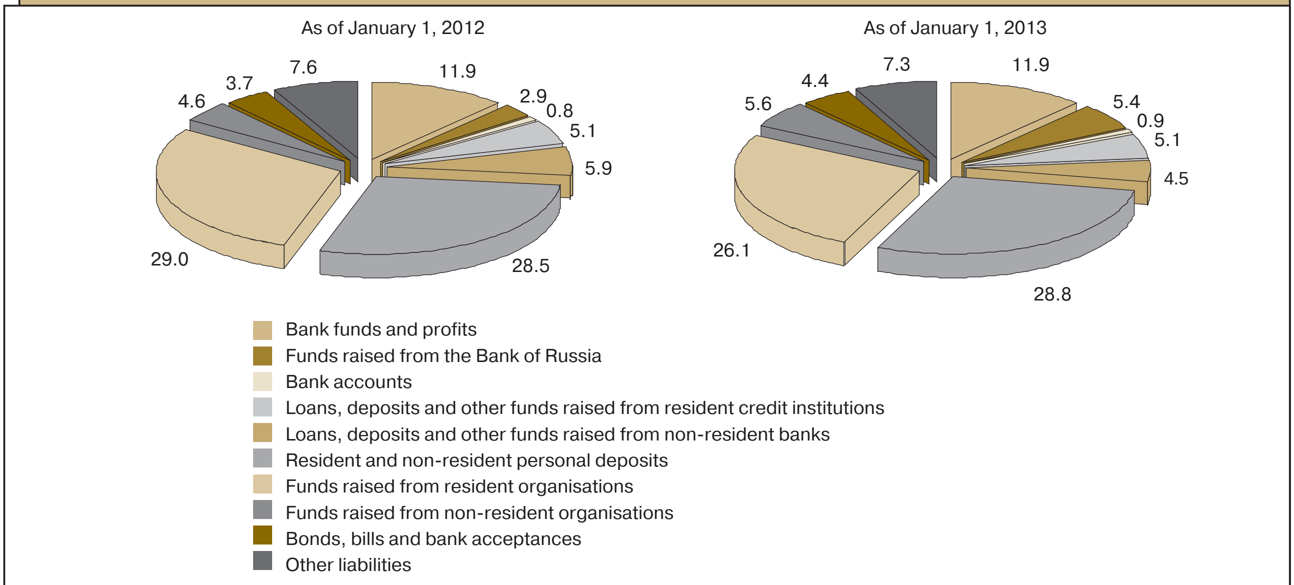
The share of OJSC Sberbank of Russia (hereinafter referred to as Sberbank) in total household deposits continued to shrink; it fell from 46.6% to 45.7% in the reporting period. However, the position of state-controlled banks remains the strongest on the deposit market. Household deposits are an important source of funds, especially for regional banks.

The number of banks with deposit portfolios exceeding 10 billion roubles continued to grow in 2012 (*see Chart 1.23).*

Funds raised from organisations[2] increased by 11.8% to 15,648.2 billion roubles in 2012 as against 25.8% in 2011. Their share of banking sector liabilities fell from 33.6% to 31.6% (*see Chart 1.24).*

The growth rate of deposits and other funds borrowed from legal entities fell by more than twice year on year, from 38.6% to 15.0%, and their share of Russian banking sector liabilities decreased from 20.1% to 19.4%. The

Structure of banking sector liabilities (%) *CHART 1.22*



[1] The account balances of companies and organisations (including budgets at all levels and government extra-budgetary funds), funds of individuals and clients in the settlements, factoring and forfeiting operations, funds debited from client accounts but not entered in the correspondent account of a credit institution.

[2] Other than banks.

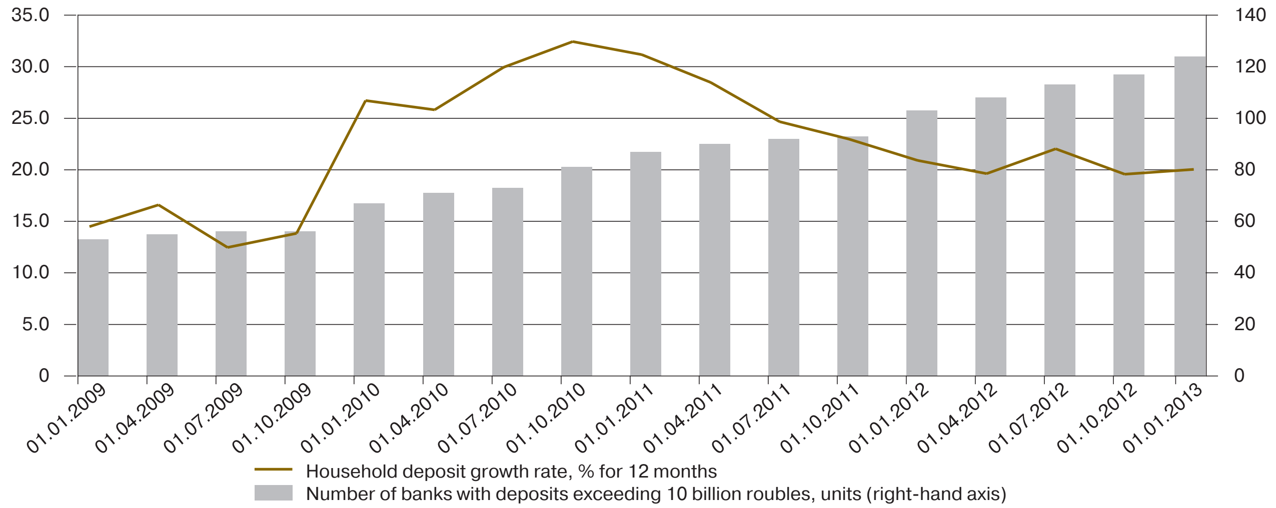
Household deposits by group of banks

TABLE 1.2

	Share of household deposits in banking sector total deposits (by group of banks), %		Share of household deposits in the liabilities of a respective bank group, %	
	as of January 1, 2012	as of January 1, 2013	as of January 1, 2012	as of January 1, 2013
State-controlled banks[1]	58.0	56.7	33.0	32.4
Foreign-controlled banks[2], of which:	11.4	13.5	19.3	21.8
banks under the material influence of Russian residents[3]	3.6	5.2	24.5	25.1
Large private banks[4]	24.6	23.9	25.6	25.9
Small and medium-sized banks based in Moscow and the Moscow Region[5]	2.4	2.3	26.8	27.4
Small and medium-sized regional banks	3.6	3.6	40.6	42.8

Deposit value and number of most active market participants

CHART 1.23



value of these funds in banking sector liabilities reached 9,619.5 billion roubles in 2012. It has to be noted that non-resident deposits accounted for 62% of this funding source annual growth in absolute terms (in 2011, non-resident funds accounted for only 10% of the absolute growth).

In 2012, corporate deposits with maturities exceeding one year continued to increase: their growth stood at 25.0% as against 25.9% in 2011, and their share of total corporate deposits rose from 45.4% to 49.3%.

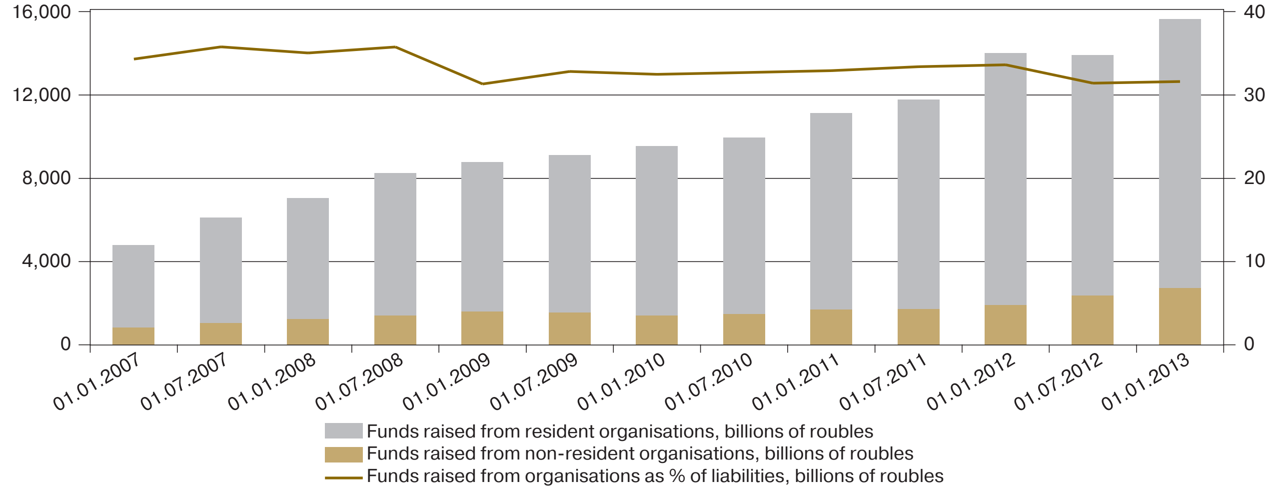
The fastest growing deposits and other borrowed funds of legal entities (excluding credit institutions) in 2012 belonged to large private banks (20.2%). This funding source was actively used by credit institutions (it accounted for 18–23% of most banking group liabilities; however, among small and medium-sized regional banks, its share of liabilities stood at only 10.1%).

In 2012, corporate funds in settlement and other accounts increased by 7.1% and totalled 5,706.6 billion

[1] Banks, in which more than 50% of authorised capital is owned by the state (including the holding of the Bank of Russia, Vnesheconombank and the Deposit Insurance Agency), and also member banks of the banking groups formed by these banks.
[2] Banks, in which non-residents own over 50% of authorised capital.
[3] Banks, in which decision-making by non-resident participants (whose total share of authorised capital of credit institutions exceeds 50%) is materially influenced by Russian residents.
[4] Banks from among the top 200 banks in terms of assets (except those included in the group of state-controlled banks and the group of foreign-controlled banks).
[5] All other banks remaining after the subtraction of state-controlled banks, foreign-controlled banks, and large private banks, and broken by geographic location: small and medium-sized banks based in Moscow and the Moscow Region or small and medium-sized banks based in other regions.

Raising funds from organisations (other than banks)

CHART 1.24



Corporate deposits and other borrowed funds by group of banks

TABLE 1.3

	Share of corporate deposits and other borrowed funds in banking sector total borrowings (by group of banks), %		Share of corporate deposits and other borrowed funds in the liabilities of a respective bank group, %	
	as of January 1, 2012	as of January 1, 2013	as of January 1, 2012	as of January 1, 2013
State-controlled banks	48.8	47.2	19.5	18.2
Foreign-controlled banks, of which:	19.0	19.3	22.6	21.0
banks under the material influence of Russian residents	4.3	7.2	20.7	23.5
Large private banks	29.7	31.0	21.7	22.7
Small and medium-sized regional banks (including banks based in Moscow and the Moscow Region)	2.5	2.5	10.0	10.1

roubles (as against 9.9% in 2011), while their share of liabilities decreased from 12.8% to 11.5%. The share of funds of non-resident organisations (other than banks) in banking sector liabilities remained relatively small, although in 2012 it grew by one percentage point, to 5.6%.

The value of resources raised by credit institutions through the issue of bonds in 2012 grew by 55.6% to 1,037.4 billion roubles; the share of this source in banking sector liabilities increased from 1.6% to 2.1%. The volume of bank bills and acceptances rose significantly as well (by 33.7%) during 2012, and their share of banking sector liabilities went up from 2.1% to 2.3%.

In the structural liquidity deficit environment that characterised the reporting year, bank demand for Bank of Russia refinancing instruments increased.

Funds borrowed from the Bank of Russia grew 2.2-fold during the year (to 2.7 trillion roubles), and their share of banking sector liabilities went up from 2.9% to 5.4%. In the second and third quarters of 2012, banks also actively attracted Federal Treasury deposits; however, their overall value went down by 10.2% to 504.0 billion roubles in the reporting period, and their share of liabilities fell from 1.3% to 1%.

The conditions on global financial markets, including those resulting from deleveraging on the European banking market, led to a reduction in the number of transactions with non-residents. During the year, the value of interbank loans[1] grew by a mere 3.9% to 4,738.4 billion roubles as against 21.4% in 2011, while their share of banking sector liabilities fell from 11.0% to 9.6%. Funds generated on the domestic interbank market in 2012 increased by 17.8% as against 25.2% in 2011. Their share of the liabilities remained practically unchanged (5.1% as of January 1, 2013). Debt on loans borrowed from non-resident banks went down by 8.2% in 2012 (in 2011, it

[1] Loans, deposits and other borrowings on the interbank market (including precious metals).

had grown by 18.4%). The importance of this source of funding continued to decrease: as of January 1, 2013, it accounted for 4.5% of banking sector liabilities as against 5.9% the year before.

It should be noted that most of the resources (about 70%) were borrowed by Russian credit institutions from non-resident banks with maturities exceeding one year (*see Chart 1.25).*

The deleveraging process led to a substantial decrease of non-resident bank funds in the liabilities of foreign-controlled banks (from 13.5% to 8.4% in 2012). The liabilities of foreign-controlled banks under the material influence of Russian residents included a significantly lower share of non-resident bank funds: in 2012, it fell from 6.2% to 4.4%. The share of foreign-controlled banks in the total volume of interbank loans provided by non-residents amounted to 33.0% as of January 1, 2013 (of which, the share of banks under the material influence of Russian residents amounted to 5.7%). Throughout the reporting year, foreign-controlled credit institutions remained net borrowers from non-residents on the interbank loan market. However, the value of net borrowing in 2012 went down from 147.1 billion roubles to 51.1 billion roubles, or by 65.3%. Banks under the material influence of Russian residents accounted for a significant share of the afore-mentioned bank net borrowings from non-residents. In 2012, this share went down from 62.1 billion roubles to 61.5 billion roubles. Thus, the remaining part of foreign-controlled credit institutions became in general non-resident bank net lenders as of January 1, 2013.

The share of loans issued by non-resident banks as of January 1, 2013 amounted to 4.1% in large private bank liabilities and to 3.8% in state-controlled bank liabilities. Small and medium-sized banks obtained virtually none of their resources from the international markets.

I.3.2. Asset dynamics and structure

In 2012, the Russian banking business continued to develop amid an economic slowdown, which predetermined somewhat reduced banking sector performance: during the year, credit institution assets grew by 18.9% to 49,509.6 million roubles as against 23.1% in 2011.

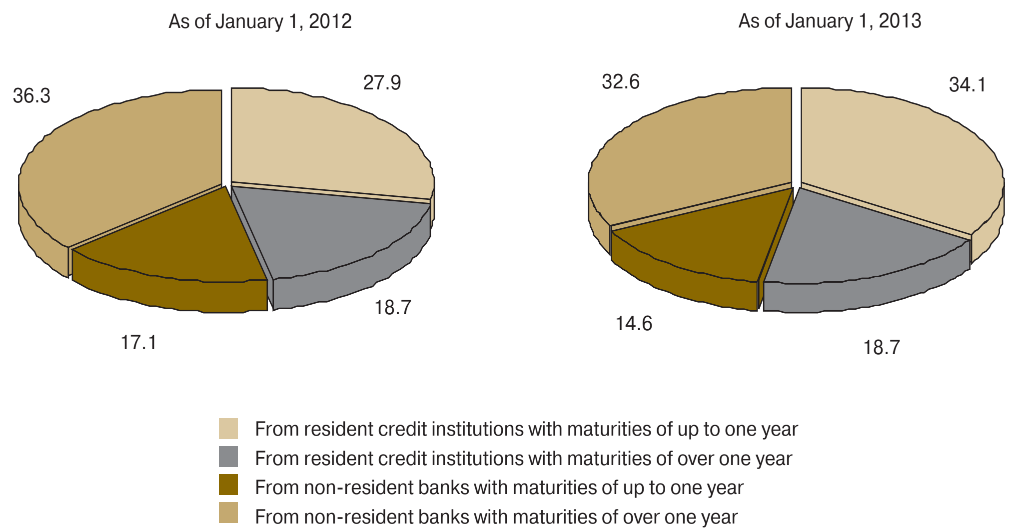
As of January 1, 2013, state-controlled banks accounted for 50.4% of banking sector total assets and large private banks held 26.6%. The share of foreign-controlled banks in banking sector total assets stood at 17.8% (5.9% of total assets were owned by banks under the material influence of Russian residents). Small and medium-sized banks based in Moscow and the Moscow Region as well as in other regions accounted for just 2.4% of all banking sector assets.

In 2012, banks continued to build up their loan portfolios, but the dynamics and structure of loans experienced a number of changes (*see Charts 1.26 and 1.27).*

The total volume of loans to non-financial organisations and individuals grew by 19.1% to 27,708.5 billion roubles in 2012 as against 28.2% in 2011, and their share of banking sector assets rose from 55.9% to 56.0%.

Against the backdrop of a dramatic slowdown of lending to non-financial organisations in 2012, the growth rate of lending to households continued to accelerate. By the end of the year, retail portfolio growth (39.4%) significantly exceeded corporate portfolio growth (12.7%). The retail loan portfolio value reached 7,737.1 billion roubles by the end of the year, and the corporate loan portfolio amounted to 19,971.4 billion roubles. It is important to note that the dynamics of loans to non-financial organisations was affected to a certain extent by the rouble exchange rate fluctuations; without taking into account the exchange rate factor, the corporate portfolio grew by 14.2% in 2012.

Loans, deposits and other funds raised on the interbank market, by maturity (as % of total value) *CHART 1.25*



The corporate portfolio growth rate decreased in comparison with 2011 due to the following factors:

– the slowdown of the Russian economy;

– a reallocation of resources by many banks to the consumer loan market, including the high-yield, unsecured loan sector;

– the lower value of the capital adequacy ratio in many banks and a small reserve as compared with the minimum requirements;

– persistent restricted access to relatively cheap and "long" cross-border funding for the majority of banks (except for the largest ones);

– a substantial gap between the price of a loan that is acceptable for the borrower and the lender's price.

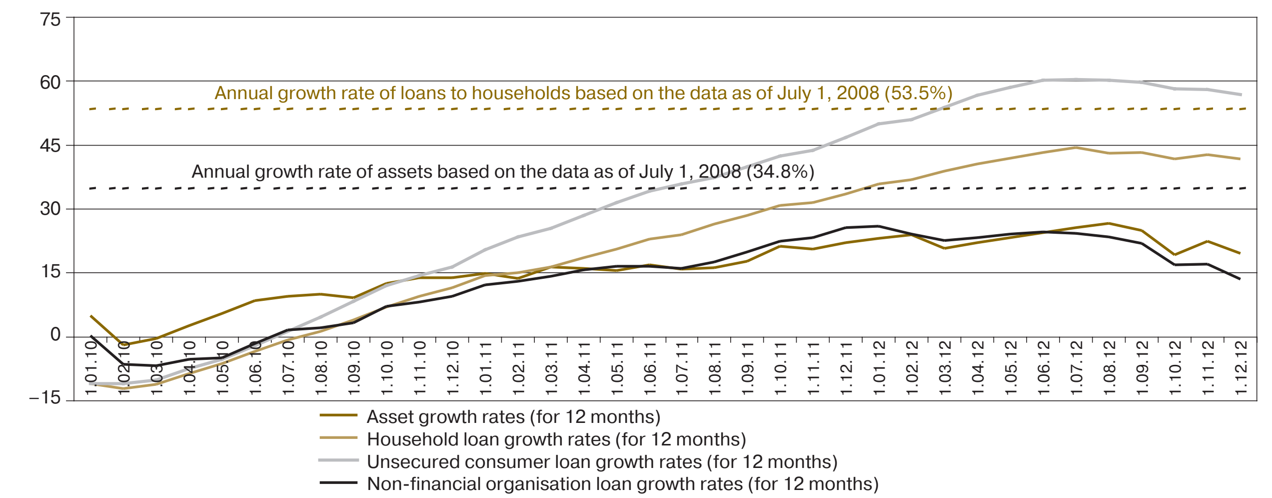
The established corporate loan market structure remained unchanged in 2012 *(see Table 1.4).*

The share of loans with maturities of over one year gradually increased in the corporate loan portfolio (from 67.1% to 69.3%), of which the share of loans with maturities of over three years went up from 39.7% to 41.0%.

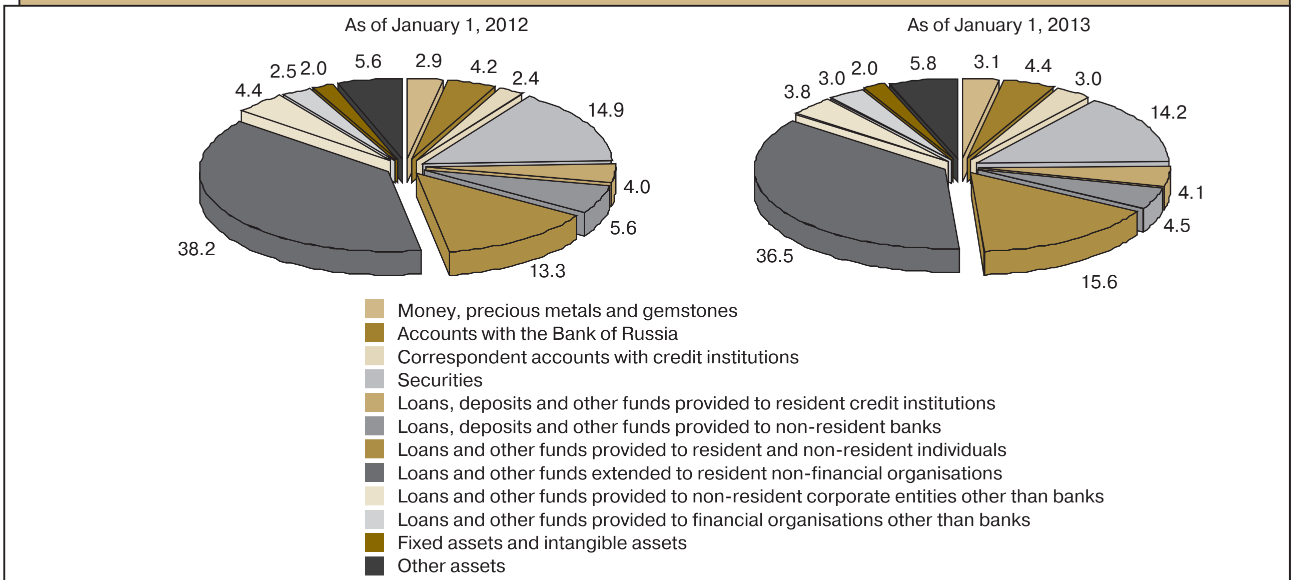
The most important roles in meeting the demand of non-financial organisations for long-term (more than one year) loans are those played by state-controlled banks and large private banks. The total share of these groups of banks in banking sector total loans grew, and as of January 1, 2013 stood at 84.2% (84.0% as of January 1, 2012).

Broken down by industry, the largest share of loans was still disbursed to wholesale and retail companies (21.0% as of January 1, 2013), and manufacturing companies (19.8%). Lending slowed down most significantly in the transportation and communications sectors (loans to the companies in these sectors grew by 20.7% as against 80.5% in 2011), in the energy, gas, and water production and distribution sectors (14.9% as against 39.4% in 2011), and in the real estate, leasing and ser-

Loans to households and non-financial organisations and banking sector assets (%) CHART 1.26



Banking sector asset structure (%) CHART 1.27



Loans disbursed to non-financial organisations by group of banks

TABLE 1.4

	Share of loans to non-financial organisations in banking sector total loans, %	
	as of January 1, 2012	as of January 1, 2013
State-controlled banks	54.5	53.8
Foreign-controlled banks,	14.0	14.2
of which:		
banks under the material influence of Russian residents	4.4	6.1
Large private banks	27.2	27.5
Small and medium-sized banks based in Moscow and the Moscow Region	2.2	2.4
Small and medium-sized regional banks	2.0	2.2

vices sectors (18.9% as against 38.7%). No significant slowdown was recorded in the lending growth rate with respect to other economic sectors; all industries had access to bank loans.

The high retail portfolio growth rate was mainly a result of the active development of the unsecured consumer loan market: the homogenous unsecured consumer loan portfolio grew by 53.0%[1] in 2012 as against 50.1% in 2011)[2].

The share of household loans increased from 13.3% to 15.6% in banking sector total assets and from 19.3% to 22.8% in total loans. Households still preferred to take out loans in roubles; the share of such loans in total loans amounted to 96.8% as against 94.2% in 2011.

Small and medium-sized regional banks stood out in terms of the share of household loans in their loan portfolios: as of January 1, 2013, it amounted to 26.1%. The share is even higher in foreign-controlled banks (28.8%). However, it was just 17.7% in foreign banks that were under the material influence of Russian residents. These loans accounted for 21.9% of large private bank assets; for 21.2% of state-controlled bank assets; and for 17.3% of assets in small and medium-sized banks based in Moscow and the Moscow Region.

Outstanding mortgage housing loans grew by 34.0% to 1,982.4 billion roubles (31.0% in 2011). Their share of the retail loan portfolio as of January 1, 2013 amounted to 25.6%.

Consumer lending is one of the most competitive segments of the banking services market; state-controlled and private banks maintain a virtually equal presence *(see Table 1.5).*

The dynamic development of household lending was accompanied by bank growing exposure to risks, which required the Bank of Russia to take appropriate supervisory and regulatory measures (*see in detail Section II.1 and Section III.3).*

The securities portfolio in the balance sheets of credit institutions increased by 13.3% to 7,034.9 billion roubles in 2012 as against 6.6% in 2011, while its share of total assets decreased from 14.9% to 14.2%. Considering the liquidity situation in the banking sector, it is very important for banks when managing their securities portfolios to be able to use these securities as collateral in Bank of Russia refinancing operations. This possibility was one of the reasons for growing debt obligation portfolios: their value increased by 12.6% to 5,265.1 billion roubles in the reporting period as against 5.8% in 2011. Debt obligations delivered without derecognition accounted for 38.6% of credit institution debt portfolios and were the main source of these portfolio growth in 2012.

The main holders of debt obligations as of January 1, 2013 were state-controlled banks and large private banks, which accounted for 50.7% and 27.6% of the debt securities purchased by the banking sector. These credit institutions accounted for the majority of funds obtained through various refinancing operations from the Bank of Russia.

The equity market in 2012 was noticeably affected by unstable global financial markets, as well as by the high volatility of global commodity prices and by investor changing attitudes towards risks. In 2012, the value of equity securities portfolios decreased by 13.4% to 791.6 billion roubles (in 2011, it grew by 30%), and their share at the end of 2012 amounted to 11.3% of the securities portfolio as against 14.7% as of January 1, 2012).

In 2012, the tendency continued towards the reallocation of equity securities in the portfolio[3]: the share of state-controlled banks in the total equity securities portfolio fell from 42.6% to 33.2%, in contrast to the rising share of foreign-controlled banks (from 9.3% to 15.9%) mainly at the expense of banks under the material influence of Russian residents (from 5.2% to 11.4%). The share of large private banks also grew (from 44.6% to 46.6%).

[1] Here and below, the development of the consumer loan market is assessed using an indicator of homogenous consumer loans in bank loan portfolios.

[2] Other homogenous consumer loans – the term is used in the reporting Form 0409115 “Information on the Quality of Bank Assets” (Section 3. Information on Portfolios of Homogenous Claims and Loans Issued to Individuals).

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

Loans disbursed to households by group of banks

TABLE 1.5

	Share of household loans in banking sector total loans, %	
	as of January 1, 2012	as of January 1, 2013
State-controlled banks	48.7	49.3
Foreign-controlled banks,	22.0	22.6
of which:		
banks under the material influence of Russian residents	3.1	4.4
Large private banks	24.5	24.1
Small and medium-sized banks based in Moscow and the Moscow Region	1.9	1.5
Small and medium-sized regional banks	3.0	2.5

The value of the bank portfolios of promissory notes substantially rose during the reporting period: to 398.8 billion roubles, or by 70.5% (in 2011, the value of this portfolio went down by 29.1%), and their share of the securities portfolio increased accordingly: from 3.8% to 5.7%. In the portfolio of discounted promissory notes, the volume of Russian bank notes accounted for 338.5 billion roubles, or 85%. Portfolios of bills issued by other Russian companies increased from 13.9% to 14.6% during the year.

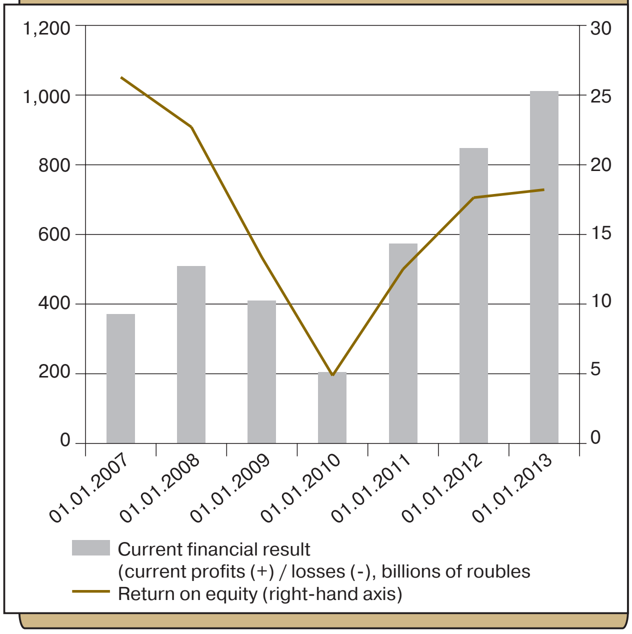
The value of interbank loan claims rose by 6.9% to 4,230.4 billion roubles during the year as against 35.5% in 2011), while their share of banking sector assets fell from 9.5% to 8.5%. Loans placed with resident banks in 2012 increased by 22.4%, mainly because of growth in the second half of 2012, during which, due to the liquidity squeeze, interbank loans provided to resident banks increased by 37.2% (in the first half of the year, there was a 10.8% decrease). The share of these loans in the assets grew from 4.0% to 4.1%. The volume of loans to non-resident banks decreased by 4.2%; their share of banking sector assets fell from 5.6% to 4.5%.

I.4. The Financial Performance of Credit Institutions

I.4.1. Financial results

In 2012, the profits of credit institutions posted a new record when it reached its highest level in the entire history of Russian banking standing at 1,011.9 billion roubles *(see Chart 1.28)*. Total profits, when combined with the financial results of previous years, reached 2,861.3 billion roubles (in 2011, these figures were 848.2 billion roubles and 2,243.1 billion roubles respectively).

Banking sector financial performance — *CHART 1.28*



In 2012, the share of profitable credit institutions decreased from 94.9% to 94.2%; conversely, the share of loss-making credit institutions increased from 5.1% to 5.8% (their number rose from 50 to 55). The losses of operating credit institutions reached 9.4 billion roubles in 2012 as compared with 5.6 billion roubles in 2011.

The contributions of individual groups of banks to the aggregate financial result are for the most part consistent with their share in banking sector assets. The largest impact on the financial result was made by state-controlled banks (54.5%), large private banks (21.8%); and foreign-controlled banks (19.6%), including banks under the material influence of Russian residents, whose share of the sector total result amounted to 4.4%. A positive influence on the financial bottom line of the banking sector came from banks that implemented bankruptcy-prevention measures: in 2012, they received profits of 15.6 billion roubles as against 11.3 billion roubles in 2011.

In 2012, the return on assets and equity of credit institutions stood at 2.3% and 18.2% respectively (the same ratios were 2.4% and 17.6% in 2011)[1]. During the year, the return on assets increased in 501 banks, or 52.4% of the total number of credit institutions; 496 banks, or 51.9% improved their return on equity.

Analysis of drivers that determined the return on equity increase shows that in 2012, this happened due to the growth of financial leverage.

	Capital multiplier (financial leverage)		Profit margin		Return-on-assets ratio		Return on equity
	Assets* / Equity*	x	Financial result / Gross net income**	x	Gross net income** / Assets*	=	Financial result / Equity*
2011	7.4809		0.3859		0.0611		0.1764
2012	7.9486		0.3753		0.0611		0.1821

* Average for the period.
** Gross net income (financial result drivers) is a sum of net interest income, net income from securities trading and revaluation, net income from foreign exchange transactions and foreign currency valuables, including exchange rate differences, net commission income and net other income (before provisions net of recovered ones and the maintenance costs of a credit institution are deducted). It is calculated on the basis of data reported by credit institutions (Form 0409102).

[1] Annualised, calculated as the ratio of financial result over 12 months preceding the reported date to the average chronological values of assets and equity over the same period.

In 2012, profitability somewhat improved among all groups of banks. The highest degree of profitability continued to be demonstrated by state-controlled banks.

	Return on assets, %		Return on equity, %	
	2011	2012	2011	2012
State-controlled banks	2.8	2.5	20.6	20.1
Foreign-controlled banks, of which:	2.4	2.5	17.4	18.8
banks under the material influence of Russian residents	1.2	1.7	10.0	14.6
Large private banks	1.7	1.9	14.2	16.0
Small and medium-sized banks based in Moscow and the Moscow Region	1.5	1.5	8.0	8.5
Small and medium-sized regional banks	1.7	1.7	10.4	10.7

I.4.2. Financial result structure

The structure of financial performance drivers[1] is shown in *Chart 1.29*. Profit growth in 2012 was primarily based on the build-up of bank loans (first of all, the high-yield unsecured loans), while the loan portfolio quality remained stable.

Net interest income remained the most significant item in the structure of financial performance for all groups of banks. It grew by 321.6 billion roubles in absolute terms in 2012, or by 21.3% as against 16.7% in 2011), while its share in the structure of profit drivers fell from 68.6% in 2011 to 67.8%.

Net interest income in 2012 was determined by the growth of transactions with legal entities (excluding credit institutions), which accounted for 62.1% of net interest income drivers; by the growth of household transactions, which accounted for 23.3%; and by the growth in the portfolio of debt instruments (except bills), the share of which totalled 14.6%. The retail loan share of total net interest income went up in comparison with 2011. Net interest income on other transactions, including interbank loans, decreased.

Net commission income served as another dynamically growing profit driver. In 2012, it grew by 66.8 billion roubles, or 13.4% as against 10.3% in 2011. The share of net commission income in the structure of profit drivers declined slightly (from 22.7% in 2011 to 20.9% in 2012).

The highest share of net commission income (31.8%) in the income driver structure was that of

Banking sector profit drivers
Billions of roubles

CHART 1.29

small and medium-sized regional banks. The value of this indicator among other groups of banks stayed within the 18.1%–23.9% range.

The volatile income sources of credit institutions developed in different directions in 2012.

The percentage of net income from securities trading and revaluation in the structure of profit drivers went up from 0.4% in 2011 to 1.7% in 2012.

The share of net income from securities trading and revaluation in 2012 increased for practically all groups of banks (except for state-controlled banks). This share was the largest (3.3%) in the structure of profit drivers for large private banks and small and medium-sized banks based in Moscow and the Moscow Region.

Due to a situation on the foreign exchange market and the stable rouble exchange rate dynamics against major world currencies, the share of net income from foreign exchange transactions and foreign currency valuables, including exchange rate differences, decreased in the structure of banking sector profit drivers from 4.3% as of January 1, 2012, to 2.2% as of January 1, 2013.

This source of income accounted for the largest share of income drivers (8.3%) for small and medium-sized banks based in Moscow and the Moscow Region. The share of income from foreign exchange

[1] Analysis of banking sector financial performance drivers is based on data reported by credit institutions in their Profit and Loss Statements (Form 0409102).

transactions in the financial performance of foreign-controlled banks fell from 7.2% to 4.1% (of which, in the financial performance of banks under the material influence of the Russian residents, it decreased from 4.9% to 2.9%); and in the financial performance of large private banks it went down from 5.1% to 1.5%.

Additionally, the share of net other income in the structure of bank profit drivers grew substantially in 2012, from 4.0% to 7.4%, mainly propelled by income generated by financial derivatives.

Foreign-controlled banks had the largest share of net other income (14.0%); among banks under the material influence of Russian residents, this share amounted to 14.1%. For other groups of banks, this share ranged from 3.3% to 6.1%. In small and medium-sized regional banks, the share of this income went down by 0.3 percentage points to 4.6% in 2012.

Bank operational and administrative expenses rose by 19.5% in 2012, which is generally in line with transaction volume growth. It should be noted that the ratio of operational and administrative expenses of credit institutions to gross net income[1] during the reporting year decreased in the banking sector in general (from 56.4% to 54.9%) and among individual groups of banks (except state-controlled banks). This ratio was the highest for small and medium-sized banks based in Moscow and the Moscow Region (69.0%) and the lowest for state-controlled banks (48.9%). The ratio of these expenses to bank gross revenues increased from 4.5% to 4.6%.

In 2012, provisions net of recovered ones rose by almost 90%, by 95.0 billion roubles, and accounted for a 12.2% share in the structure of profit-eroding factors as against 8.2% in 2011.

Loan loss provisions (LLP) increased for all groups of banks. The LLP share in the structure of profit-eroding factors grew most substantially for foreign-controlled banks (from 2.3% to 13.5%) and for small and medium-sized banks based in Moscow and the Moscow Region (from 10.6% to 15.7%). The LLP share for other groups of banks ranged from 11.3% to 14.6%.

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

Banking Sector Risks

II

II.1. Credit Risk

II.1.1. Loan portfolio quality

Amid lending growth in 2012, the quality of the banking sector loan portfolio improved. Overdue loans as a share of total loans dropped from 3.9% to 3.7% in the reporting period. Meanwhile, loans, deposits and other funds placed grew by 18.3%, and overdue loans increased by 11.0%, amounting to 1,257.4 billion roubles as of January 1, 2013.

Overdue loans as a share of total loans dropped for all groups of banks in 2012. This share in the loan portfolio of state-controlled banks amounted to 4.4%. For other groups, it was lower than the banking sector average.

In the absolute majority of credit institutions which had overdue loans in their portfolios, this share did not exceed 4.0%. The number of such credit institutions grew from 578 to 587 in 2012, while their share of banking sector assets went up from 76.3% to 79.0%. At the same time, in 68 credit institutions, the share of overdue loans exceeded 8%. However, these banks' assets represented 6.5% of banking sector total assets *(see Chart 2.1)*.

The credit risk exposure of Russian banks was determined to a significant extent by the quality of loans issued to non-financial organisations. These accounted for 58.8% of total loans issued as of January 1, 2013. Overdue loans to borrowers from this group increased in the reporting period by 12.3%, while lending rose comparably (by 12.7%). The share of overdue loans to non-financial organisations remained unchanged throughout the year and amounted to 4.6%. For rouble-denominated loans, this figure fell from 5.5% as of January 1, 2012 to 5.3% as of January 2013, while for loans denominated in foreign currency, it rose from 2.0% to 2.2%.

Chart 2.2 shows the respective shares of overdue loans by borrower business activity in 2012.

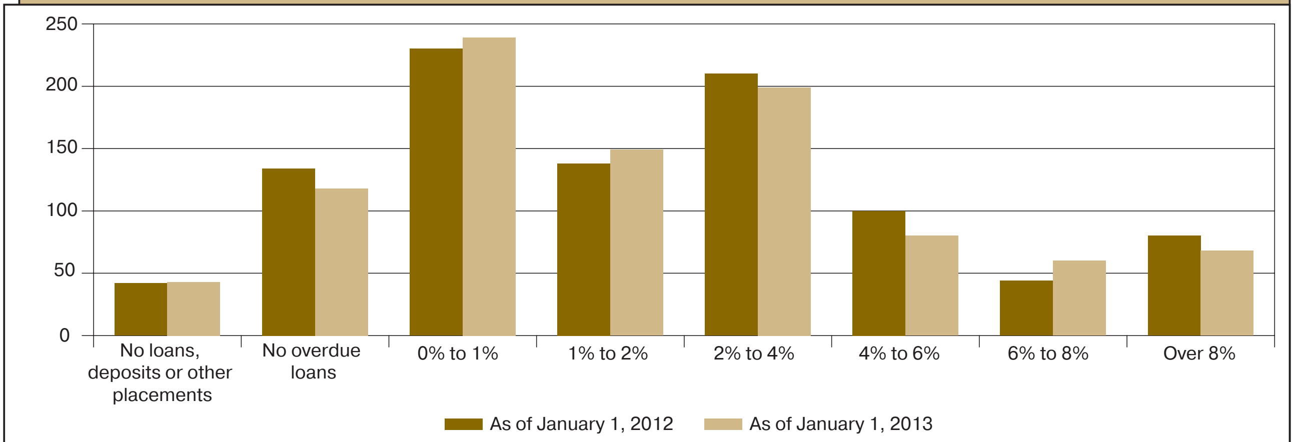
The amount of restructured large loans[1] to corporate entities decreased by 8.6% during the year, reaching 1,621.5 billion roubles (restructured loans accounted for 25.0% of the total large loan portfolio at the end of 2012). Loans that were restructured by way of extending the principal repayment period (rollover loans) as of January 1, 2013 accounted for 61.4% of total restructured loans (55.4% as of January 1, 2012). The share of restructured loans that were overdue by more than 90 days grew from 2.7% to 3.4% of the total restructured large loans during the reporting year.

The volume of overdue loans to households grew by 7.6% in 2012, while the value of such loans rose by 39.4%. Accordingly, overdue loans fell from 5.2% to 4.0% during the year. The share of overdue rouble loans to households dropped from 4.7% as of January 1, 2012, to 3.7% as of January 1, 2013. The share of overdue foreign currency loans, however, went up from 14.4% to 14.7%.

Bank of Russia regulations provide for credit institutions to maintain portfolio-based provisions. Credit

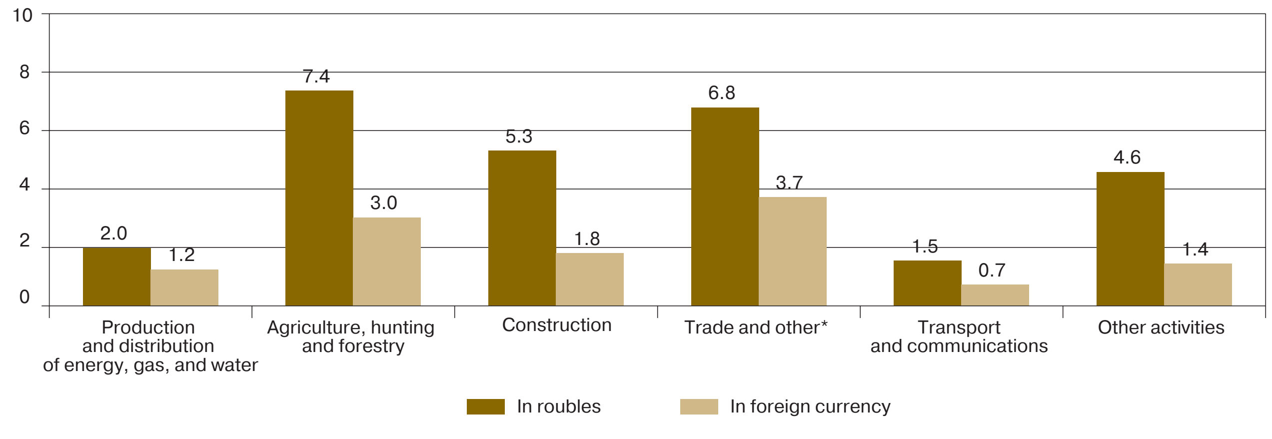
Credit institutions by share of overdue loans in their loan portfolios (number of credit institutions, units)

CHART 2.1



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

Overdue loans as % of loans by borrower activity as of January 1, 2013 *CHART 2.2*



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

institutions actively use portfolio-based provisions for retail loans. As of January 1, 2013, 92.9% of household loans (borrowings) and other claims were grouped into homogenous loan portfolios as against 89.4% as of January 1, 2012.

When assessing individual and systemic risks, special attention was given to unsecured consumer loans[1] during the reporting period. In 2012, this segment grew by 53%. At the end of 2012, these loans reached 4.5 trillion roubles in value. The quality of unsecured consumer loans is somewhat lower than in other segments of consumer lending.

The share of portfolios with loans that were overdue by more than 90 days as a share of household total loans grouped into homogeneous loan portfolios fell from 5.6% to 4.6%. These included car loans (from 6.5% to 4.8%); mortgage housing loans (from 2.9% to 1.6%), and other consumer loans (from 6.9% to 5.9%).

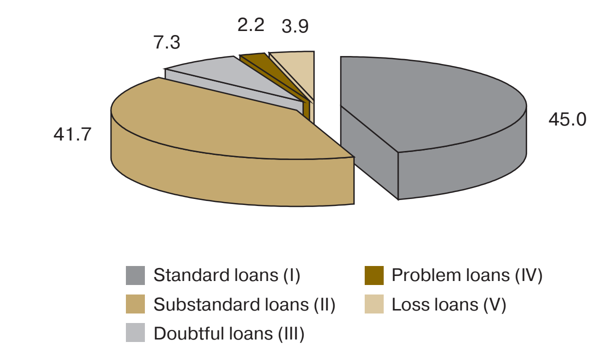
Banks that specialise in consumer lending typically have a larger share of "bad" loans in their portfolios of other consumer loans than diversified universal banks.

The improved quality of bank loan portfolios in 2012 was confirmed by prudential reporting[2]. Thus, as of January 1, 2013, the share of Quality Category I and Quality Category II loans stood at 86.7% as against 84.7% as of the beginning of 2012. The share of Quality Category IV and Quality Category V loans (so-called "bad" loans) fell during the year from 6.6% to 6.0% *(see Chart 2.3).*

By the end of 2012, standard loans (Quality Category I) accounted for more than half of the portfolios in 217 banks, and the share of these banks in banking sector total assets amounted to 20.8% (220 banks and 24.1% respectively as of January 1, 2012).

As of January 1, 2013, the share of Quality Category IV and V loans in the credit portfolios of various bank groups ranged from 5.2% for large private banks to 7.0% in foreign-controlled banks (the share of "bad" loans in the credit portfolios of banks that operate under the material influence of Russian residents was even higher, at 7.2%).

Quality of banking sector loan portfolio as of January 1, 2013 (%) *CHART 2.3*



In credit institutions undergoing bankruptcy-prevention procedures as of January 1, 2013, the ratios differed from the banking sector averages: as of January 1, 2013, the share of Quality Category IV and Quality Category V loans in these banks' assets stood at 14.8%; overdue loans to non-financial organisations accounted for 33.6%; and the share of overdue loans to households totalled 9.0%. Excluding banks undergoing bankruptcy-prevention procedures, the share of overdue loans to non-financial organisations as of January 1, 2013 stood at 3.6%; the share of overdue loans to households totalled 4.0%; and the share of Quality Category IV and V loans in total loans amounted to 5.7%.

In 2012, credit institutions maintained their loan loss provisions at a level that completely covered loans

[1] Other consumer loans – the term used in the reporting Form 0409115 "Information on the Quality of Bank Assets" (Section 3. Information on the Portfolios of Homogenous Claims and Loans Issued to Individuals).
[2] According to Form 0409115 reports filed by credit institutions (Sections 1, 2, and 3).

(Quality Categories IV and V). As of January 1, 2013, the total LLP reached 6.1% of actual loans, including 41.9% of problem loans[1] and 89.1% of loss loans[2] (6.9%, 44.1% and 90.2% respectively as of January 1, 2012).

II.1.2. Credit risk concentration. Shareholder and insider credit risks

In 2012, the large credit exposure of the banking sector grew by 6.7%, to 12,773.9 billion roubles. The share of large loans in banking sector assets decreased from 28.8% to 25.8%.

In 2012, 68 credit institutions breached the required 'maximum exposure per borrower or group of related borrowers' (N6) ratio (91 credit institutions in 2011), and two credit institutions breached the required "large credit exposure" (N7) ratio as against six credit institutions in 2011.

The maximum value of loans, guarantees and sureties provided by a credit institution (banking group) to its members (shareholders) (N9.1) ratio was calculated by 356 credit institutions as of January 1, 2013, or 37.2% of the total number of operating credit institutions (385 credit institutions, or 39.4% respectively as of January 1, 2012). The ratio was breached by two credit institutions as against one credit institution in 2011. There were a total of 258 violations in 2011, compared with 252 violations a year earlier. Five credit institutions (eight credit institutions in 2011) failed to meet total insider risk (N10.1) ratio requirements.

In addition to evaluating prudent compliance based on credit institution reports as part of supervisory efforts, particular focus was placed on identifying instances where the concentration of risks was high, especially in relation to loans issued to bank real owners and affiliated persons. If it was established that a credit institution had exceeded the reasonable level of owner-related risk, the bank was advised to develop an action plan aimed at reducing the assumed exposure (by means of reducing the pertinent debt and/or increasing own funds (capital)). If credit institutions failed to cooperate on issues related to the dispersion of risk, the Bank of Russia would intensify its supervisory procedures concerning these institutions.

[1] Taking collateral into account and an estimated provision for problem loans; the provision ranges from 51% to 100% of the principal, depending on the degree of loan impairment.
[2] Taking collateral into account.

II.2. Market Risk

II.2.1. General characteristics of market risk

Assessed banking sector market risk (for calculating the capital adequacy ratio) totalled 2,646.9 billion roubles as of January 1, 2013, having grown by 11.3% in 2012. However, it had slowed in relation to 2011's 14.2% climb.

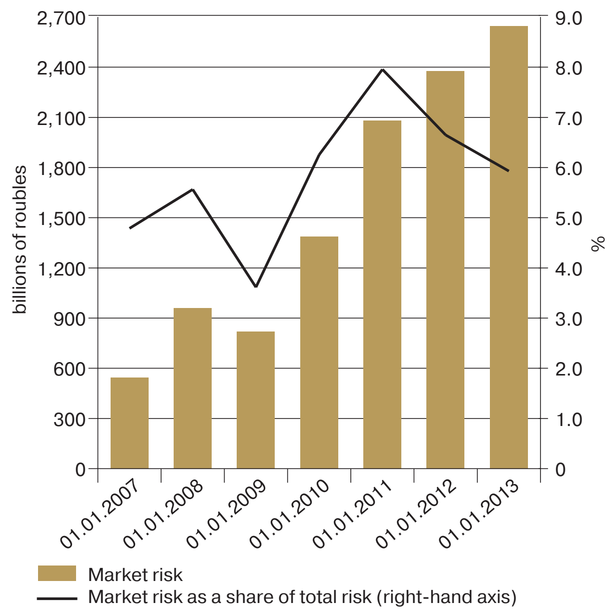
The number of credit institutions that calculated their exposure to market risk[1] fell from 621 to 613 in 2012. Their share of banking sector assets remained almost unchanged in comparison with the beginning of 2012 (92.3%), and as of January 1, 2013, amounted to 92.5%.

The number of banks that included **foreign exchange risk** into their capital adequacy calculation fell in 2012 (from 390 as of January 1, 2012, to 376 as of January 1, 2013), but their share of banking sector total assets increased substantially[2] (from 45.0% to 70.9% respectively). The **equity position risk** was taken into account by 231 banks, which held a 72.2% share of banking sector assets (248 banks and a 69.4% share of assets as of January 1, 2012). The **interest rate risk** was calculated by 406 banks with an 86.9% share of banking sector assets (402 banks with an 87.0% share as of January 1, 2012).

Market risk, as the share of banking sector total risk[3], continued to decline in 2012: from 6.6% as of January 1, 2012, to 5.9% as of January 1, 2013 *(see Chart 2.4)*. The ratio of market risk to the capital of banks that calculated the market risk decreased by 2.4 percentage points to reach 47.3% during the reporting year.

Interest rate risk accounted for the largest share (76.0%) of total market risk as against 68.0% as of January 1, 2012. This indicator was affected by debt obligations (their share of bank trading portfolios[4] amounted to 84.9%). A structural liquidity deficit forced Russian banks to increase their trading portfolios in 2012 (by 10.8% as against 1.6% in 2011) primarily at the expense of securities delivered without derecognition (mostly debt obligations), in order to raise liquidity through repo transactions. The amount of the trading portfolios of debt obligations delivered without derecognition in 2012 was 3.5-fold as large as it had been in 2011.

Market risk and its share of banking sector total risk — *CHART 2.4*



The share of equity position risk in the total market risk structure in 2012 decreased from 26.0% to 12.6%. One reason for this was the 13.4% reduction of equity holding portfolio *(see Table 2.1)*.

Bank holdings of securities futures increased in 2012. According to bank statements, claims related to the forward delivery of securities[5] increased 1.9-fold, and respective obligations grew 1.4-fold during the reporting period (to 87.6 billion roubles and 141.9 billion roubles respectively as of January 1, 2013). In relation to bank capital, the net position for the forward delivery of securi-

[1] Market risk is calculated using the formula MR = 10*(IR + ER) + FR, in accordance with Bank of Russia Regulation No. 313-P, dated November 14, 2007, "On the Procedure for Calculating Market Risk by Credit Institutions".
[2] Due to the change in composition of such banks.
[3] Risk-weighted assets used to calculate the capital adequacy ratio of the banking sector, in accordance with Bank of Russia Instruction No. 110-I, dated January 16, 2004, "On Banks' Required Ratios". On January 1, 2013, this document was replaced by Bank of Russia Instruction No. 139-I, dated December 3, 2012, "On Banks' Required Ratios".
[4] Trading portfolio, here and hereinafter, means investments (allowing for revaluation) in debt and equity securities assessed at fair value and available for sale. Market risk is not measured for all trading portfolios available for sale (accounts 502 and 507), but only for the financial instruments that have a current (fair) value, which credit institutions determine on their own, under the applicable accounting rules established by Bank of Russia Regulation No. 302-P, dated March 26, 2007, "On Accounting Rules at Credit Institutions Located in the Russian Federation".
[5] Forward transactions in Section D of the Chart of Accounts.

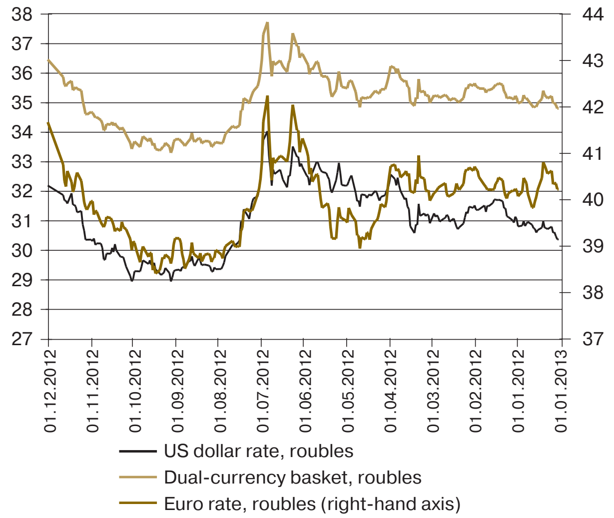
Banking sector market risk structure

TABLE 2.1

	01.01.2012		01.01.2013		
	billions of roubles	share of market risk, %	billions of roubles	growth rate in 2012, %	share of market risk, %
Market risk (MR), total	2,377.7	100	2,646.9	11.3	100
Of which: interest rate risk (IR)	1,616.7	68.0	2,010.6	24.4	76.0
equity position risk (ER)	617.6	26.0	334.6	–45.8	12.6
foreign exchange risk (FR)	143.3	6.0	301.7	110.6	11.4

Euro/rouble and US dollar/rouble exchange rate dynamics

CHART 2.5



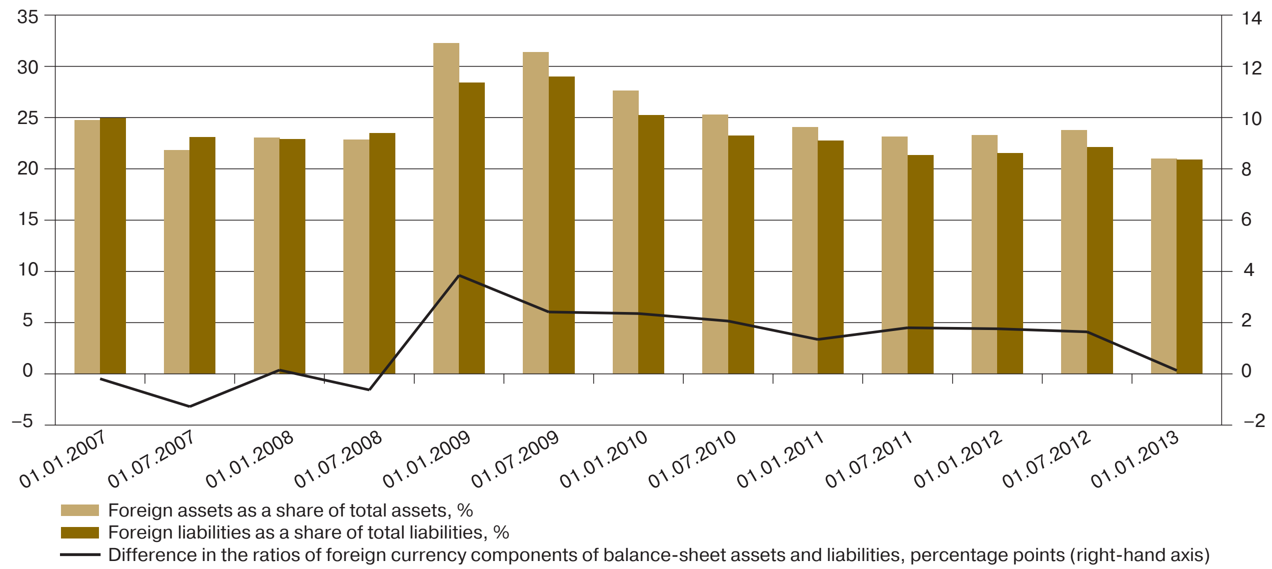
ties in 2012 remained negative, and didn't change much as compared with the beginning of 2012 (-1.0%). As of January 1, 2013, it amounted to -0.9%.

Domestic foreign-exchange market volatility was lower in 2012 than in 2011[1]. However, during 2012, the rouble appreciated against the US dollar by 5.7% and against the euro by 3.5% *(see Chart 2.5)*. The foreign-currency component of balance-sheet positions continued to lose its weight in general *(see Chart 2.6)*. As a result, as of January 1, 2013, foreign currency assets accounted for 21.0% of banking sector assets as against 23.3% as of January 1, 2012, and foreign currency liabilities represented 20.9% of banking sector liabilities as against 21.5% as of January 1, 2012. The positive difference between foreign currency assets and liabilities was virtually eliminated, falling from 1.8 percentage points to 0.1 percentage points.

In 2012, unlike the previous year, the absolute value of the rouble equivalent of the net forward currency position[2] in US dollars and in euros decreased overall (the aggre-

Foreign currency assets and liabilities in banking sector total assets and liabilities

CHART 2.6



[1] The standard deviation in the total dual-currency basket value in 2012 was lower than in 2011 (0.9 roubles as against 1.2 roubles).
[2] Net forward and option positions in foreign currencies are calculated according to Form 0409634, "Statement of Open Currency Positions" for all credit institutions presenting this form, in rouble terms, at the Bank of Russia official rate as of the corresponding dates.

Net foreign-currency forward position

TABLE 2.2

	Foreign currency	Net foreign currency forward position, billions of currency units	Rouble equivalent of net foreign currency forward position, billions of roubles
31.12.2011	US dollar	–28.4	–913.1
	Euro	7.8	327.0
31.12.2012	US dollar	–4.9	–148.5
	Euro	1.4	57.8

Banking sector foreign currency claims and liabilities on and off balance sheet (billions of roubles)

TABLE 2.3

	01.01.2012	01.01.2013	Growth in 2012
Balance-sheet positions			
Claims	9,688.9	10,410.0	721.0
Liabilities	8,955.6	10,343.8	1,388.2
Net balance-sheet position	733.4	66.2	–667.1
Off-balance-sheet positions			
Claims	5,228.6	5,783.2	554.6
Liabilities	5,398.4	5,356.7	–41.7
Net off-balance-sheet position	–169.8	426.5	596.3

Characteristics of banks sampled for analysis of sensitivity to interest rate risk

TABLE 2.4

	Number of banks in the sample		Share of analysed debt portfolios, %		Share of banking sector assets, %		Share of banking sector capital, %	
	01.01.2012	01.01.2013	01.01.2012	01.01.2013	01.01.2012	01.01.2013	01.01.2012	01.01.2013
Sample 1	396	402	94.6	95.5	86.9	86.8	85.5	84.9
Sample 2	129	113	5.4	4.5	9.7	9.8	9.4	9.9

gate short position[1]), see *Table 2.2.* Aggregate balance-sheet foreign currency positions in absolute value (as well as off-balance-sheet[2] claims) went up; off-balance-sheet obligations went down *(see Table 2.3)*. The total net position (both balance-sheet and off-balance-sheet positions) decreased (492.7 billion roubles as of January 1, 2013 as against 563.6 billion roubles as of January 1, 2012).

In 2012, 73 credit institutions operating as of January 1, 2013 exceeded the required limits set on open foreign-currency positions (in any currency and precious metal) at least once as against 15 credit institutions operating as of January 1, 2012). The share of these banks in the assets of banks holding foreign currency or general licences decreased from 3.9% as of January 1, 2012 to 0.6% as of January 1, 2013.

II.2.2. The assessment of banking sector vulnerability to interest rate risk

To estimate banking sector vulnerability to interest rate risk involved in the aggregate debt securities trading portfolio, a sensitivity analysis was performed for bank financial standing using a stress testing methodology. It was assumed that under the impact of a parallel upward shift of the yield curve of debt instruments in bank portfolios[3], the debt securities trading portfolio would depreciate in value. Since market rate movements impact the prices of government debt obligations and corporate bonds unevenly, the bank portfolio was split into two categories: federal government debt obligations, and other bonds. Portfolio duration, effective portfolio yields and historical interest rate movements were factored in the

[1] In 2012, the rouble equivalent of net short forward currency positions in US dollars and in euros dropped.
[2] Forward transactions in Section D of the Chart of Accounts.
[3] Potential (stress) increase in the yields of federal government and Bank of Russia debt obligations amounted to 350 basis points; of Russian corporate bonds 1,000 basis points.

calculations[1]. The dependence of prices on interest rates was analysed separately for 2011 and for 2012.

The interest rate risk was assessed based on the data reported by credit institutions that had the indicated securities in their portfolios. For the sake of analysis, the credit institutions were split into two groups (samples)[2], depending on whether they were required to calculate interest rate risk for inclusion in capital adequacy calculations and whether they held portfolios of such securities (the groups of bank characteristics are described in *Table 2.4*). It should be noted that as of January 1, 2013, the assets and capital in the first sample of banks (which jointly held 95.5% of the banking sector debt securities trading portfolio) represented 86.8% and 84.9% of banking sector totals, which is close to the data for January 1, 2012.

A sensitivity analysis of credit institutions in each sample shows that in both groups (those that calculate interest rate risk and those that do not) sensitivity to interest rate risk went down in 2012 (despite the increased debt portfolio of the Sample 1 banking group). As of the beginning of 2013, the potential losses in Sample 1 could total 12.2% of capital as against 13.6% as of January 1, 2012, and in Sample 2 it could be 5.0% of capital as against 7.4% as of January 1, 2012. The duration of the corporate obligations portfolio decreased in 2012. The vulnerability of the banking sector to potential interest rate movements in 2012 generally tended to decrease; the relevance of this risk factor for domestic banks is falling.

II.2.3. The assessment of banking sector vulnerability to equity position risk

To estimate the Russian banking sector vulnerability to equity position risk, stress tests were used to project the potential negative consequences of a fall in stock indices. It was assumed that stock indices would drop by 50%[3].

To determine the impact of equity position risk on the Russian banking sector capitalisation, the Bank of Russia analysed the data reported by credit institutions that held equity securities in their trading portfolios. The credit institutions were broken in two groups[4] (the groups of bank characteristics are described in *Table 2.5*). In 2012, both the samples underwent certain changes in terms of their composition and share; both in banking sector assets and capital, and in their equity trading portfolios.

The group of credit institutions that *calculated equity position risk* has become, as a whole, less sensitive to this type of risk (part of the reason being the decrease in such portfolios). Should stock indices fall by 50%, potential losses would have amounted to 8.2% of capital as of early 2013 (11.4% as of January 1, 2012).

As for the group of credit institutions that had portfolios of equity securities under review but *did not calculate equity position risk*, their sensitivity to equity position risk also decreased. Should an adverse development occur, potential losses might amount to 3.8% of capital as of early 2013 (4.3% as of January 1, 2012).

Characteristics of banks sampled for analysis of sensitivity to equity position risk *TABLE 2.5*

	Number of banks in the sample		Share of equity securities portfolios, %		Share of banking sector assets, %		Share of banking sector capital, %	
	01.01.2012	01.01.2013	01.01.2012	01.01.2013	01.01.2012	01.01.2013	01.01.2012	01.01.2013
Sample 1	245	228	89.4	88.7	69.4	72.1	68.6	70.1
Sample 2	242	222	10.6	11.3	23.2	19.9	21.8	19.4

Characteristics of banks analysed for sensitivity to foreign exchange risk (a potential appreciation of the rouble) *TABLE 2.6*

	Number of banks		Share of banking sector assets, %		Share of banking sector capital, %	
	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012
Credit institutions with long positions either in US dollars or in euros (in at least one of the currencies)	281	288	29.8	23.2	27.0	23.9

[1] The data are available on Cbonds.ru website.

[2] The first group was comprised of banks that were required to calculate their interest rate risk and, accordingly, factor the market risk into capital adequacy calculations; the second group included credit institutions that did not calculate their interest rate risk but did hold such portfolios. Pursuant to Bank of Russia Regulation No. 313-P, dated November 14, 2007, “On the Procedure for Calculating Market Risk by Credit Institutions”, interest rate risk and equity position risk are calculated if the total current (fair) value of financial instruments is equal to or exceeds 5% of bank balance-sheet assets as of the calculation date.

[3] It was assumed that a 50% fall in stock indices would lead to a similar drop in the value of stocks in trading books.

[4] The first group was comprised of banks that were required to calculate their equity position risk and, therefore, included it in capital adequacy calculations; the other group was comprised of credit institutions that did not calculate equity position risk but did hold such portfolios.

In general, the sensitivity analysis shows that banking sector vulnerability to equity position risk is quite significant in the first group of credit institutions and relatively small in the second group. In both cases, it is lower than analogous indices in 2011. The banking sector overall vulnerability to interest rate risk is substantially higher than its sensitivity to equity position risk, since its debt securities trading portfolio is 5.6-fold larger than its equity trading portfolio.

II.2.4. The assessment of banking sector vulnerability to foreign exchange risk

To assess the vulnerability of the Russian banking sector to foreign exchange risk, several stress tests were conducted to analyse its sensitivity to the appreciation and depreciation of the rouble against the US dollar and the euro.

In the rouble ***appreciation*** scenario, it was assumed that the nominal exchange rates of the rouble against the US dollar and the euro would ***increase*** by 20%. To estimate the impact of foreign exchange risk on the financial situation of the Russian banking sector, the Bank of Russia analysed data reported by credit institutions that were required to calculate foreign exchange risk[1] and that held net long open positions[2] in US dollars and euros (the characteristics of banks are described in *Table 2.6*). Banks with net long open positions in either US dollars or euros (with some banks having long positions in both currencies) were analysed.

In 2012, the number of banks that held long open currency positions in at least one of the stated currencies went up slightly. However, due to changes in the composition of banks under review, their share of banking sector assets and capital decreased.

The share of long open US dollar/euro positions in the total long open positions in all currencies and precious metals[3] for this sample of banks rose from 34.6% as of December 31, 2011, to 74.0% as of December 31, 2012. During the reporting year, the long open foreign-currency position structure became more traditional, i.e. dominated by the two key global currencies. Analysis shows that the rouble appreciation against the US dollar and the euro by 20% would not lead to substantial losses: should such a scenario materialise, potential losses for the appropriate group of banks might equal 0.6% of their capital as of December 31, 2012 (0.5% the year before).

For the assessment of the Russian banking sector sensitivity to foreign exchange risk in the event of ***rouble depreciation***, it was assumed that the nominal exchange rate of the rouble against the US dollar and the euro would ***decrease*** by 20%. To determine the impact of foreign exchange risk on the financial state of the Russian banking sector, statements filed by credit institutions that were required to calculate foreign exchange risk and held net short open positions in US dollars and euros were analysed.

The number of banks with short currency positions in at least one of the aforementioned currencies fell slightly in 2012, but their share of banking sector assets and capital increased approximately two-fold (the characteristics of credit institutions with net short open positions in US dollars and euros are described in *Table 2.7*).

The share of short open positions, in dollars and euros, of the banks in this sample in their short open positions in all currencies and precious metals[4] increased from 78.7% as of December 31, 2011, to 95.7% as of December 31, 2012. Analysis shows that the banking sector vulnerability to a 20% depreciation of the rouble against the US dollar and the euro decreased in the reporting year: should such a scenario materialise, potential losses for the appropriate group of banks might equal 0.6% of their capital as of December 31, 2012 (1.0% the year before).

Characteristics of banks analysed for sensitivity to foreign exchange risk (a potential depreciation of the rouble) *TABLE 2.7*

	Number of banks		Share of banking sector assets, %		Share of banking sector capital, %	
	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012
Credit institutions with short positions either in US dollars or in euros (in at least one of the currencies)	236	231	34.6	66.7	31.5	65.6

[1] Foreign exchange risk is built into market risk if total open currency positions in individual foreign currencies and individual precious metals (as a percentage of the bank capital) are equal to or exceed 2%, as of the date of the market risk calculation.

[2] When preparing the Form 0409364 “Open Currency Position Statement”, banks include in net positions balance-sheet assets and liabilities and off-balance-sheet claims and obligations specified according to Bank of Russia Instruction No. 124-I, dated July 15, 2005, “On Setting Limits on Open Currency Positions, the Methods of Calculation and the Specifics of Supervising Their Compliance by Credit Institutions”.

[3] In the rouble equivalent.

[4] In the rouble equivalent.

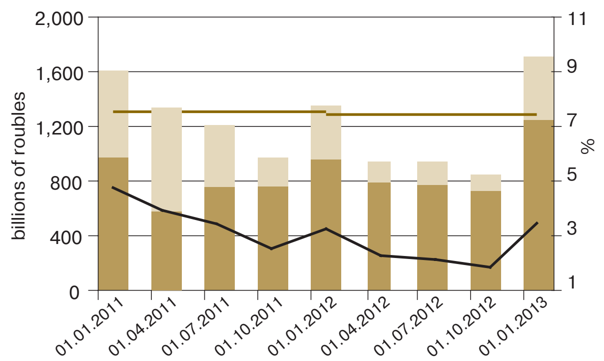
II.3. Liquidity Risk

II.3.1. General characteristics of liquidity risk

During 2012, the average of the most liquid assets[1] as a share of the banking sector total asset average (chronological average for the period under review) went down slightly less (to 7.4%) than in 2011 (7.5%). For changes in the key components of liquid assets see *Chart 2.7.*

The highest share of the most liquid assets in total assets was still recorded among regional banks (17.9% in 2012 as against 19.6% in 2011) and among small and medium-sized banks based in Moscow and the Moscow Region (17.0% and 18.8% respectively). Large banks (both state-controlled and private) had lower ratios (5.3% and 9.3% respectively in 2012). One reason is their sufficient capacity to raise the necessary liquidity by means of refinancing.

Balances in credit institutions' correspondent and deposit accounts with the Bank of Russia *CHART 2.7*



Deposits and other funds placed by credit institutions with the Bank of Russia
Bank correspondent accounts with the Bank of Russia
Balances in correspondent and deposits accounts with the Bank of Russia as % of banking sector total assets (right-hand axis)
Average annual ratio between the most liquid assets and banking sector total assets (right-hand axis)

Bank of Russia operations to regulate banking sector liquidity

In 2012, the Russian banking sector operated in the structural liquidity deficit environment that continued from the second half of 2011. This resulted in bank high demand for Bank of Russia refinancing and contributed to increased money market interest rates.

The main factor causing the continuation of a structural liquidity deficit and its expansion in comparison with 2011 was the accumulation of funds in the general government accounts with the Bank of Russia due to the federal budget surplus. At the same time, consistently increasing exchange rate flexibility resulted in a reduction in the volume of Bank of Russia interventions on the domestic foreign exchange market and in their accordingly reduced effect on money supply. Under these circumstances, gross credit extended by the Bank of Russia to credit institutions in 2012 grew by 1.8 trillion roubles as against 0.9 trillion roubles the year before.

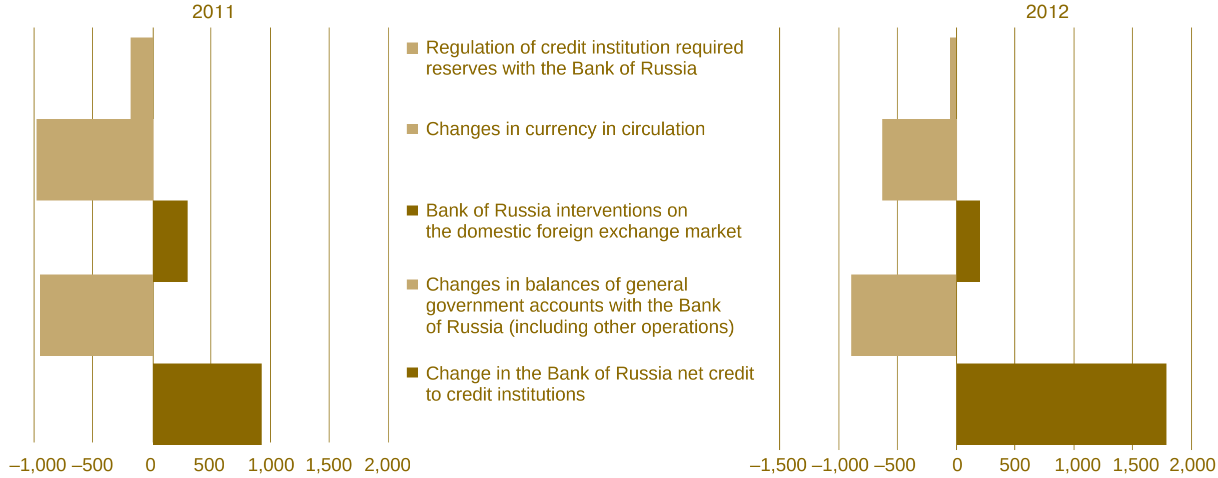
As in 2011, in the reporting period, liquidity was mostly provided by the Bank of Russia to credit institutions at auctions and primarily through repo transactions. At the same time, the market transaction structure changed noticeably in 2012 due to credit institution shift towards using one-week repo auctions as the main source of liquidity raised from the Bank of Russia. In the second half of 2012, the average debt of credit institutions on these transactions exceeded one trillion roubles. The average debt on overnight repo auctions, though, remained relatively low, amounting to 0.2 trillion roubles. The banking sector's demand for refinancing transactions with longer maturities was rather small too. In 2012, bank debt on repo transactions accounted on average for 60% of total bank debt on Bank of Russia refinancing operations, or approximately 1.1 trillion roubles as against less than 0.2 trillion roubles in 2011.

Loans secured with non-market assets or the sureties of credit institutions with maturities of up to 12 months were in high demand too. Average debt on those operations increased by 0.5 trillion roubles in 2012, to 0.6 trillion roubles.

In 2012, the factors which were responsible for the structural liquidity deficit and the growing rate of market collateral utilisation on Bank of Russia loans prompted the Bank of Russia to resume its participation in foreign exchange swaps with credit institutions. In the second half of the year, after the Bank of Russia decided to reduce the foreign exchange swap rouble interest rate, the value and frequency of these transactions increased noticeably: the average daily value of liquidity made available through this instrument amounted to

[1] Cash, precious metals and gemstones, nostro correspondent account balances, and balances in correspondent and deposit accounts with the Bank of Russia. This indicator is calculated as a chronological average for the period under review.

Liquidity drivers and changes in Bank of Russia gross credit to credit institutions (billions of roubles)



17.3 billion roubles as against 3.1 billion roubles in the first six months of the year. The Bank of Russia foreign exchange swap transactions were used most actively during periods when interest rates on the money market were growing, including days when major tax payments were made.

For most of 2012, bank demand for Bank of Russia operations to absorb liquidity remained relatively low: the Bank of Russia average debt on deposit operations in 2012 amounted to less than 0.2 trillion roubles.

Given the banking sector's substantially increased need for liquidity, the Bank of Russia implemented a number of measures in 2012, aimed at expanding the range of available refinancing instruments and their accessibility to credit institutions.

Expanding the list of assets that are acceptable as collateral

Expanding the list of economic activities of organisations liable for non-marketable assets accepted as collateral for Bank of Russia loans	March
Including securities whose issuers do not have an international rating on the the Bank of Russia Lombard List, provided that these obligations are partially secured by Russian Government guarantees	May
Resuming repo operations with equities on the Bank of Russia Lombard List	May

Extending the maturities of liquidity-providing operations

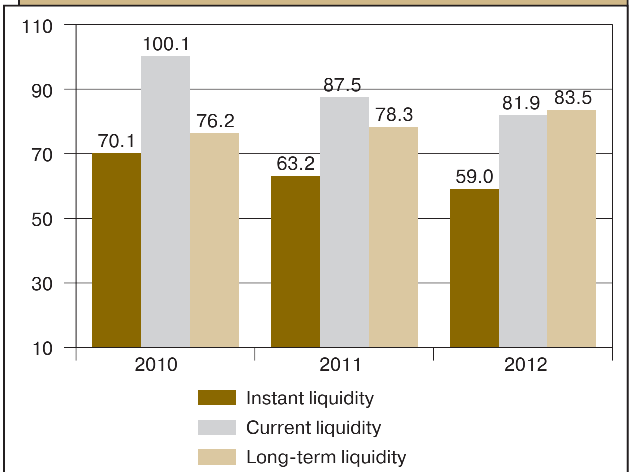
Resuming auctions for Bank of Russia Lombard loans and repos with 12-month maturities	March
Resuming provision of Bank of Russia loans secured by bank assets or guarantees with maturities of 181 to 365 calendar days	April
Providing to credit institutions loans secured by gold with maturities of 181 to 365 calendar days	April

II.3.2. Compliance with required liquidity ratios

Since the growth rate of bank short-term liabilities exceeded the growth rate of highly liquid assets, the average annual ratio of instant liquidity (N2) across the banking sector declined from 63.2% in 2011 to 59.0% in 2012 (the regulatory minimum being 15%). The average annual actual ratio of current liquidity (N3) dropped from 87.5% in 2011 to 81.9% in 2012 *(see Chart 2.8)*, which is also substantially higher than the minimum permissible ratio of 50%.

The average long-term liquidity ratio grew from 78.3% in 2011 to 83.5% in 2012. The average annual volume of long-term (over one year) lending rose by 28.0% in 2012 over its 2011 figure. The banking sector annual average for liabilities maturing in over one year increased by 22.1%, while the growth rate of average capital reached

Banking sector liquidity ratios (annual chronological averages, %) *CHART 2.8*



15.5%[1]. These changes reflect the maintained balanced structure of bank long-term assets and liabilities. Taking account of the maximum permissible long-term liquidity ratio (120%), credit institutions are able to extend additional long-term loans to the economy.

During 2012, only a few credit institutions failed to comply with the required liquidity ratios, and these banks did so occasionally. Of the credit institutions that were in operation as of January 1, 2013, five institutions breached their instant liquidity (N2) ratio on certain dates of the year under review (the same number as in 2011); seven institutions failed to comply with the current liquidity (N3) ratio as against 19 in 2011; and no cases of non-compliance with the long-term liquidity ratio (N4) were reported in 2012 as against one case in 2011.

II.3.3. The structure of credit institutions' assets and liabilities by maturity

The share of assets maturing in excess of one year in the total assets (assigned to Quality Category I[2]) as of January 1, 2013, remained the same year on year, amounting to 28.5%. The share of liabilities with a residual maturity of more than one year in total liabilities decreased from 24.1% to 23.0%.

The liquid coverage deficit (LCD)[3] remained stable throughout the year (it stood at 18.9% as of January 1, 2013 as against 19.9% as of January 1, 2012).

Customer deposits to loans (coverage ratio[4])

As of January 1, 2013, customer deposits[5] (the most stable source of bank funds), covered 80.3% of loans extended[6], which is somewhat lower than the coverage ratio of 82.2% recorded on January 1, 2012 (*see Chart 2.9*). The growth rate of loans extended to customers (19.5%) exceeded the growth rate of deposits (16.8%).

The coverage ratio calculated by the medium- and long-term component (one-year-plus maturity)[7] went down too, from 63.4% as of January 1, 2012 to 60.7% as of January 1, 2013. The growth rate of loans with maturities exceeding one year was higher than the growth rate of deposits with the same maturity (23.2% as against 18.1% respectively).

In 2012, the number of credit institutions with coverage ratios that were well below the banking sector average decreased. As of January 1, 2013, coverage ratios that were half as high as the sector average were registered in 187 credit institutions, which accounted for 2.8% of banking sector total assets, as against 207 credit institutions with a 3.3% share as of January 1, 2012. Coverage ratios that were four times lower than the banking sector average were registered as of January 1, 2013 in 116 credit institutions with a 1.4% share of banking sector total assets (127 credit institutions with a 1.8% share as of January 1, 2012).

II.3.4. Dependence on the interbank market and interest rate dynamics

A general upward trend in interbank loan costs in 2012 was accompanied by a rather high volatility of these costs: in April–June and from the end of September to the end of December, interest rates for overnight rouble interbank loans (MIACR) on some days exceeded 6% p.a. At the same time, in the first six months of 2012, the MIACR for overnight rouble loans ranged from 4.2% to 6.5% p.a. *(see Chart 2.10)*, and in the second six months of 2012, it ranged from 4.5% to 6.5% p.a.

The dependence of credit institutions on the interbank market (IMDR)[8] ebbed in 2012, from 1.8% as of January 1, 2012, to 1.2% as of January 1, 2013, mainly due to the reduced dependence of foreign-controlled banks on the interbank market (from 3.0% to 0.2%). This decrease was less pronounced in banks under the mate-

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[1] Analysis is based on the components of the long-term liquidity (N4) ratio, including chronological averages for long-term loans, banking sector liabilities with maturities of over one year, and capital, in accordance with Bank of Russia Instruction No. 110-I, dated January 16, 2004, "On Banks' Required Ratios", which ceased to be in force as of January 1, 2013.

[2] Pursuant to Bank of Russia Regulation No. 254-P, dated March 26, 2004, "On the Procedure for Credit Institutions Making Provisions for Possible Losses on Loans, Loan and Similar Debts" and Bank of Russia Regulation No. 283-P, dated March 20, 2006, "On the Procedure for Making Loan Loss Provisions by Credit Institutions".

[3] The liquid coverage deficit is calculated as the ratio of the excess of demand liabilities and liabilities with maturities of up to 30 days over the value of (liquid) assets of the same maturities, to the total value of these liabilities.

[4] The coverage ratio is calculated as the ratio of customer deposits to customer loans. An increase in the ratio indicates an improved balance between loans to customers and their sources of funding for the same maturity. The international practice is to use the loan-to-deposit ratio for analytical purposes.

[5] Customer deposits include those accepted by credit institutions from corporate entities and individuals (except resident banks and financial organisations), as well as other funds raised from these categories of resident and non-resident creditors, excluding balances in the current and settlement accounts of these customers.

[6] Loans include credit extended by credit institutions to corporate entities and individuals (except resident banks and financial organisations), as well as other funds extended to these categories of resident and non-resident debtors.

[7] Calculated as the ratio of customer deposits with maturities in excess of one year to loans extended with the same maturity. An increase in the ratio can be interpreted as an improvement in the balance between medium- and long-term loans and their sources of funding that have the same maturity.

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

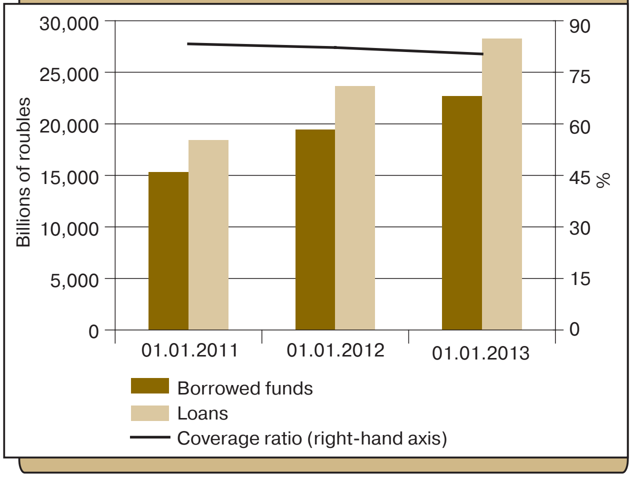
rial influence of Russian residents (from 3.6% to 2.5%) The largest share of banking sector total assets (89.7% as of January 1, 2013) belonged to the group of credit institutions with an IMDR that was no higher than 8% *(see Chart 2.11)*.

II.3.5. Debt to non-residents

By the end of 2012, the total debt of the Russian banking sector to non-residents[1] amounted to 5,335.2 billion roubles, an increase of 15.6% over the year. At the same time, the net debt of non-residents[2] to the Russian banking sector decreased from 1,349.6 billion roubles as of January 1, 2012, to 1,096.3 billion roubles as of January 1, 2013.

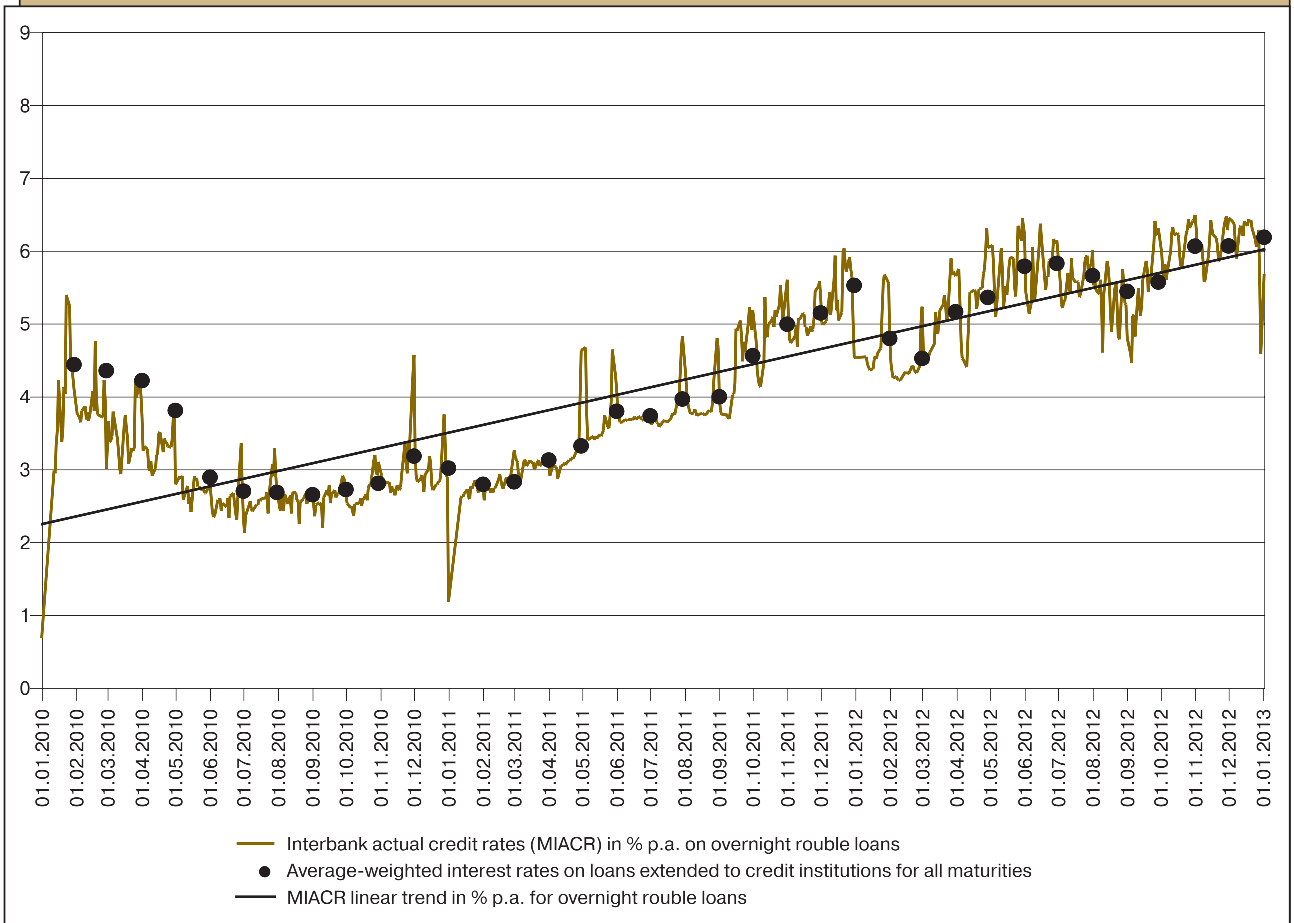
Foreign-controlled banks remain the only bank group that was a net borrower from non-residents as of January 1, 2013. At the same time, their net debt to liability ratio fell from 2.8% as of January 1, 2012, to 1.2% as of January 1, 2013, while in banks under the material influence of Russian residents, this ratio grew from 0.3% to 1.3%. Other bank groups act as net lenders to non-residents.

Banking sector loans to borrowed funds *CHART 2.9*



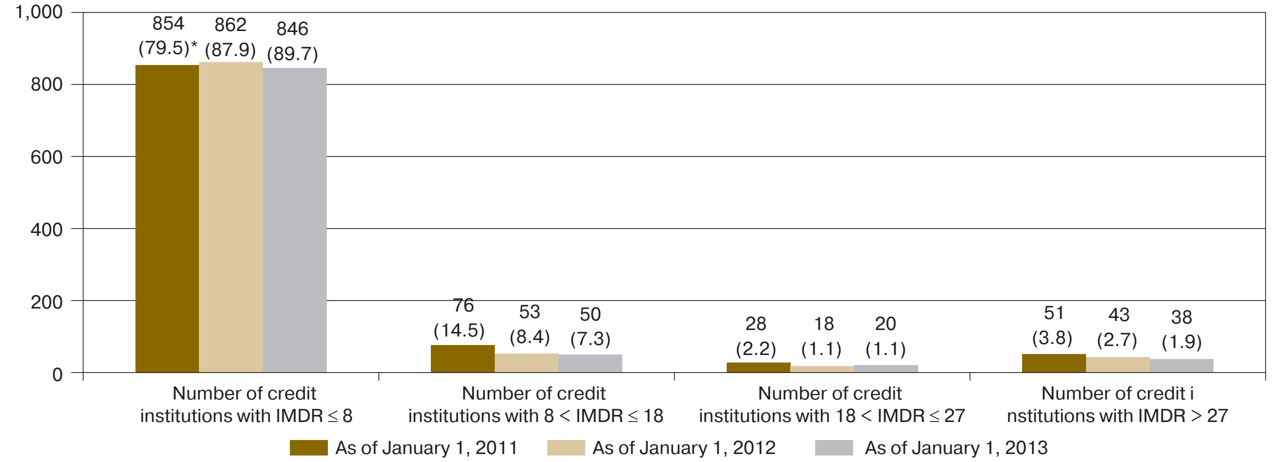
Analysis of the distribution of banks by the level of debt to non-residents showed that the average ratio of this debt to liabilities across the banking sector stood at 10.8% as of January 1, 2013. This level was exceeded by 123 credit institutions, 67 of which were foreign-con-

Rouble interbank credit rate (MIACR, %) *CHART 2.10*



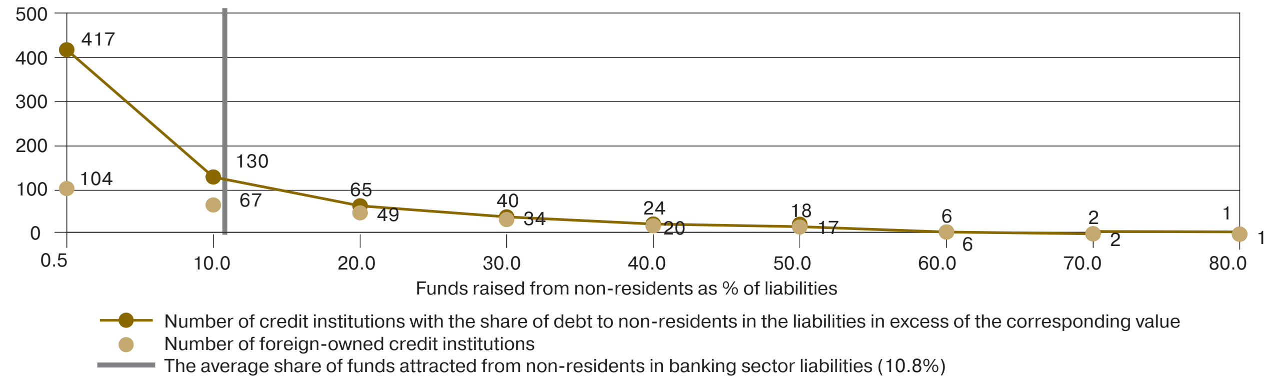
[1] Correspondent and other accounts held by non-resident credit institutions, loans, deposits, and funds held in the accounts of other non-resident individuals and corporate entities.
[2] The balance of debt to non-residents and funds deposited with them, including correspondent accounts with credit institutions, loans, deposits and other fund placements.

Credit institutions in terms of interbank market dependence ratio (IMDR) (number of credit institutions, units) CHART 2.11



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

Banking sector debt to non-residents as of January 1, 2013 (number of credit institutions, units) CHART 2.12



trolled (including four banks under the material influence of Russian residents – *see Chart 2.12*).

As of January 1, 2013, 183 credit institutions, which accounted for 89.2% of banking sector total assets, had loans received from non-resident banks (as of January 1, 2012, there were 177 such credit institutions with a 89.2% share of banking sector total assets respectively). The high concentration of loans persists, with five credit institutions (of which four are in the Russian top 20 in terms of assets), accounting for half of the interbank loans received from abroad.

As of January 1, 2013, 213 credit institutions, accounting for 90.3% of banking sector assets, have extended loans to non-resident banks as against 229 credit institutions accounting for 90.8% of banking sector assets as of January 1, 2012). As with external borrowing, the placement of funds on the international market was characterised by a high degree of concentration, with three credit institutions from the top 20 (in terms of assets) accounting for 50% of all interbank loans. Thus, interbank transactions with non-residents are concentrated in Russia's largest credit institutions, as usual.

II.4. Capital Adequacy

II.4.1. Banking sector capital dynamics and structure

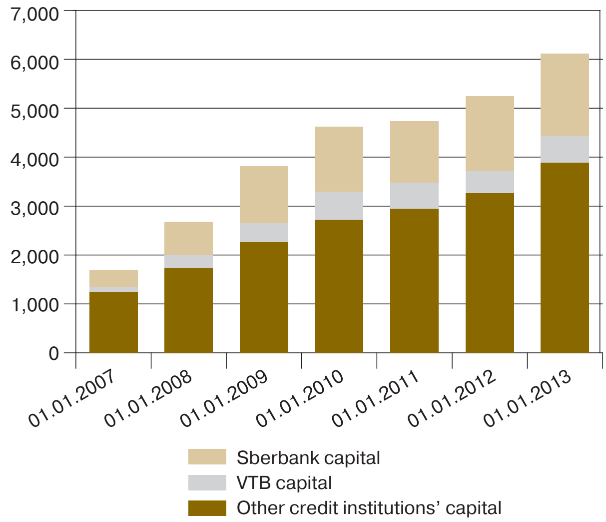
In 2012, the capital of operating credit institutions grew by 16.6% as against 10.8% in 2011, reaching 6,112.9 billion roubles by January 1, 2013. As bank capital growth intensified in relation to nominal GDP growth, the ratio of banking sector capital to GDP went up from 9.4% to 9.8% in 2012.

In 2012, the total growth of banking sector capital in absolute terms equalled 870.9 billion roubles, which is 1.7 times higher than in the previous year (509.8 billion roubles).

The structure of capital growth drivers changed somewhat in 2012 when compared with 2011 *(see Statistical Appendix, Table 12)*. Profits and funds created from them remained the main drivers of capital growth (they grew by 608.1 billion roubles, or 53.1% of the total value of capital growth sources[1]). Subordinated loans[2] became the second most significant capital growth driver: they grew by 289.8 billion roubles, or 25.3% of the total value of capital growth sources (37.4 billion roubles, or 5.1% in 2011). An expansion of the value of subordinated loans at the end of the reporting year was mainly due to the fact that banks were striving to use subordinated instruments prior to the introduction of Basel III requirements in 2013. Growth in authorised capital and share premiums totalled 224.2 billion roubles, or 19.6% of the total drivers (in 2011, these drivers rose by 184.5 billion roubles, or 25%).

The main capital-decreasing driver in 2012 was the bank portfolio of shares of subsidiaries and affiliated corporate entities (86% of the total capital decrease drivers).

Banking sector capital (billions of roubles) *CHART 2.13*



Although banking sector capital grew overall, its reduction was registered at some credit institutions. In 2012, the decrease in capital by a total of 43.7 billion roubles (or 10.1%) was registered at 126 credit institutions as against 126 credit institutions whose capital decreased by a total of 155.8 billion roubles, or 15.4% in 2011. For characteristics of credit institutions that allowed capital reduction see *Table 2.8.*

Core capital went up by 15.1% to 3,813.5 billion roubles in 2012. The share of core capital in the total

Capital growth factors differed somewhat by group of credit institutions.

State-controlled banks increased their capital mainly due to profits and funds created on their account (61.2% of the value of total drivers), and also subordinated loans (28.5%).

The capitalisation of foreign-controlled banks also rose, mainly due to profits (52.6%) and subordinated loans (24.8%). However, the sub-group of banks under the material influence of Russian residents displayed different shares of subordinated loans and profits (38.8% and 35.8% respectively).

The capitalisation of large private banks expanded, mainly due to growth of their authorised capital and share premiums (36.8% in total); profits and funds created on their account (36.1%); and subordinated loans (19.5%).

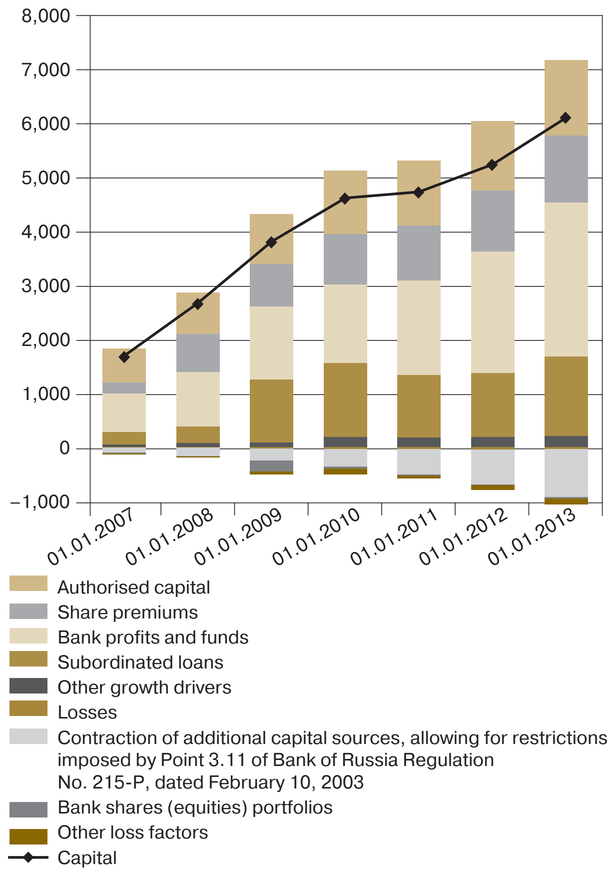
Among small and medium-sized banks based in Moscow and the Moscow Region, capital grew due to authorised capital (45.6%); profits and funds created from them (28.9%); and subordinated loans (15.1%).

The capitalisation of small and medium-sized regional banks went up mainly due to growth of profits and funds created on their account (36.6%); authorised capital and share premiums (28.5%); and subordinated loans (14.8%).

[1] Banking sector capital

[2] Included in capital, pursuant to requirements established by Bank of Russia Regulation No. 215-P, dated February 10, 2003, "On the Methodology for Calculating Bank Capital".

Banking sector total capital structure (billions of roubles) CHART 2.14



capital went down by 0.8 percentage points and as of January 1, 2013, amounted to 62.4%. The ratio of core capital to risk-weighted assets during the reporting year decreased from 9.3% to 8.5%.

II.4.2. Risk-weighted assets

The ratio of credit risk-weighted assets of banks to total balance-sheet assets went up from 75.5% in 2011 to 78.5% in 2012 *(see Chart 2.15).*

Due to several new regulations[1] introduced by the Bank of Russia, the structure of credit risk-weighted assets underwent some changes in 2012 (*see Table 2.9).* Thus, the share of Asset Group IV (100%-weighting ratio) in the structure of risk-weighted balance-sheet assets went down by 16.8 percentage points. Assets from that group were partially transferred to the higher-risk asset group (150%-weighting ratio). The share of higher-risk transactions amounted to 25.3% of risk-weighted balance-sheet assets as of January 1, 2013.

During 2012, the amount of higher-risk transactions increased 3.8-fold, reaching 8,501.0 billion roubles as of January 1, 2013.

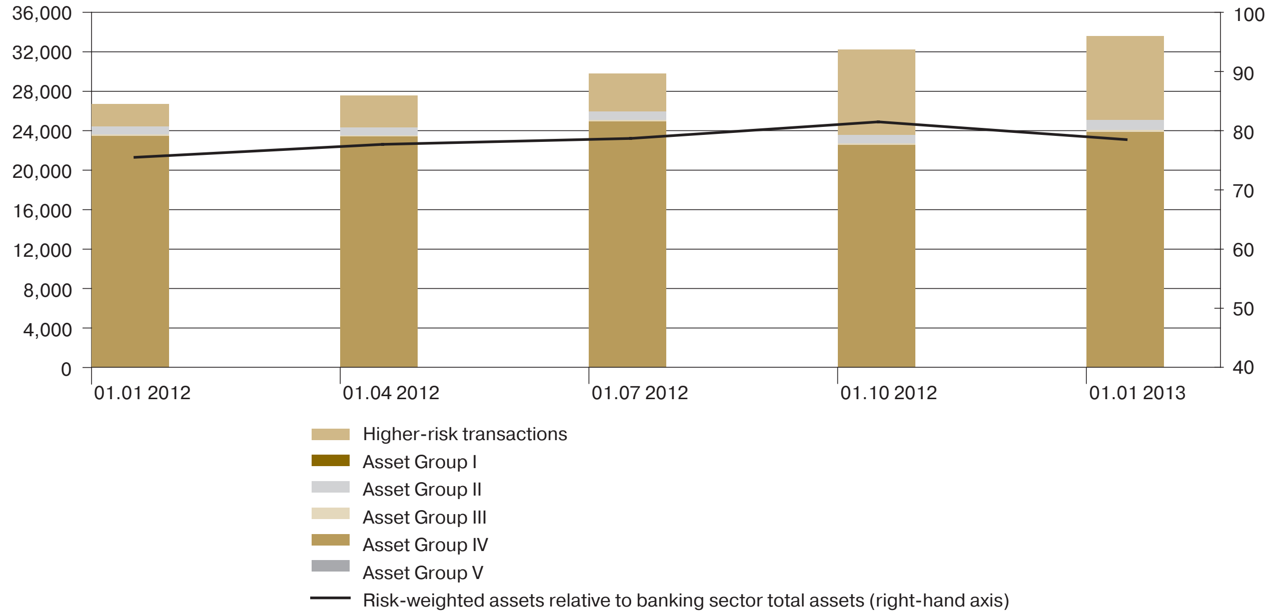
In 2012, the volume of risk-weighted assets that were used to calculate the capital adequacy ratio (N1) rose by 24.8% (36.7% in 2011). In the structure of risk-weighted assets, the share of credit exposures recorded in the balance-sheet accounts increased from 74.7% to 75.2% during the year, while the share of market risk decreased from 6.6% to 5.9%. The share of credit risk of contingent

Capital reduction by bank group TABLE 2.8

	Number of credit institutions with capital reduction	Capital reduction		Capital of banks which had a capital reduction, as of 01.01.2013	
		billions of roubles	% of capital of respective group banks with a capital reduction	% of group	% of banking sector
State-controlled banks	2	21.0	11.0	5.8	2.8
Foreign-controlled banks, of which:	20	10.5	9.9	8.1	1.6
banks under the material influence of Russian residents	5	4.8	8.8	2.1	1.0
Large private banks	8	5.8	4.8	7.3	1.9
Small and medium-sized banks based in Moscow and the Moscow Region	51	3.8	9.1	18.7	0.6
Small and medium-sized regional banks	33	2.3	15.2	7.1	0.2
Non-bank credit institutions	12	0.3	34.7	3.6	0.0
Total	126	43.7	9.2		7.1

[1] The Bank of Russia Ordinance No. 2613-U of April 20, 2011, “On Amending Bank of Russia Instruction No. 110-I, Dated January 16, 2004, on Banks’ Required Ratios’’; the Bank of Russia Ordinance No. 2808-U of April 28, 2012, “On Amending Bank of Russia Instruction No. 110-I, Dated January 16, 2004, on Banks’ Required Ratios’’.

Risk-weighted balance-sheet assets of credit institutions (billions of roubles) *CHART 2.15*



credit liabilities decreased from 8.3% to 7.7%. The share of related party risk remained unchanged at 4.0%.

Credit risk dominated the structure of risk-weighted assets in all groups of banks. Its share ranged from 55.3% to 89.2%. The largest (7.5%) share of market risk was registered among small and medium-sized banks based in Moscow and the Moscow Region, while the smallest share was observed among small and medium-sized regional banks (4.8%).

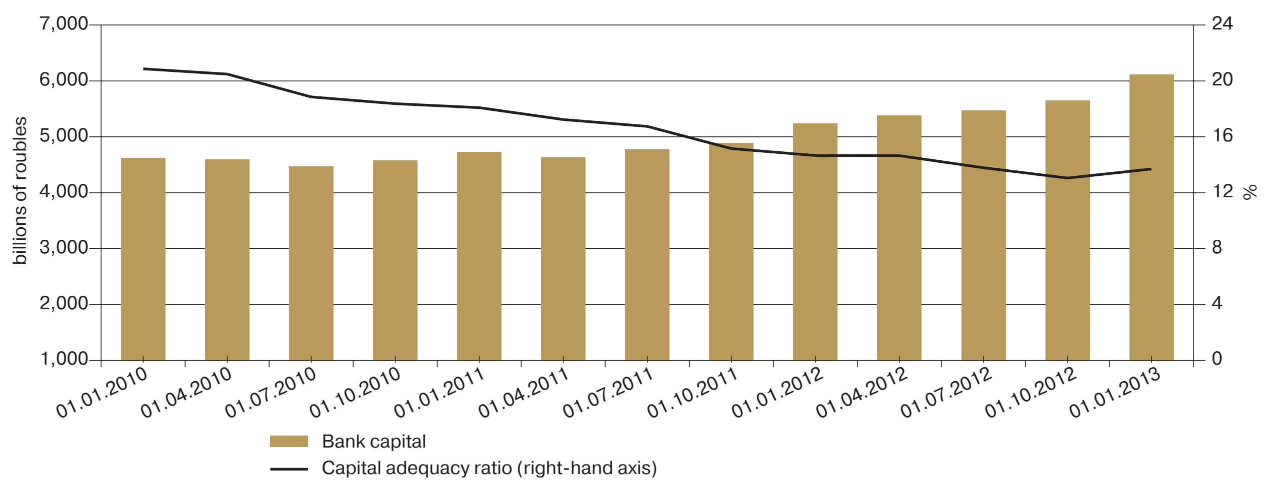
II.4.3. Credit institutions' capital adequacy

The capital adequacy ratio across the banking sector decreased from 14.7% as of January 1, 2012, to 13.7% as of January 1, 2013 (*see Chart 2.16*). This reduction was caused by the growth of risk-weighted assets, which outpaced capital growth.

Structure of risk-weighted balance-sheet assets (%) *TABLE 2.9*

	01.01.2012	01.01.2013
Asset Group I	0.00	0.00
Asset Group II	3.11	2.90
Asset Group III	0.55	0.63
Asset Group IV	87.92	71.14
Asset Group V	0.00	0.02
Higher-risk transactions	8.42	25.31

Capital adequacy ratio *CHART 2.16*



According to estimates, a two-thirds growth in assets is accounted by banking expansion, and a one-third increase is related to regulatory changes.

The capital adequacy ratio declined during the year in all groups of credit institutions *(see Table 2.10)*, and the regulatory capital ratios in state-controlled and private banks exceeded the minimum requirement of 10% by respective 3.2 percentage points and 2.9 percentage points.

The top five banks in terms of assets saw their capital adequacy ratio decrease from 14.3% to 13.0% in 2012 *(see Table 2.11)*. The lowest capital adequacy level, as the year before, was registered among banks that ranked between 6th and 20th in terms of assets (12.8% as of January 1, 2013, as against 12.3% as of January 1, 2012). Similar dynamics was observed in relation to the ratio of core capital to risk-weighted assets. Considering the fact that implementation of Basel III in the Russian Federation may raise this requirement to a minimum of 7.5%, some credit institutions might need to attract additional capital in order to comply with Basel III requirements.

The number of banks with the capital adequacy ratio that is below 12% grew from 107 as of January 1, 2012, to 142 as of January 1, 2013. However, the share of such banks in banking sector total assets decreased by 13.7 percentage points (from 34.3% to 20.5%).

Capital adequacy (N1) ratio by group of credit institutions (%)

TABLE 2.10

	01.01.2012	01.01.2013
State-controlled banks	14.6	13.2
Foreign-controlled banks,	15.6	15.1
of which:		
banks under the material influence of Russian residents	12.8	12.0
Large private banks	13.2	12.9
Small and medium-sized banks based in Moscow and the Moscow Region	22.0	18.8
Small and medium-sized regional banks	19.5	18.1
Non-bank credit institutions	38.2	36.9

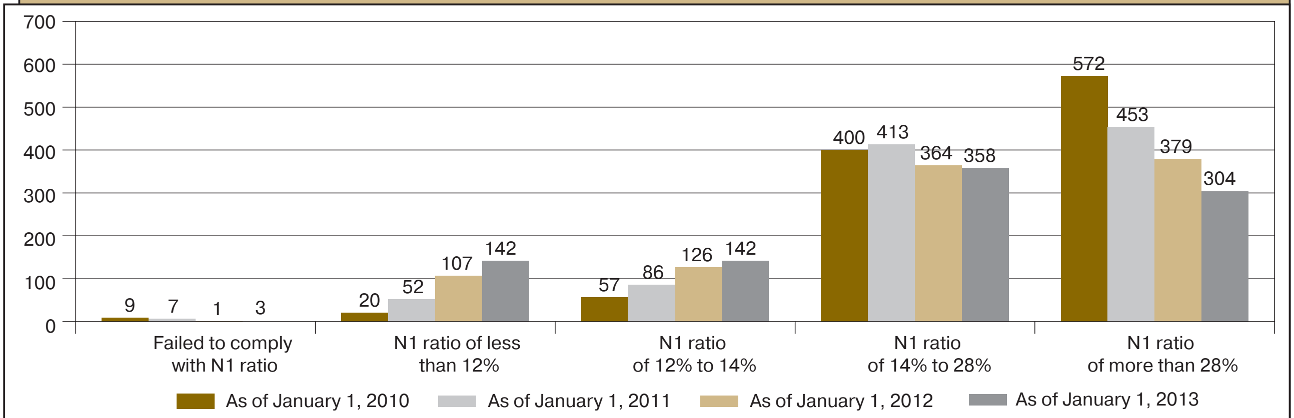
Capital adequacy (N1) ratio by group of credit institutions arranged by assets

TABLE 2.11

Credit institutions arranged by assets (in descending order)	Capital adequacy (N1) ratio		Core capital to risk-weighted asset ratio	
	01.01.2012	01.01.2013	01.01.2012	01.01.2013
Top 5	14.3	13.0	7.9	7.0
6th to 20th	12.3	12.8	8.3	8.5
21st to 50th	14.4	13.3	9.6	8.6
51st to 200th	16.8	15.9	12.3	11.7
201st down	22.9	19.9	18.5	15.6
Banking sector	14.7	13.7	9.3	8.5

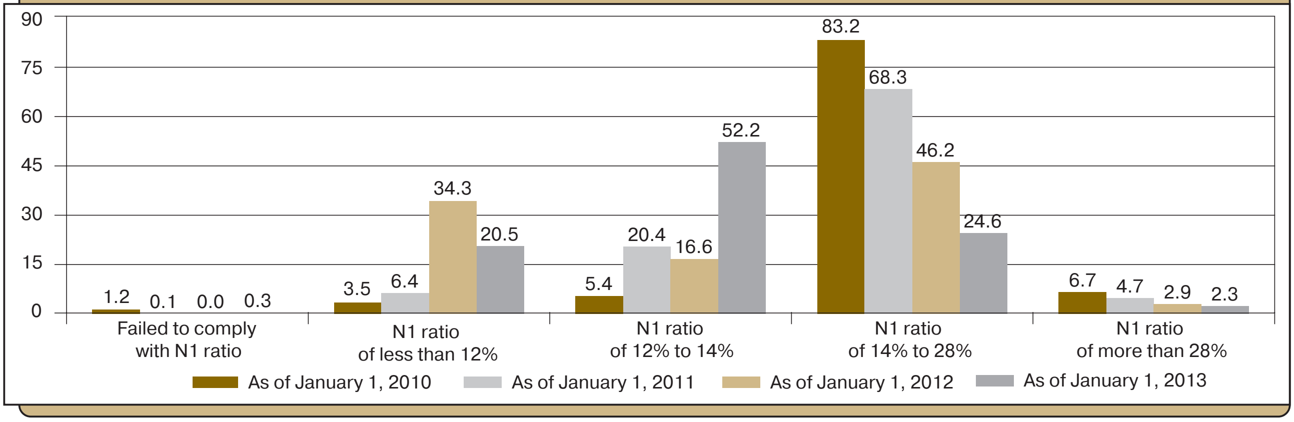
Credit institutions grouped by capital adequacy ratio (by number of banks)

CHART 2.17



Credit institutions grouped by capital adequacy ratio (by share of banking sector total assets, %)

CHART 2.18



As of January 1, 2013, 142 credit institutions (126 as of January 1, 2012) had capital adequacy ratios that ranged between 12% and 14%. Their share of banking sector total assets increased in 2012 by 35.6 percentage points to 52.2% as of January 1, 2013.

A capital adequacy ratio of more than 14% was maintained by 662 operating credit institutions as against 743 as of January 1, 2012). The share of credit institutions with capital adequacy ratios of between 14% and 28% of banking sector total assets fell from 46.2% to 24.6% during the year *(see Charts 2.17 and 2.18)*.

The capital adequacy ratio (N1) during the reporting period was breached by ten credit institutions[1] (12 in 2011). Three out of those ten credit institutions had their licences revoked. The number of current breaches of the N1 ratio (during the year) decreased from 80 in 2011 to 69 in 2012, while the number of non-compliant banks fell from eight to seven[2].

[1] Among credit institutions active in 2012.

[2] Among credit institutions active as of January 1, 2013.

II.5. Bank Management Quality

The growth of banking sector assets in 2012 was due, among other things, to the expanded range of credit products on offer. The increased sophistication and complexity of banking operations led to higher exposure to risks. Thus, the improvement of bank corporate governance systems and processes and of their risk management systems continued to dominate the bank management quality agenda.

In 2012, the largest credit institutions continued their efforts to increase the efficiency of strategic planning and corporate governance policies and processes, including the further improvement of risk-management systems, stress testing, capital adequacy and liquidity monitoring, as well as the strengthening of internal controls.

Credit institutions continued to improve their corporate governance systems by implementing best international practices in this area. In view of the importance of this work, the Bank of Russia issued and disseminated to banks its Letter No. 14-T of February 6, 2012, "On the BCBS Principles for Enhancing Corporate Governance".

Analysis of data reported by the largest credit institutions concerning their voluntary self-evaluation of risk management and corporate governance systems reveals that strategic planning performance has somewhat improved. The senior management of the largest credit institutions still does not give sufficient attention to the efficiency of development strategy implementation, but more attention is now afforded to quality of strategic planning processes, due to the establishment of special-purpose working groups under the boards of directors (supervisory boards), whose functions include the development of detailed and balanced solutions related to bank governance and development.

Within the framework of the assessment of the bank economic situation in 2012, several credit institutions took part in Bank of Russia test calculations of the indicator of managing staff compensation risks. This indicator is to be used on an on-going basis as from July 1, 2013. Test calculations have revealed that the surveyed credit institutions comply to an acceptable degree with the Financial Stability Board's Principles for Sound Compensation Practices and with Bank of Russia recommendations, related to prudent compensation practices that are contained in Bank of Russia Letter No. 38-T of March 21, 2012, "On BCBS Compensation Principles and Standards Assessment Methodology"; Letter No. 105-T of September 3, 2009, "On Regulating Financial Incentive Systems in Credit Institutions"; and Letter No. 119-T of September 13, 2005, "On Modern Approaches to Corporate Governance in Credit Institutions".

In 2012, the largest banks that had already started implementing international best practices for assessing individual risks based on internal information (data), as well as for planning internal capital necessary to cover acceptable aggregated risks ('risk appetite' indicator), demonstrated certain progress in this area. However, the implementation of internal procedures for capital adequacy assessment, including adherence to the methodology proposed in Bank of Russia Letter No. 96-T of June 29, 2011, "On Methodological Recommendations on Organising Internal Procedures for Capital Adequacy Assessment", is still relevant for many banks.

In 2012, the largest credit institutions reaffirmed on the whole their commitment to practices that included the independent and timely implementation of relevant international standards and recommendations on enhanced corporate governance and risk management, despite the temporary absence of pertinent regulations.

II.6. Stress Testing of the Banking Sector

In 2012, the Bank of Russia continued its efforts on refining stress testing as a tool for analysing and assessing banking sector stability. Stress testing helps evaluate changes in the structure of banking risks and identify credit institutions that are most exposed to particular risks, as well as determine the potentially necessary capitalisation of the banking sector if the assumed stress scenarios materialise.

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

Stress testing based on a macro-model

When performing a scenario analysis, the Bank of Russia adheres to international practices in applying a macroeconomic model, which is a system of regression equations describing the impact of macroeconomic environment (macro-parameters) on banking sector indicators. The macro-parameters typically might include GDP, the US dollar exchange rate, inflation, household real income, etc. The banking sector indicators comprise balances of corporate accounts, individual and corporate deposits, interbank loans taken and placed with resident and non-resident banks, the value (revaluation) of securities, household and corporate loans, changes in the ratio of "bad"[1] loans to total loans; etc.

Taking into account the impact of macro-factors on key banking sector indicators for each credit institution during the projected period (quarterly for a year horizon), calculations are made on the basis of a simulated balance model that reflects the possible behaviour of a bank during the assumed stress conditions and assesses its financial performance, which helps to adjust possible losses. Modelling leads to the assessment of bank total losses due to all types of risk amid stress conditions, and its possible capital deficit[2].

To assess the systemic soundness of the banking sector, the Bank of Russia has performed a stress test, applying the macro-model as of January 1, 2013. The calculation was performed for all operating credit institutions; *two macro-scenarios* were applied, with parameters that were calculated to evaluate the possible impact of negative global economic development on the Russian economy. The *pessimistic* scenario assumes a substantial slowdown of the Russian economy due to a decrease in the global GDP growth rate and a 25% to 30% drop in the price of oil and other Russian exports, accompanied by the moderate growth of interest rates on the Russian financial market and a certain drop in stock indices. The *extreme* scenario (the worst possible development for the Russian economy) includes a 5% drop in Russia's GDP and a large-scale financial market stress. For key parameters see *Table 2.12*.

Due to stable energy prices and the sufficiently positive forecasts of international experts, and also taking into account the increased importance of internal economic growth factors in Russia, the probability of the proposed extreme scenario occurring within the coming year appears to be very low.

Bank losses were assessed in relation to three main types of risks: credit risk, market risk, and liquidity risk. Additionally, a conservative estimate of credit risk on rollover loans assumed additional loan loss provisions (LLPs) for these loans' portfolio that was based on calculated provision amounts comprising 50% or 100% of the portfolio value, depending on the scenario.

Calculations indicate that if the pessimistic scenario took place, the banking sector losses as of January 1, 2013 (excluding potential profits) would total 1.5 trillion roubles (25% of banking sector capital). If the extreme scenario realised, the losses would total 2.6 trillion roubles (42% of capital). Eventually, the banking sector financial result (after subtracting these losses) would amount to approximately 0.6 trillion roubles to 0.7 trillion roubles in the pessimistic scenario or 0.1 trillion roubles to 0.2 trillion roubles in the extreme scenario.

Most losses can be attributed to credit risk (0.8 trillion roubles and 1.4 trillion roubles for the respective scenarios). The average share of "bad" loans in the loan portfolio would grow from 6.0% to 11.4% in the pessimistic scenario and to 15.4% in the extreme scenario. Losses after additional provisions for possible losses on prolonged loans would amount to 0.2–0.4 trillion roubles depending on the scenario.

Losses due to market risks materialising would total from 0.4 trillion roubles to 0.5 trillion roubles, depending on the scenario (losses due to interest rate risk amounting to 65–70% of the total; losses due to equity position

[1] "Bad" loans are loans included in Quality Category IV and Quality Category V, pursuant to Bank of Russia Regulation No. 254-P, dated March 26, 2004, "On the Procedure for Credit Institutions Making Provisions for Possible Losses on Loans, Loan and Similar Debts".

[2] Capital deficit means funds that would be needed by credit institutions to comply with the minimum capital adequacy ratio.

Stress-test scenario terms

TABLE 2.12

	Pessimistic scenario	Extreme scenario	For reference: actual 2012 data
GDP growth rate, %	1.2	–5.0	3.4
CPI, %	6.0	5.0	6.6
Investment growth rate, %	3.2	–9.0	6.7
Household real income growth rate, %	3.6	–1.0	4.2
Growth of interest rates on government securities (a parallel shift of the yield curve), basis points	200	350	–
Growth of interest rates on corporate securities (a parallel shift of the yield curve), basis points	500	1,000	–
Dual-currency basket growth rate, %	10	20	–

risk amounting to 20–24%; and losses due to foreign exchange risk amounting to 10–11%, depending on the scenario).

Losses due to interest rate risk on the balance sheet materialising would amount to 0.2–0.4 trillion roubles, depending on the scenario.

Overall, a capital deficit, given the pessimistic scenario, might total approximately 0.5 trillion roubles for 236 credit institutions, and under the extreme scenario, it would total approximately 0.6 trillion roubles for 308 credit institutions. The share of these institutions in banking sector total assets constituted 26% under the worst-case scenario and 34% under the extreme scenario, as of January 1, 2013.

The capital adequacy level for the banking sector, according to the results of the stress test, drops to 11.1% under the pessimistic scenario, and to 10.6% under the extreme scenario. This testifies to the fact that Russian banking sector is sufficiently sound in general and able to withstand even the extreme scenario of crisis development.

Additionally, a contagion (domino effect) risk assessment on the interbank market was performed. If this risk materialises, then, depending on the scenario, from 37 to 54 of the banks might suffer from a capital deficit (their shares of banking sector total assets range from 1% to 7% respectively); and from 36 to 80 banks might be affected by a liquidity deficit (from 4% to 9% of total assets). The capital deficit, depending the scenario, ranges from 20 billion roubles to 40 billion roubles, and the liquidity deficit ranges from 0.1 trillion roubles to 0.2 trillion roubles.

Analysis of Russian bank sensitivity to liquidity risk

As mentioned above, the Russian banking sector operated amid a structural liquidity deficit in 2012. For that reason, the stress test of liquidity risk using sensitivity analysis remained relevant. This type of analysis allows for the assessment of the response of banks to a shock that is determined by the expert's assessment and can be more severe than the one assumed in the macro-model[1]. In addition, the sensitivity analysis assesses possible losses without taking mitigating factors into consideration (in this particular case, without factoring in access to the Bank of Russia refinancing or to the

The procedure for assessing the domino effect

The modelling of possible losses due to domino effect is performed according to the following algorithm: based on a calculated balance model, a list of so-called problem (bankrupt) banks (with negative capital) is compiled and banks that are in a state of technical default (with a liquidity deficit). Then their lenders are identified; the losses of these banks are registered by their exposure to the problem banks, and the same amount is deducted from their liquid assets inflow/repayment in the current iteration.

After establishing losses and adjusting net liquidity flows, the lending bank capital adequacy ratio is checked and their ability to withstand the outflow of customer funds (based on the calculations of macroeconomic and balance models) is tested: banks failing to comply with the capital adequacy ratio or banks in a technical default are included in the list of problem banks that trigger further contagion. The iteration continues until no additional problem banks are identified.

To cover the outflow of their funds (repay customer deposits), banks use their assets (securities, loans, etc.) primarily as collateral for refinancing that is provided by the central bank. If a bank does not have assets that are acceptable as collateral for the Bank of Russia, it sells its securities with discounts determined by the macroeconomic model.

The model is calculated for the stress period of one year.

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

interbank loan market), which provides a more conservative estimate of various risks.

The analysis of sensitivity to liquidity risk as of January 1, 2013, revealed that if the shock materialised under highly conservatively estimated conditions, 35 banks holding 8.4% of banking sector total assets could experience a liquidity deficit amounting to more than 0.1 trillion roubles. This assessed risk is higher than the result of the stress test as of January 1, 2012 (the number of banks with a liquidity deficit at the beginning of 2012 totalled 37; the liquidity deficit volume was almost three times lower: 38 billion roubles; and the share of these banks in banking sector total assets amounted to approximately 2.3%), but the possible impact of banks with a liquidity deficit on the systemic soundness of the banking sector as a whole has been assessed as being limited, as of January 1, 2013.

In addition, considering that the stress-test that was based on the sensitivity analysis did not factor in bank opportunities to use Bank of Russia refinancing and interbank loans, the actual negative impact of the shock will be more moderate.

Stress-test method based on sensitivity analysis

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

Outflows in the 10% to 30% range are differentiated according to the source of funds: (personal deposits, corporate deposits, settlement accounts and interbank loans from non-residents). The outflows are covered by monetary funds (cash in vaults and in a correspondent account with the Bank of Russia), as well as from the sale of liquid assets with pre-set discounts of 5% to 30% (the lower the asset liquidity, the higher the discount). Liquid assets used to cover the outflow include LAM, LAT[1], and securities outside the aforementioned groups of liquid assets. Losses sustained by a bank due to liquidity risk are calculated as a sum of discounts in case of an asset fire-sale.

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

[1] See Bank of Russia Instruction No. 139-I, dated December 3, 2012, "On Banks' Required Ratios".

III

Banking Regulation and Supervision in Russia

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

III.1.1. Upgrading the legal framework for credit institutions

The year 2012 saw the adoption of the following federal laws, which were drafted with the involvement of the Bank of Russia:

– Federal Law No. 144-FZ, dated July 28, 2012, "On Amending Some Russian Laws" (with respect to streamlining bankruptcy procedures for credit institutions and other financial organisations; increasing responsibility for illegal actions committed in the run-up to bankruptcy; and obliging credit institutions to create and maintain electronic databases);

– Federal Law No. 145-FZ, dated July 28, 2012, "On Amending Some Russian Laws" (among other things, with respect to extending the effective period of the provisions of Federal Law No. 181-FZ, dated July 18, 2009, "On the Use of Russian Government Securities to Increase Bank Capitalisation");

– Federal Law No. 271-FZ, dated December 25, 2012, "On Amending the Housing Code of the Russian Federation and Some Russian Laws and on Invalidating Certain Provisions of Russian Laws" (with respect to establishing a system for financing complete overhauls of apartment buildings);

– Federal Law No. 282-FZ, dated December 29, 2012, "On Amending Some Russian Laws and on Invalidating Certain Provisions of Russian Laws" (with respect to streamlining procedures for the issuing of listed securities; changing procedures for issuing preferred shares along with changing the scope of their holder rights; specifying requirements for the disclosure of information in an issue prospectus; improving the legal regulation of procedures for issuing securities in the event of a corporate reorganisation).

III.1.2. The state registration of credit institutions and the licensing of banking operations

In 2012, the Bank of Russia continued to improve its regulatory framework for the state registration of credit institutions and the issuance of banking licences.

To create a level playing field for the subsidiary credit institutions of foreign banks and Russian credit institutions in opening branches following Russia's accession to the World Trade Organisation (WTO), the Bank of Russia issued Ordinance No. 2818-U of May 17, 2012, "On Invalidating Point 28 of Bank of Russia Regulation No. 437, Dated April 23, 1997, on the Specifics of the Registration of Credit institutions with Foreign Investments" that amends the aforementioned Regulation. The amendments cancel the requirement that the subsidiary credit institutions of foreign banks (Russian residents) obtain prior permission from the Bank of Russia when opening a branch within the Russian Federation. Thus, the opening of a branch within the Russian Federation by a subsidiary credit institution of a foreign bank is now subject to a notification requirement instead of an authorisation requirement.

To improve its regulatory framework, the Bank of Russia adopted Regulation No. 386-P, dated August 29, 2012, "On the Reorganisation of Credit Institutions through Mergers and Acquisitions", which is an updated version of Bank of Russia Regulation No. 230-P, dated June 4, 2003, "On the Reorganisation of Credit Institutions through Mergers and Acquisitions". It envisages the following:

– it specifies the procedure for submitting documentation for the state registration of a bank reorganisation through merger or acquisition when this documentation is filed with the Bank of Russia electronically;

– it invalidates provisions concerning the preparation of an audit report on the compliance of reorganisation-related procedures conducted by a reorganising credit institution with applicable legislation (due to the absence of rules governing the preparation of such a report by an auditing firm and/or an individual auditor in Federal Law No. 307-FZ, dated December 30, 2008, "On Audit Activities");

– it clarifies updates made necessary by the application practices of Bank of Russia Regulation No. 230-P, dated June 4, 2003.

Bank of Russia Ordinance No. 2839-U, dated June 21, 2012, "On Amending Point 5.1 of Bank of Russia Regulation No. 337-P, Dated June 19, 2009, "On the Procedure and Criteria for Assessing the Financial Situation of Legal Entities Which are Founders (Members) of a Credit Institution" introduces changes that shorten a list of documents established by the aforementioned Regulation for assessing the financial situation of a legal entity which has a long-term credit rating (assigned by international or national rating agencies) that is no lower than the minimum level defined in Bank of Russia Regulation No. 337-P of June 19, 2009.

In addition, to improve procedures of issuing permits to credit institutions so that they could open non-resident subsidiaries and acquire parent company status in relation to operating non-resident legal entities, the Bank of Russia issued Ordinance No. 2955-U of December 27, 2012, "On Amending Bank of Russia Regulation No. 290-P, Dated July 4, 2006, on the Procedure for Bank of Russia Grant-ing Permission to Credit Institutions to Have Subsidiaries in a Foreign State", that stipulates that a single permit be received for acquiring the parent company status in relation to an operating non-resident organisation that has non-resident subsidiaries at the time of the acquisition, and introduces other amendments related to the application of the above-mentioned Bank of Russia Regulation.

The Bank of Russia makes efforts ensuring the disclosure of information by credit institutions concerning their ownership structure.

For that purpose, the Bank of Russia issued Ordinance No. 2788-U, dated February 28, 2012, "On Amending Point 6[1].1 of Bank of Russia Ordinance No. 1379-U, Dated January 16, 2004, on Assessing a Bank's Financial Soundness as Being Eligible for Participation in the Deposit Insurance System".

The Ordinance requires that banks participating in the deposit insurance system post data on the Bank of Russia website concerning parties that materially influence (directly or indirectly) their activities, following the samples and examples provided in Bank of Russia Regulation No. 345-P, dated October 27, 2009, "On the Procedure for Disclosing on the Bank of Russia Website Information about Persons that Exercise a Significant (Direct or Indirect) Influence on the Management Decisions of Banks Participating in the Deposit Insurance System in the Russian Federation". They must provide a list of parties who materially influence (directly or indirectly) the bank activity (hereinafter referred to as the List) and a chart showing the connections between the bank and the parties which exert a material influence (directly or indirectly) on its activity (hereinafter referred to as the Chart).

In 2012, Bank of Russia Ordinance No. 2827-U of June 4, 2012, "On Amending Bank of Russia Regulation No. 345-P, Dated October 27, 2009, on the Procedure for Disclosing on the Bank of Russia Website Information about Persons that Exercise a Significant (Direct or Indirect) Influence on the Management Decisions of Banks Participating in the Deposit Insurance System in the Russian Federation", came into force.

This Ordinance specifies procedures for banks to notify Bank of Russia regional branches about their refusal to use the Bank of Russia website to post data on parties who have a material (direct or indirect) influence on their activity. It also clarifies the procedure for compiling the List and drawing the Chart of parties who have a material (direct or indirect) influence on their activity.

Pursuant to the adoption of Federal Law No. 401-FZ, dated December 6, 2011, "On Amending the Federal Law on the Protection of Competition and Certain Laws of the Russian Federation", that changed the definition of a group of parties, the Bank of Russia issued Ordinance No. 2852-U of July 19, 2012, "On Amending Bank of Russia Regulation No. 307-P, Dated July 20, 2007, on the Procedure for Accounting and Reporting Information about the Related Persons of Credit Institutions".

III.1.3. Credit institution regulation

Banking regulation

Implementation of international recommendations

In 2012, the Bank of Russia made significant efforts to implement international approaches aimed at enhancing the financial soundness of credit institutions and the financial market in general, primarily documents issued by the Basel Committee on Banking Supervision (BCBS).

Bank of Russia Instruction No. 139-I, dated December 3, 2012, "On Banks' Required Ratios" introduced amendments to procedures for calculating required ratios to expand the implementation of *Basel II Pillar 1 "Minimum Capital Requirements"*. It established a special procedure for assessing the risks of credit institutions that participate in clearing operations with credit institutions acting as central counterparties. It allowed the use of a comprehensive approach to adjusting the value of collateral for credit risk mitigation; it clarified procedures for calculating the N1 and N6 ratios with respect to repo transactions, and it established procedures for adjusting the value of collateral when assessing the credit risk of derivatives with respect to netting transactions.

Simultaneously, Bank of Russia Ordinance No. 2922-U of December 3, 2012, "On Amending Bank of Russia Regulation No. 283-P, Dated March 20, 2006, on the Procedure for Making Loan Loss Provisions by Credit Institutions" establishes requirements regarding loan loss provisions on claims for the return of securities under repo transactions.

For expanding Russian banks' range of available approaches to regulatory capital assessments using internal-rating based approach (IRB-approach) in the future (as stipulated by of *Basel II Pillar 1*), the Bank of Russia issued Letter No. 192-T of December 29, 2012, "On the Recommended Methodology for Assessing Credit Exposure Using Internal-Rating Based Approach". This letter informs credit institutions about the recommended methodology for calculating credit risk using IRB-approach. These recommendations will serve as a foundation for developing the Bank of Russia regulatory framework in this area following necessary legislative amendments that would entitle the Bank of Russia to establish requirements to bank methods of risk management and models of quantitative risk assessment. The Bank of Russia maintains ongoing cooperation with banks that are intending to implement the IRB-approach and plans to conduct a quantitative evaluation of the impact of its implementation on the regulatory assessment of capital adequacy.

To implement *Basel 2.5*[1] with respect to its methods of assessing market risk, the Bank of Russia issued Regulation No. 387-P, dated September 28, 2012, "On the Procedure for Market Risk Calculation by Credit Institutions" (which came into force on February 1, 2013). This Regulation establishes more stringent requirements

[1] BCBS documents "Revisions to the Basel II Market Risk Framework" (July 2009) and "Enhancements to the Basel II Framework" (July 2009).

for banks covering their interest rate risk and equity position risk, in line with a standardised risk-assessment approach.

The Bank of Russia also published Regulation No. 395-P, dated December 28, 2012, “On the Methodology for Calculating the Amount and Assessing the Adequacy of Bank Capital (Basel III)”, that describes methods for determining bank capital and assessing its adequacy, and also stipulates new requirements with respect to capital quality and adequacy, in line with Basel III. The parallel calculation of capital amount and its adequacy began in April 2013.

To inform credit institutions of the *BCBS recommendations*, the Bank of Russia published the following documents:

– Letter No. 14-T of February 6, 2012, “On BCBS Principles for Enhancing Corporate Governance”;
– Letter No. 38-T of March 21, 2012, “On BCBS Compensation Principles and Standards Assessment Methodology”;
– Letter No. 69-T of May 16, 2012, “On BCBS Principles for the Sound Management of Operational Risk”.

To meet the Russian Federation’s G20 commitments concerning the implementation of FSB Principles and Standards, the Bank of Russia published Ordinance No. 2894-U of October 1, 2012, “On Amending Bank of Russia Ordinance No. 2005-U of April 30, 2008, “On the Assessment of the Economic Situation of Banks”, that contains methods of assessing the compliance of compensation systems in banks with the FSB recommendations that are aimed at reducing financial incentives for bank executives to take excessive risks. The Bank of Russia methodology for supervisory assessment of bank economic situation includes, as an integral part, an assessment of compensation systems in banks.

IFRS implementation

As part of its efforts to control over the IFRS-based consolidated financial statements that are submitted and published by credit institutions in compliance with Federal Law No. 208-FZ, dated July 27, 2010, “On Consolidated Financial Statements”, the Bank of Russia issued Ordinance No. 2923-U of December 3, 2012, “On the Publishing and Submission of Consolidated Financial Statements by Credit Institutions”. It establishes rules for the disclosure of annual consolidated IFRS-based financial statements, jointly with audit reports on their accuracy.

In addition, to align the materiality threshold to include minority interest data in consolidated reporting with IFRS requirements, the Bank of Russia published Ordinance No. 2817-U of May 3, 2012, “On Amending Bank of Russia Regulation No. 191-P, Dated July 30, 2002, on Consolidated Statements”.

Due to the cancellation, as of January 1, 2013, of the mandatory auditing and publishing of annual consolidated financial statements that adhere to Russian standards of financial reporting, the Bank of Russia published Ordinance No. 2925-U of December 3, 2012, “On Amending Bank of Russia Ordinance No. 2172-U of January 20, 2009, on the Publication and Presentation of Information on the Activities of Credit institutions and Banking (Consolidated) Groups”, with respect to invalidating provisions that establish procedures for submitting and disclosing consolidated financial statements.

Additionally, the Bank of Russia published Ordinance No. 2926-U of December 3, 2012, “On Amending Bank of Russia Ordinance No. 2332-U of November 12, 2009, on the List, Forms and Procedure for the Preparation and Submission of Reports by Credit Institutions to the Central Bank of the Russian Federation”. This Ordinance establishes forms, procedures and deadlines for filing IFRS-based consolidated financial statements with the Bank of Russia.

Credit risk

In 2012, the Bank of Russia brought the regulatory assessment of risk associated with unsecured consumer loans in line with the real level of such risk in order to improve the existing regulation, aimed at increasing the accuracy of risk assessment by taking nation-specific factors into consideration. Specifically, it:

– introduced more stringent requirements to covering risks related to unsecured consumer loans with a high total value to be issued after July 1, 2013 (Bank of Russia Instruction No. 139-I, dated December 3, 2012);
– doubled the minimal provisions for portfolios of unsecured consumer loans with no overdue payments or with payments overdue for no more than 30 days, to be issued after January 1, 2013 (Bank of Russia Ordinance No. 2920-U of December 3, 2012);
– introduced a requirement specifying 100% provisions for portfolios of unsecured consumer loans with payments overdue by more than 360 calendar days (Bank of Russia Ordinance No. 2920-U of December 3, 2012).

The more stringent loan loss provisioning requirements came into force starting with the reporting as of March 1, 2013.

Additionally, to assess risks adequately, Bank of Russia Ordinance No. 2920-U of December 3, 2012, introduced some amendments concerning the types of collateral:

– the sureties of the Agency for Housing Mortgage Lending (AHML) on mortgages accepted as collateral are included in Quality Category II collateral;
– insurance contracts for export loans and investments secured with government guarantees and (or) Vnesheconombank guarantees are included in Quality Category I collateral.

Simultaneously, Bank of Russia Instruction No. 139-I, dated December 3, 2012, provided for specific collateral in the form of insurance contracts for export loans and investments secured with Vnesheconombank guarantees (the fulfilment of which is secured with government guarantees), when monetary claims secured in this manner are classified for calculating bank capital adequacy.

In addition, the Bank of Russia took the emergency situations and natural disasters that occurred in the Russian Federation in 2012 into account when issuing Ordinances No. 2920-U of December 3, 2012, and No. 2860-U of August 10, 2012. These established that credit institutions with outstanding debt on loans that they had extended to persons affected by an emergency situation or a natural disaster might retain their actually existing provisions on such loans in case a borrower financial standing and/or debt service quality decline.

Bank of Russia Ordinance No. 2922-U of December 3, 2012, "On Amending Bank of Russia Regulation No. 283-P, Dated March 20, 2006, on the Procedure for Making Loan Loss Provisions by Credit Institutions" brings the provisions of the aforementioned Regulation in line with accounting standards that came into force as of January 1, 2013, with respect to provisions – estimated non-credit liabilities. It also sets requirements to establish 100% provisions for possible losses with respect to assets that are recorded in the bank books without transaction-confirming documents.

Bank of Russia Ordinance No. 2841-U of June 25, 2012, provides that the requirements set in Bank of Russia Ordinance No. 2732-U of November 17, 2011, "On the Specifics of Making Provisions for Possible Losses by Credit Institutions for Operations with Securities, the Rights to Which Are Certified by Organisations (Depositories)" are applicable only to securities, the rights to which are certified by depositories, and also invalidates the requirement that the long-term credit ratings of depositories taken from Reuters and Bloomberg systems be used. It specifies base elements for provision calculation with respect to the value of the securities accepted as collateral for placed funds.

Market risk

In addition to the changes in market risk calculation methods that were adopted due to the implementation of Basel 2.5 provisions, the Bank of Russia issued Ordinance No. 2811-U, dated April 28, 2012, "On Amending Bank of Russia Instruction No. 124-I, Dated July 15, 2005, on Setting Limits on Open Currency Positions, the Methods of Calculation and the Specifics of Supervising Their Compliance by Credit Institutions", which elaborates procedures for factoring derivatives risk in the calculation of foreign exchange risk.

Operational risk

Bank of Russia Ordinance No. 2846-U, dated July 3, 2012, introduced amendments to Bank of Russia Regulation No. 346-P, dated November 3, 2009, "On the Procedure for Calculating Operational Risk". These establish that the net non-interest income indicator should include net income from the revaluation of foreign currency and precious metals and net income from operations with precious metals.

Additionally, due to the adoption of federal legislation concerning the national payment system, the Bank of Russia published Ordinance No. 2840-U of June 25, 2012, "On Operational Risk Management Requirements for Non-Bank Credit Institutions Entitled to Make Money Transfers without Opening Bank Accounts or Perform Other Related Banking Operations". This set forth operational risk management requirements for non-bank credit institutions that were authorised to transfer money without opening bank accounts or perform other related banking operations, and a provisional list of events (actions) resulting from operational risk factors that could lead to losses for the payment non-bank credit institution.

Capital calculation

The Bank of Russia amended Regulation No. 215-P, dated February 10, 2003, "On the Methodology for Calculating Bank Capital", as follows:

- it established a procedure for factoring the financial results of operations with derivatives in the calculation of bank capital (Bank of Russia Ordinance No. 2809-U of April 28, 2012);
- it established a validity period (until December 1, 2013) of the current procedure for factoring in unrealised income from derivatives (Bank of Russia Ordinance No. 2921-U, dated December 3, 2012).

Trust Management

Bank of Russia Ordinance No. 2789-U of February 28, 2012, "On Harmonising Certain Bank of Russia Regulations" invalidated (as of January 1, 2013) Bank of Russia Instruction No. 63, dated July 2, 1997, "On the Procedure for Conducting Trust Management Operations and their Accounting by Russian Credit Institutions" that regulated bank trust management activities.

The Bank of Russia also issued Letter No. 47-T of April 4, 2012, "On Trust Management Contracts for General Bank Management Funds", which informed credit institutions about the Bank of Russia position on the extension of trust management contracts for general bank management funds.

Required ratios for issuers of mortgage-backed bonds

Due to amendments to federal legislation, the Bank of Russia published Ordinance No. 2910-U of November 14, 2012, "On Amending Bank of Russia Instruction No. 112-I, Dated March 31, 2004, on Required Ratios for Banks that Issue Mortgage-Backed Bonds", which excluded two of the required ratios due to their current irrelevance.

The financial rehabilitation and liquidation of credit institutions

Following the key recommendations of the Financial Stability Board regarding the efficient financial recovery/liquidation of financial institutions (as applicable to the Russian financial system), the Bank of Russia issued Letter No. 193-T of December 29, 2012, "On the Recommended Methodology for the Development of Financial Recovery Plans by Credit Institutions".

The Bank of Russia recommended methodology stipulates the conditions for the development of financial recovery plans by credit institutions, the said plan structure, and possible courses of action (scenarios) under various stress situations, as well as early warning indicators and indicators that must trigger the implementation of financial recovery-oriented measures.

Bank of Russia Letter No. 193-T of December 29, 2012, recommends that credit institutions (primarily the largest ones) commence the development of self-rehabilitation plans following the publication of the Letter and submit the developed plans to the Bank of Russia for assessment.

In 2012, the Bank of Russia worked on amendments to Russian legislation with respect to improving bankruptcy (liquidation) procedures for credit and other financial institutions and to increasing the responsibility for illegal actions committed prior to bankruptcy.

The Bank of Russia drafted Federal Law No. 144-FZ, dated July 28, 2012, “On Amending Some Russian Laws” (hereinafter referred to as Federal Law No. 144-FZ) . The law was aimed to expand the ways of meeting lender claims against credit institutions, to streamline the procedures for moving from the compulsory liquidation of a credit institution to its bankruptcy, to establish legal procedures for enforcing writs of execution concerning the recovery of funds in the customer account of the credit institution whose banking licence had been revoked (or the seizure of the funds, or other constraints imposed on the funds). It also stipulated the procedure for the distribution and transfer of assets remaining after creditor claims against the founders (members) of the liquidated credit institution were satisfied.

Under Federal Law No. 144-FZ, the state-owned corporation Deposit Insurance Agency (hereinafter referred to as the Agency), when performing the functions of a bank receiver, is authorised to transfer the insolvent bank’s assets and liabilities to an operating credit institution without including them into bankruptcy assets and the registry of creditor claims. This mechanism is aimed at minimising the negative impact that the revocation of a banking licence from the insolvent credit institution could have on its customers.

Pursuant to Federal Law No. 144-FZ, significant amendments were made to Russia’s bankruptcy legislation with respect to the amounts and priority of compensations paid to insolvent company (bank) executives. These provisions were necessary to remedy the situation when an insolvent company satisfied the claims of its executives with respect to severance pay and other compensations provided for in labour laws, either when satisfying claims related to current liabilities or when meeting the claims of second-ranking creditors, and these compensations vastly exceeded executive average earnings (the so-called golden parachutes). The newly-introduced amendments stipulate that claims of insolvent company executives as to severance pay and/or other compensations due to the termination of a labour contract, as provided for under the contract, to the extent that they exceed the minimum amounts established under the labour laws, will be satisfied after the third-ranking creditor claims.

In addition, Federal Law No. 144-FZ obliges credit institutions to maintain electronic databases containing information on all their operations and other transactions and to store such data for at least five years after entering them into the database. Failure to properly maintain such databases or failure to properly transfer this database to a provisional administration or a receiver may result in the subsidiary liability of the chief executive of an insolvent bank for its debts to lenders and/or government authorities.

In compliance with the provisions of Federal Law No. 144-FZ, the Bank of Russia adopted a set of regulations (Bank of Russia Ordinances No. 2911-U of November 16, 2012; No. 2912-U of November 16, 2012; No. 2913-U of November 16, 2012; No. 2914-U of November 16, 2012), that amend the existing Bank of Russia regulations governing the liquidation procedures for credit institutions. The Bank of Russia also issued Ordinance No. 2904-U of October 30, 2012, “On the Grounds for the Bank of Russia Banking Supervision Committee Denying the Approval of the Transfer of the Property (Assets) and the Liabilities of a Credit Institution in Whole or in Part to a Purchaser(s) Proposed by the Deposit Insurance Agency in Its Capacity as a Bank Receiver, and Denying the Approval of the Said Purchaser(s) of the Bank Property (Assets) and Liabilities”.

Information disclosure

Further efforts were made to improve the transparency of the banking sector by getting credit institutions to report information in Form 0409134, “Calculation of Capital” and Form 0409135, “Information on Required Ratios”. As of January 1, 2013, 908 credit institutions, or about 95% of the total number, had agreed to disclose information pursuant to Bank of Russia Letter No. 72-T, “On the Disclosure of Information by Credit Institutions in Form 0409134 and Form 0409135”.

Banks also disclose data in Form 0409101, “The Bank Chart of Accounts” and Form 0409102, “The Bank Profit and Loss Statement”. As of January 1, 2013, 922 credit institutions, or almost 95% of the total number, had agreed to disclose information pursuant to Bank of Russia Letter No. 165-T of December 21, 2006, “On the Disclosure of Information by Credit Institutions”.

The on-site inspection of credit institutions

In 2012, to further ***improve the procedures for arranging and conducting on-site inspections*** of credit institutions (branches), the Bank of Russia issued the following documents:

– Bank of Russia Ordinance No. 2891-U of September 28, 2012, “On Amending Bank of Russia Instruction No. 105-I, Dated August 25, 2003, on the Procedure for Authorised Representatives of the Central Bank of the Russian Federation Conducting On-site Inspections of Credit Institutions and their Branches”, and Bank of Russia Ordinance No. 2892-U of September 28, 2012, “On Amending Bank of Russia Instruction No. 108-I, Dated December 1, 2003, on Organising Inspections by the Central Bank of the Russian Federation (Bank of Russia)". These were aimed at eliminating grounds for credit institutions contesting inspection reports in court as non-regulatory acts and invalidating them. The aforementioned Ordinances also oblige credit institutions to ensure the confidentiality of Bank of Russia documents that are drafted while organising and conducting inspections and reporting their findings;

– methodological recommendations on inspecting bank compliance with required reserve ratios[1], as well as on inspecting bank compliance with AML/CFT laws and reporting facts regarding bank actions (inaction) that fail to comply with said laws. The report must be filed in a separate inspection act, so that it may be presented to an authorised officer to file an administrative offence charge sheet[2].

To increase the efficiency and effectiveness of on-site inspections, the Bank of Russia published Ordinance No. 2791-U of March 13, 2012, "On the Procedure for Interaction between Bank of Russia Divisions in Preparing Proposals and Making Decisions on the Application of Enforcement Measures". This establishes the procedure for interaction between the Bank of Russia head office and regional branches in preparing proposals and making decisions concerning the enforcement measures applied to banks that form the "second line" of supervision, based on inspection findings and in the course of off-site supervision.

Within the framework of the ***phased centralisation of inspection activities***, the Bank of Russia issued a number of directive documents that provide the inspectors-general of centralised interregional inspectorates[3] and heads of the Bank of Russia regional branches[4] with the mandates necessary to ensure current activities with respect to labour laws and social security requirements.

To comply with the Russian laws and the Bank of Russia regulations on ***countering the misuse of insider information*** and market manipulation, the Bank of Russia published a number of regulations that define the procedure for sharing the said information concerning the inspections[5] of credit institutions (branches).

III.1.4. Methodology of on-going supervision

To increase the transparency of its supervisory activities, the Bank of Russia issued Order No. OD-653, dated October 5, 2012, "On Informing Banks of Their Non-compliance with Requirements for Participation in the Deposit Insurance System". It obliges Bank of Russia regional branches to notify banks that participate in the Deposit Insurance System (DIS) of their non-compliance with certain requirements for DIS participation and of the grounds for deciding that banks have failed to comply with the DIS participation requirements, as well as of the consequences that might ensue if the banks fail to remedy their non-compliance.

To decrease the impact of the profitability criterion of banks on the assessment of their economic situation, the Bank of Russia published Ordinance No. 2803-U of April 6, 2012, "On Amending Bank of Russia Ordinance No. 2005-U of April 30, 2008, on the Assessment of the Economic Situation of Banks". At the same time, the Bank of Russia invalidated the provisions that permitted banks to petition the Bank of Russia to evaluate their financial results without taking into account the expenses (losses) due to business expansion and expenses (losses), to which the banks could attribute the fact that they qualified for financial rehabilitation.

Due to a changed methodology for determining bank capital with respect to factoring in additional loss provisions required by the Bank of Russia, the Bank of Russia issued Letter No. 141-T of October 9, 2012, "On Specific Features of Monitoring Bank Compliance with Bank of Russia Requirements for Additional Loss Provisions by Bank of Russia Regional Branches".

III.1.5. Specific features of regulating infrastructure-level credit institutions

In 2012, the Bank of Russia continued to improve the regulation of financial infrastructures.

Within the framework of implementing the best international practices regulating central counterparties (CCP) and counterparties thereof, in Russian banking regulation, and in line with G20 initiatives concerning the further strengthening of the global financial regulation system and encouraging banks to use CCPs, the Bank of Russia adopted Ordinance No. 2919-U of December 3, 2012, "On Evaluating the Management Quality of a Credit Institution That Performs the Functions of a Central Counterparty". This Ordinance establishes methods of evaluating the management quality of a credit institution that acts as a CCP based on an assessment of CCP risk management, internal controls, and corporate governance quality. In addition, the Ordinance establishes the procedure for the Bank of Russia, at a CCP's request,

[1] Bank of Russia Letter No. 31-T of March 2, 2012, "On Methodological Recommendations for Inspections of Bank Compliance with Required Reserve Ratios".

[2] Bank of Russia Letter No. 41-T of March 23, 2012, "Methodological Recommendations for Reporting Facts of Bank Actions (Inaction) That Breach Legislation on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism in Bank (Branch) Inspection Documentation".

[3] Bank of Russia Directive No. R-202, dated March 23, 2012, "On Amending Bank of Russia Directive No. R-1113, Dated September 8, 2010, on Organising the Phased Centralisation of Bank of Russia Inspection Activities".

[4] The Bank of Russia Directive No. R-612, dated September 3, 2012, "On Amending Bank of Russia Directive No. R-1113, Dated September 8, 2010".

[5] Federal Financial Market Service Order No. 11-55/pz-n, Bank of Russia Order No. 374-P, dated October 27, 2011, "On Approving the Regulation on the Procedure for the Federal Financial Market Service Jointly with the Central Bank of the Russian Federation to Verify Compliance with Legislation on Countering the Misuse of Insider Information and Market Manipulation".

to recognise its management quality as adequate. The Bank of Russia's verification of the adequacy of a CCP management quality permits credit institutions, when calculating required ratios (in compliance with Bank of Russia Instruction No. 139-I, dated December 3, 2012, "On Banks' Required Ratios"), to apply a special prudential mode of risk assessment that allows the use of reduced risk weights for transactions involving such a CCP, including OTC transactions.

Pursuant to Federal Law No. 414-FZ, dated December 7, 2011, "On the Central Securities Depository" (hereinafter referred to as the Central Securities Depository Law), the Bank of Russia published Ordinance No. 2830-U of June 9, 2012, "On Requirements for Credit Institutions and Foreign Banks Where the Central Securities Depository May Place Funds". It also approved FFMS Order No. 12-82/pz-n, dated October 2, 2012, "On the Approval of Requirements for Risk Management, Internal Controls and Certain Internal Documents of the Central Securities Depository". The aforementioned regulations are aimed at limiting the risk exposure of the central securities depository, which is a non-bank credit institution, as stipulated in the Central Securities Depository Law.

Pursuant to Federal Law No. 7-FZ, dated February 7, 2011, "On Clearing and Clearing Activities", the Bank of Russia approved FFMS Order No. 12-35/pz-n, "On Approving Terms and Conditions for Accrediting a Credit Institution Other Than a Clearing Agency to Perform the Functions of a Central Counterparty".

III.2. The State Registration of Credit Institutions and the Licensing of Banking Operations

In 2012, the total number of operating credit institutions with banking licences dropped from 978 as of January 1, 2012, to 956 as of January 1, 2013 (by 2.2%) due to licence revocation and reorganisation of credit institutions.

In the reporting year:

- nine newly-founded credit institutions were registered (including six non-bank credit institutions specialising in money transfers without opening bank accounts or engaging in other associated banking operations) as against three credit institutions in 2011 (including one non-bank credit institution). The number of newly-founded credit institutions increased due to the enactment of Federal Law No. 161-FZ, dated June 27, 2011, "On the National Payment System" and Federal Law No. 162-FZ, dated June 27, 2011, "On Amending Some Russian Laws in Connection with Adopting the Federal Law on the National Payment System" (hereinafter referred to as Federal Law No. 162-FZ) that provided for the establishment of non-bank payment credit institutions;
- seven credit institutions dropped out after being reorganised through mergers, including six banks (as against the 18 credit institutions which merged in 2011, including 17 banks);
- six credit institutions changed their form of incorporation from that of limited liability companies to that of joint-stock companies (as against four credit institutions in 2011, including one non-bank credit institution).

In 2012, four banks changed their status to non-bank credit institutions due to their non-compliance with capital minimum requirements stipulated in Article 11.2 of Federal Law No. 395-1, dated December 2, 1990, "On Banks and Banking Activities" (no decisions to change bank status to that of a non-bank credit institution were made by the Bank of Russia in 2011). Two non-bank credit institutions changed their status to that of banks.

In 2012, 27 credit institutions, or 2.8% of the total number of operating credit institutions expanded their business by obtaining banking licences (as against 18 credit institutions in 2011), of which:

- two banks were granted general banking licences (as against four banks in 2011), including one bank that was reorganised through a merger;
- seven banks were granted licences to take deposits and place precious metals (as against six banks in 2011);
- one bank which participated in the DIS and had been licensed to conduct banking operations in roubles and foreign currency (without the right to take household funds on deposit) and to take rouble-denominated household deposits, was issued a licence to take household funds in roubles and foreign currency on deposit;
- eight banks were licensed to take household deposits, including seven banks which were licensed to take deposits denominated in roubles and foreign currency (as against five banks in 2011), and one bank which was licensed to take rouble-denominated deposits;
- two banks were licensed to conduct banking operations in roubles and foreign currency, albeit without the right to take household deposits (as against one such bank in 2011), including one bank that was reorganised through a merger;
- two non-bank credit institutions were licensed to perform a broader range of banking transactions in roubles and foreign currency than their previous licences provided for (as against one non-banking credit institution in 2011);
- five banks were licensed to conduct banking operations in roubles and foreign currency (without the right to take household deposits) due to the elimination of prior restrictions on correspondent banking with non-residents.

In 2012, 496 credit institutions had their banking licences replaced in connection with the change of the names of certain banking operations, pursuant to Federal Law No. 162-FZ.

Federal Law No. 391-FZ, dated December 3, 2011, "On Amending the Federal Law on Banks and Banking Activities" requires operating banks to increase their capital to 300 million roubles by January 1, 2015.

As of January 1, 2013, 246 banks had capital levels of less than 300 million roubles, with approximately 17 billion roubles required to recapitalise them, which represented 29.9% of their current capital (as against 304 banks, 25 billion roubles, and 38% respectively as of January 1, 2012).

The aggregate registered authorised capital of operating credit institutions increased from 1,214.3 billion roubles to 1,341.4 billion roubles, or by 10.5% in 2012.

Non-resident total investments in the aggregate authorised capital of operating credit institutions rose from 336.4 billion roubles to 362.7 billion roubles in 2012, or by 7.8% (as against the year-on-year growth of 3.1 billion roubles, or 0.9% in 2011). Non-resident shareholding in the Russian banking system dropped from 27.7% to 27.0% (it decreased from 28.1% to 27.7% in 2011). The number of credit institutions with foreign shareholding grew from 230 to 244 (from 220 to 230 in 2011). The number of credit institutions with non-resident stakes of more than 50% increased from 113 to 117 (from 111 to 113 in 2011), while foreign investments in the authorised capital of these credit institutions rose by 23.1 billion roubles (as against a decrease of 6.4 billion roubles in 2011).

Credit institutions with foreign investments are located in 37 Russian regions. These include 159 credit institutions (65.2% of the total number) in Moscow and the Moscow Region, and 13 credit institutions (5.3% of the total number) in St Petersburg.

The number of branches of operating credit institutions continued to decrease in the reporting year (from 2,807 to 2,349, or by 16.3%). This trend can be explained by the transformation of separate divisions into internal structural units that are characterised by streamlined opening/closing procedures, minimal staffing, and, accordingly, by lower administrative costs.

In 2012, the total number of internal structural units of credit institutions and their branches grew by 2,148 to 42,758 as of January 1, 2013 (40,610 year on year). The number of additional offices increased from 22,565 to 23,347, the number of operations offices rose from 5,360 to 7,447, the number of credit and cash offices expanded from 1,725 to 2,161, the number of mobile banking vehicles went up from 100 to 118, and the total number of external cash desks decreased from 10,860 to 9,685.

As a result, the number of internal structural units per 100,000 residents increased from 28.4 at the end of 2011 to 29.9 at the end of 2012.

The Bank of Russia registered 224 issues of securities by credit institutions in 2012. This decrease in comparison with 2011 (301 issues) was due to a reduction in the number of share issues in the reporting period (from 250 to 170 respectively).

The par value of shares issued for bank authorised capital increases amounted to 113.2 billion roubles in 2012 (as against 125.8 billion roubles in 2011). Issues registered for authorised capital increases included: 136 issues with a par value of 95.7 billion roubles, raised by subscription to ordinary and preferred shares; 16 issues worth 13.5 billion roubles paid up with bank own funds, as well as five issues worth 4.0 billion roubles where the sums were obtained via the conversion of previously issued shares (due to the bank reorganisation through a merger).

Two issues of shares worth 0.4 billion roubles were registered in 2012 in connection with newly created credit institutions (two issues worth 0.3 billion roubles in 2011).

In the reporting period, the value of shares issued in connection with credit institutions changing their form of incorporation from that of limited liability companies to joint-stock companies amounted to 2.6 billion roubles (as against 4.6 billion roubles in 2011). The value of shares issued due to the conversion of preferred shares into shares with different rights or due to a decreased par value amounted to 0.5 billion roubles (1.3 billion roubles in 2011).

In 2012, share issue reports were registered for a total of 118.1 billion roubles (as against 112.3 billion roubles in 2011).

The number and value of the 2012 registered bond issues did not change much: 54 issues worth 200.0 billion roubles as against 51 issues worth 203.7 billion roubles in 2011. Registered reports on bond issues and received placement notices of bond issues amounted to a total of 158.4 billion roubles, which is 1.8 times higher than in 2011, when the value of bond issues totalled 87.8 billion roubles.

In the reporting period, 16 share issues worth 4.1 billion roubles and 16 bond issues worth 55.6 billion roubles were cancelled as a result of the issuer failure to sell a single security per issue or due to non-compliance with Russian securities laws (24 share issues worth 5.8 billion roubles and nine bond issues worth 40.0 billion roubles in 2011).

III.3. Off-site Supervision and Supervisory Response

Increasing the transparency of bank activities was one of the most important goals of off-site banking supervision in 2012. These efforts were focused primarily on determining the real quality of bank assets, the level and composition of bank capital, and the accuracy of bank reporting.

During the course of this work, the Bank of Russia studied the risks associated with fiduciary transactions, as well as bank operations with non-resident counterparties, including those that were registered in offshore zones. It scrutinised: the extension of loans to private non-resident companies, the placement of bank funds with non-resident banks, the registration and custody of securities (including those placed by Russian issuers) in non-resident depositories, and requirements for non-residents concerning asset trust management. Checking the accuracy of bank assessment of risks associated with non-transparent transactions[1] and providing an appropriate supervisory response represented important efforts aimed at preventing these operations. To broaden the disclosure of information about those that actually participated in bank transactions with non-residents, determine the sources of money flows, and establish the beneficiaries of funds, the Bank of Russia (when necessary) requested the appropriate information from foreign banking and financial supervisors. Supervisory response measures were applied to credit institutions that were camouflaging their risks.

The Bank of Russia continued to pay close attention to evaluating loan portfolios that constituted the bulk of bank assets and worked with credit institutions on increasing the transparency of extended loans and associated risks. The Bank of Russia monitored the real concentration levels of bank owner-related risks, and engaged in the identification of cases where banks would assume excessive owner-related risks. It guided banks to take action aimed at reducing their assumed exposure, and prescribed measures including dispersing owner-related risks using measures developed in consultation with credit institutions.

The reporting year was characterised by an increased exposure of credit institutions to risks related to consumer loans, especially unsecured ones. Within the framework of off-site supervision, the Bank of Russia examined bank methodologies for assessing the creditworthiness of counterparties and risks of consumer lending, as well as the adequacy of respective homogenous loan portfolios and their related provisions.

A separate area of supervisory analysis is cash management and accounting at credit institutions. Bank of Russia regional branches paid special attention to analysing cash transactions conducted by credit institutions and to establishing an economic justification for till cash. Adhering to a substantive approach, the Bank of Russia took into account the overall structure of the balance sheet of a bank, its development strategy, types of customer activities, the existence and scope of its branch network and internal structural units, and other aspects of its operation. When the Bank of Russia identified instances where cash amounts were less than the amounts in the accounting records or those where supporting documentation for cash or cheques received (credited) was absent, the Bank of Russia immediately required such credit institutions to form 100% provisions, in line with Bank of Russia Regulation No. 283-P, dated March 20, 2006, “On the Procedure for Making Loan Loss Provisions by Credit Institutions”.

Off-site supervision included capital quality assessments when stocks or shares of credit institutions were acquired by the parties with non-transparent nature and/or scale of business.

A comprehensive analysis of banks took into account their policies for attracting household deposits. The Bank of Russia monitored the level of interest rates on household deposits against the average market interest rates on rouble-denominated deposits[2]. Starting in September 2012, the monitoring of maximum market average interest rates on deposits was performed net of the impact of synthetic deposit products[3]. To ensure depositor trust in the Russian banking sector, the Bank of Russia undertook supervisory efforts aimed at enhancing the transparency of terms and conditions for taking household deposits, including synthetic banking products, by banks, as follows:

– if unfair competitive practices were employed and/or deceptive advertising was used to sell complex

[1] For the purpose of calculating the bank capital adequacy ratio, higher-risk transactions include claims on offshore resident companies, investments in mutual funds, assets in trust management, investments in certain debt securities and claims on the purchase/sale of those securities.

[2] Maximum market average interest rates on rouble-denominated deposits are calculated every ten days based on a sample of ten credit institutions that take in the largest amounts of household deposits; the findings are posted on the Bank of Russia website.

[3] Synthetic deposit products for the purposes of this Report are deposits that, besides terms and conditions related to the deposit per se, are subject to additional terms and conditions (for example, purchasing investment units worth a specified sum or taking out insurance with a particular insurer).

banking products or other services in order to attract household deposits, the regional offices of the Federal Anti-monopoly Service were notified;

– measures stipulated by Russian legislation were taken to ensure that potential customers were completely and fairly informed about existing risks, including possible losses due to the risky nature of complex banking products and their exemption from the scope of Federal Law No. 177-FZ, dated December 23, 2003, “On the Insurance of Household Deposits with Russian Banks”;

– when bank deposit rates exceeded the estimated maximum market average interest rate by more than two percentage points, recommendations and suggestions for their reduction were sent to banks, and restrictions and/or bans on certain banking operations were imposed, if necessary.

To ensure transparency and determine an appropriate mode of supervising credit institutions, which are members of banking groups (including international ones), supervisory colleges were arranged in 2012 for banking groups of major Russian banks. Bank of Russia representatives took part in international supervisory colleges which were governed by the supervisors of Hungary, Italy, the Netherlands, and India.

In 2012, the off-site banking supervisory units of Bank of Russia regional branches participated in a number of specialised regional meetings. Issues discussed at these meetings included such pressing supervisory matters as improving the quality of supervision in the Bank of Russia regional branches, assessing risks related to consumer loans, organising the supervision of bank structural divisions, and enhancing interaction between regional branches.

III.4. Bank On-site Inspections

In 2012, the Bank of Russia continued its policy of improving the quality of on-site inspections, including the setting up of the necessary institutional and legal conditions. As a result of the third phase of the inspection centralisation programme[1], inspection units within the single centralised inspection entity have been operating in all of the federal districts (except for Moscow and the Moscow Region) since January 1, 2013. Preparations were also made to centralise the inspection activities of the Bank of Russia Moscow Regional Branch.

In 2012, Bank of Russia authorised representatives conducted 1,118 inspections of 692 credit institutions[2] *(see Chart 3.1)*.

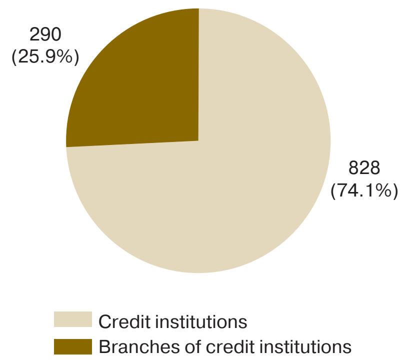
Most inspections (757, or 67.7%) were carried out under the Summary Plan. There were 361 unscheduled inspections (32.3%), including 168 inspections of individual issues[3] *(see Charts 3.2 and 3.3).*

Unscheduled inspections included the following: 103 inspections were conducted within the framework of examining the applications of credit institutions that decided to increase their authorised capital by more than 20%; 12 inspections were carried out due to bank applications for licences required to expand their business; four inspections were conducted due to credit institutions having qualified for insolvency (bankruptcy) remedies and two inspections were made due to the elimination of reasons for such remedies; four inspections were carried out due to the reported non-compliance of credit institutions with Bank of Russia regulations on cash circulation; one inspection was conducted due to the reorganisation of the credit institution through a merger; and 67 inspections were made as a result of Bank of Russia management decisions – these were due to the changed financial standing of credit institutions (36 inspections) and at the request of federal authorities, including law enforcement authorities (31 inspections) *(see Chart 3.4).*

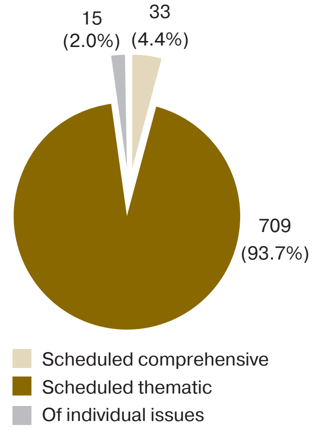
Working groups focused on the examination of the most material aspects of bank activities, and for that reason the majority of inspections were of a thematic type (899, or 80% of total inspections).

In compliance with Article 32 of Federal Law No. 177-FZ, dated December 23, 2003, 82 inspections were conducted with participation of the Agency that focused on value and structure of bank exposure to depositors, the payment of insurance premiums, and the performance of other duties imposed on banks by the federal law.

Inspections of credit institutions and their branches — *CHART 3.1*



Scheduled inspections by type — *CHART 3.2*

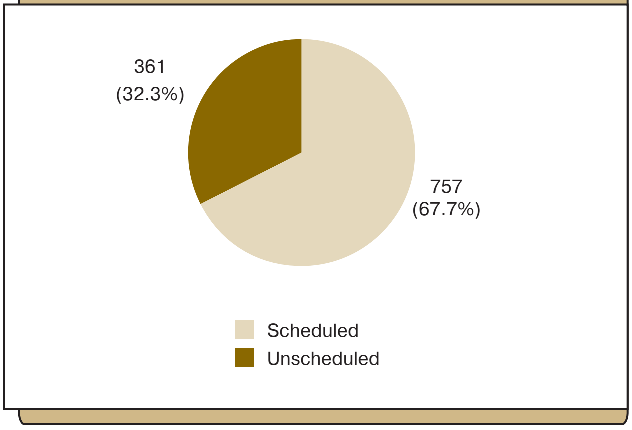


[1] The third phase of centralisation included the establishment of interregional inspectorates in the Volga, Southern and North-Caucasian Federal Districts.

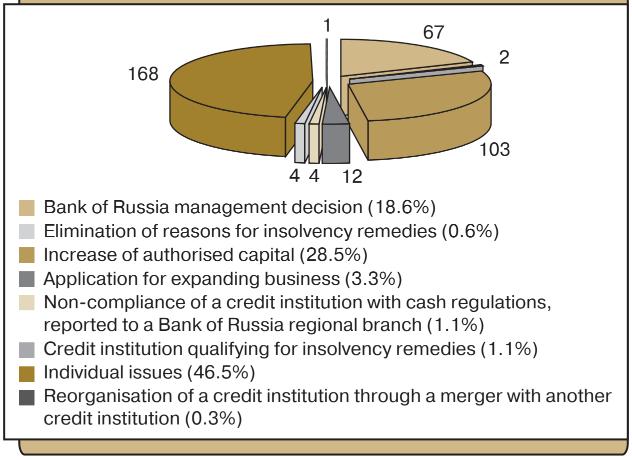
[2] Of which:
– 828 inspections (74%) – in unit banks and in the head offices of multi-branch credit institutions;
– 290 inspections (26%) – in bank branches. Some credit institutions were inspected several times, including their head offices and/or branches or internal structural units.

[3] These inspections are conducted as a result of Bank of Russia regional management decisions. The inspections were focused on compliance with required ratios and on operations with foreign exchange and cheques by authorised banks (their branches).

Scheduled and unscheduled inspections CHART 3.3



Grounds for unscheduled inspections CHART 3.4



Compliance with AML/CFT laws was the focus of 446 inspections. As a result, separate inspection reports were filed regarding individual issues and instances where bank actions (inaction) failed to comply with AML/CFT laws. Additionally, signs of falsified transactions aimed at siphoning money abroad were identified among a number of banks and their customers who participated in international trade.

The inspections that were undertaken reported incidences where banks underestimated their credit risks, which were due, among other things, to the acceptance of substandard collateral; of extending loans to shell companies not engaged in real business and having no legal or economic ties with the end objects of their investments; and the emergence of contingent credit liabilities on reassigned retail loan portfolios. The inspections also identified cases of capital acquisition when investors used improper assets and of transactions designated to bypass the Bank of Russia restrictions on certain operations. In some cases, results were achieved due to new approaches, including IT-based approaches, when verifying the accuracy of reporting submitted by borrowers to credit institutions.

To understand the nature and level of risks of multi-branch credit institutions, 141 interregional inspections were conducted to study the operations of both head offices and branches with high concentrations of business. For consolidated risk assessment, nine credit institutions (the members of two bank groups[1]) were inspected. The findings of one such consolidated inspection were discussed at a supervisory college meeting that was attended by Bank of Russia representatives, as well as bank executives and owners.

This approach helped to identify signs of banking operations that were aimed at artificially overstating asset quality, including by means of transferring troubled assets from the balance sheet of one credit institution (or structural unit thereof) to another credit institution/unit; reassigning loan portfolios to third parties at the expense of funds provided by banks themselves or on non-market terms (for a token payment). In individual cases, such arrangements involved groups of shell companies not engaging in real business, whose debt, repeatedly rolled over, was "serviced" at the expense of the credit institutions themselves, which were providing funds through a chain of payments organised between these companies.

The Bank of Russia head office continued its practice of engaging in inspection quality control by means of monitoring the inspections of banks falling within the "second line" of supervision and on the coordination of interregional inspections of multi-branch banks. At the level of the interregional inspectorates, which participated in centralised inspection activities, monitoring was focused on inspections of all credit institutions located in the respective regions[2].

Within the framework of interaction among Bank of Russia structural units, including interaction stipulated by Bank of Russia Ordinance No. 2791-U of March 13, 2012, "On Procedures of Interaction among Bank of Russia Structural Units in Preparing Proposals and Making Decisions on the Application of Enforcement Measures", the management of the Bank of Russia, its supervisory units and regional branches were informed about current inspection results to facilitate timely supervisory decision-making, including immediate decisions. Monitoring identified threats in the activity of 55 "second-line" banks[3]. Off-site supervisory units initiated appropriate discussions regarding these threats with the executives and/or owners of such banks in order to develop the necessary remedies.

Inspection results were duly communicated to supervisory, controlling and law-enforcement authorities. Pursuant to Presidential Decree No. 224, dated March 3, 1998, "On the Interaction of State Bodies Fighting Economic Crimes", 75 reports were sent to the Russian Prosecutor General's Office on trades and transactions

[1] Including one informal bank group (credit institutions belonging to the same owners, which have not officially announced the establishment of a bank group).
[2] Excluding inspections of credit institutions related to individual issues.
[3] Reasons to qualify for bankruptcy interventions or to have their banking licences revoked.

by credit institutions and their customers that showed signs of infractions of financial and economic legislation. The Bank of Russia received 49 requests for information concerning inspection results and provided seven consultations. In the course of 15 inspections of credit institutions, the Bank of Russia requested information from law enforcement authorities concerning bank customers and their possible involvement in illegal activities. Information provided by the law enforcement bodies was promptly passed to the working groups in charge of the inspections.

To ensure the internal control of inspection quality, the Bank of Russia conducted post-inspection reviews, such as the rapid analyses of inspection results and opinions of inspectors-general on the inspection findings. The quality of inspection reports was investigated, when necessary, as well as the process of preparing Bank of Russia regional branch reports for review. Control measures implemented by the Main Inspectorate of Credit Institutions also involved the development of recommendations for improving the efficiency of inspection monitoring. A video-conferencing sub-system is deployed and used for the on-line management of the centralised inspection service at the head office and all interregional inspectorates of the Main Inspectorate of Credit Institutions.

III.5. Bank Financial Rehabilitation and Liquidation

As part of the efforts to implement Federal Law No. 175-FZ, dated October 27, 2008, “On Additional Measures to Strengthen the Stability of the Banking System until December 31, 2014” (hereinafter referred to as Federal Law No. 175-FZ), the Bank of Russia, jointly with the Agency, took measures in 2012 to prevent the bankruptcy of seven banks.

In 2012, measures to prevent the bankruptcy of two banks were completed; one of the banks was reorganised through a merger with another bank; another bank is now operating in a regular way (the Agency sold its stake via a public sale of shares).

As of January 1, 2013, five banks continued to take scheduled actions as part of the Agency’s intervention plans to prevent them from going bankrupt.

Financial recovery programmes were funded under Federal Law No. 175-FZ with assets contributed to the Agency by the Russian Federation or with Bank of Russia loans that have been extended to the Agency.

As of January 1, 2013, the Agency owed 335.4 billion roubles to the Bank of Russia for loans it granted under Federal Law No. 175-FZ. Funds repaid by the Agency to the Bank of Russia in 2012 amounted to 11.0 billion roubles.

All the key aspects of the Agency’s intervention plans to prevent bank failures, which are approved by the Bank of Russia, are made disclosed by the Bank of Russia and the Agency through the publishing of relevant information.

The Agency regularly reports on its progress to the Bank of Russia from the date of approval of an Agency intervention plan to the date of its fulfilment (the completion of action to prevent bank failure).

Furthermore, a bankruptcy-prevention programme involving other investors was completed at one bank, where the rehabilitation decision had been made before the entry into force of Federal Law No. 175-FZ.

In 2012, 49 credit institutions[1] qualified for insolvency (bankruptcy) interventions under Article 4 of Federal Law No. 40-FZ, dated February 1999, “On the Bankruptcy (Insolvency) of Credit Institutions” (hereinafter referred to as Federal Law No. 40-FZ); 23 of these credit institutions eliminated the reasons for insolvency (bankruptcy) interventions. Three credit institutions qualified for insolvency (bankruptcy) interventions pursuant to Paragraph 7 of Article 4 of Federal Law No. 40-FZ. Two of these credit institutions were requested to raise their authorised capital and own funds to the required levels by a deadline which is after the end of the reporting year; the other credit institution had been in business for less than two years after having been issued its licence, and the federal law did not apply bankruptcy remedies to it. Two credit institutions were requested to initiate financial recovery procedures; two credit institutions were operating under their financial recovery plans; 17 credit institutions had their banking licences revoked.

As of January 1, 2013, ten credit institutions[2] qualified for insolvency (bankruptcy) interventions under Article 4 of Federal Law No. 40-FZ.

Pursuant to Federal Law No. 177-FZ, in 2012, the Bank of Russia supervised banks to make sure that they comply with the deposit insurance system’s requirements.

As of January 1, 2013, there were 891 banks participating in the deposit insurance system (896 banks as of January 1, 2012), including 98 banks which had their licences previously revoked (voided) and 10 operating credit institutions which formally remained in the deposit insurance system but had lost their right to take individual deposits or open new personal accounts after the Bank of Russia banned them from being able to raise funds from households and from opening bank accounts for households, in accordance with Article 48 of Federal Law No. 177-FZ (seven banks), on account of a voluntary refusal to service individuals (one bank), or on account of a change in status from that of a bank to that of a non-bank credit institution (two non-bank credit institutions).

In 2012, seven banks joined the deposit insurance system and twelve banks dropped out (of which, six banks because of their reorganisation and six as a result of their liquidation).

In the reporting period, two banks participating in the deposit insurance system were prohibited from taking funds from households and opening personal bank accounts, pursuant to Article 48 of Federal Law No. 177-FZ, for the reason of their subjection to interventions stipulated by Point 4 of Part 2 of Article 74 of Federal Law No. 86-FZ, dated July 10, 2002, “On the Central Bank of the Russian Federation (Bank of Russia)” (hereinafter referred to as Federal Law No. 86-FZ). Two of the aforementioned banks later had their licences revoked.

[1] Including two banks where recovery measures were applied pursuant to Federal Law No. 175-FZ, dated October 27, 2008, “On Additional Measures to Strengthen the Stability of the Banking System until December 31, 2014”.
[2] Including one bank where recovery measures were applied pursuant to Federal Law No. 175-FZ, dated October 27, 2008, “On Additional Measures to Strengthen the Stability of the Banking System until December 31, 2014”.

Fourteen banks participating in the deposit insurance system experienced insured events in 2012 (their banking licences were revoked). The provisional administrations appointed by the Bank of Russia provided the Agency with lists of obligations to depositors arising from all insured events within seven days, as envisaged in Federal Law No. 177-FZ. That allowed the Agency to initiate insurance payments to depositors in a timely manner (within three business days from the date of the submission of the required documents to the Agency, but not earlier than 14 days from the date of the insured event).

The Bank of Russia and the Agency cooperated, coordinated their activities and exchanged information on functioning the deposit insurance system, bank participation and premiums, the payment of deposit compensation, Bank of Russia inspections of banks participating in the deposit insurance system, penalising banks, and other issues related to the operation of the deposit insurance system, in accordance with Federal Law No. 177-FZ and agreements signed in 2012.

In the year under review, the Bank of Russia revoked the banking licences of 22 credit institutions (18 in 2011) in accordance with Article 74 of Federal Law No. 86-FZ and Article 20 of Federal Law No. 395-1, dated December 2, 1990, “On Banks and Banking Activities” (hereinafter referred to as Federal Law No. 395-1).

Banking licences were revoked on the following grounds:

– non-compliance with federal banking laws and Bank of Russia regulations in case measures stipulated by Federal Law No. 86-FZ were applied to non-compliant banks repeatedly within the period of one year – in 21 cases (18 in 2011);
– the inability to satisfy creditor monetary claims and/or failure to make mandatory payments within 14 days of their due date – in 10 cases (8 in 2011);
– established facts of to patently inaccurate reports –7 cases (6 in 2011);
– capital adequacy ratio falling below 2% - 7 cases (5 in 2011);
– bank capital falling below the minimal required level established by the Bank of Russia on the date of its state registration – 6 cases (6 in 2011);
– repeated violation within one year of requirements stipulated in Articles 6 and 7 (excluding Point 3 of Article 7) of Federal Law No. 115-FZ, dated August 7, 2001, “On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism” –1 case (3 in 2011).

Half of all credit institutions that lost their licences in 2012 were registered in Moscow and the Moscow Region (10 banks and one non-bank credit institution).

Additionally, one bank licence was voided due to its shareholders deciding to liquidate it voluntarily (four in 2011).

In 2012, 22 provisional administrations were appointed to manage credit institutions (hereinafter referred to as provisional administration) due to the revocation of their licences. Overall, 27 provisional administrations operating in 2012 were appointed for that reason; 20 of them included Agency staff members, pursuant to Point 2 of Article 19 of Federal Law No. 40-FZ.

As of January 1, 2013, there were six provisional administrations in place which had been appointed after the credit institutions had been stripped of their licences.

As of January 1, 2013, liquidation was pending at 137 credit institutions; their licences had been revoked (voided) and the Bank of Russia had not yet received certificates of their removal from the state register. These included 131 credit institutions in ongoing liquidation (as of the reporting date, the relevant court rulings were not made with respect to the remaining six credit institutions following the revocation of their banking licences).

Most of the liquidated credit institutions (123) had been recognised as insolvent (bankrupt) and subjected to receivership (in 2012, 20 credit institutions were declared bankrupt; an arbitration court had ruled in favour of the compulsory liquidation of one of them). Arbitration courts mandated compulsory liquidation with respect to three credit institutions (including one credit institution in 2012). In addition, five credit institutions had filed for voluntary liquidation, based on decisions taken by their founders (members) (in 2012, the founders of one credit institution decided to file for voluntary liquidation).

Liquidation procedures were implemented in most of the liquidated credit institutions (119) as of January 1, 2013 by a corporate liquidator, the Agency, which was appointed under Point 2 of Article 50.11 of Federal Law No. 40-FZ and Article 23.2 of Federal Law No. 395-1. The Agency acted as a receiver at 117 credit institutions and as liquidator at the remaining two credit institutions.

As of January 1, 2013, the Agency had been appointed as receiver (liquidator) in 291 credit institutions. Of these, 172 credit institutions that were liquidated by the Agency were taken off the state register of legal entities[1].

In the entire period of operation of the Russian banking system, as of January 1, 2013, 1,594 credit institutions had been taken off the state register of legal entities due to their liquidation. According to the reports filed with the Bank of Russia, the average percentage of satisfied creditor claims on these credit institutions amounted to 10.6%, including 73.5% of the claims of first-ranking creditors.

Since 2004, when the Agency assumed the functions of a receiver (liquidator), receivership (liquidation) procedures have been completed by the Agency with respect to 174 credit institutions. The average percentage of satisfied creditor claims on these credit institutions amounted to 24.9%, including 55.3% of the claims of first-ranking creditors, 68.9% of the claims of second-ranking creditors, and 18.8% of the claims of third-ranking creditors and other creditors whose claims were to be satisfied after those listed in the register of creditor claims.

[1] This information was prepared based on the information reported by the registrar to the Bank of Russia as of January 1, 2013.

In 2012, the Bank of Russia conducted 16 inspections to check on the performance of the receivers (liquidators) of credit institutions. Fourteen inspections dealt with the activities of the Agency after it had been appointed as a receiver by the court of arbitration due to a bank bankruptcy; two inspections were focused on the operations of individual receivers (liquidators) of credit institutions.

In 2012, the Bank of Russia accredited twenty provisional administrators as the receivers of credit institutions, and extended the accreditations of twenty provisional administrators. Additionally, one provisional administrator was denied accreditation due to ineligibility.

As of January 1, 2013, 40 provisional administrators were accredited with the Bank of Russia.

In 2012, the Bank of Russia Board of Directors did not pass resolutions to make Bank of Russia payments, pursuant to Federal Law No. 96-FZ, dated July 29, 2004, “On Bank of Russia Compensation Payments for Household Deposits with Russian Bankrupt Banks Uncovered by the Deposit Insurance System”.

As of January 1, 2013, the Bank of Russia had passed resolutions to pay 40,308 depositors a total of 1,264,696,400 roubles; the Bank of Russia payments were received by 36,173 depositors (89.7% of those eligible) and totalled 1,231,258,700 roubles (97.4% of the total funds allocated for the Bank of Russia payments).

As of January 1, 2013, receivers had satisfied Bank of Russia claims on credit institutions whose depositors had received payments from the Bank of Russia totalling 430,814,100 roubles, or 35.0% of the total claims it had gained as a result of its payments (in 2012, the Bank of Russia received 1,158,600 roubles in claims payable to the Bank Russia that resulted from the payments it had made).

The authorised registrar made entries registering liquidation in the single state register of legal entities with respect to 29 credit institutions where depositors had received Bank of Russia payments. The Bank of Russia claims on such credit institutions that remained unsatisfied during receivership due to the insufficient funds of debtors, totalling 722,107,200 roubles, were written off the Bank of Russia balance sheet (including funds totalling 199,276,400 roubles, which were written off the Bank of Russia balance sheet in 2012).

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

In 2012, the Bank of Russia continued to exercise the powers granted by Federal Law No. 115-FZ, dated August 7, 2001, "On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism" (hereinafter referred to as Federal Law No. 115-FZ). Particular attention was paid to maintaining conditions that ensure the efficient compliance of credit institutions with anti-money laundering/countering the financing of terrorism (AML/CFT) legislation.

Pursuant to one of the provisions of Federal Law No. 115-FZ[1], the Bank of Russia jointly with Rosfinmonitoring, established requirements with respect to internal AML/CFT controls in credit institutions[2].

Bank of Russia requirements (which take revised international AML/CFT standards into consideration[3]) define the organisation of anti-money laundering risk management. It is designed to minimise its occurrence and to protect credit institutions from dealing with criminally obtained funds; these constitute the key principles and objectives of AML/CFT control.

As a result of the supervisory efforts of the Bank of Russia and its regional branches, 1,116 inspections of credit institutions were completed in 2012. Compliance with AML/CFT legislation was the subject of examination in 40% of all completed scheduled and unscheduled inspections of credit institutions.

In 2012, the Bank of Russia continued to implement its mandate[4] with respect to initiating and examining cases that involved administrative offences related to banks and their officers' failure to comply with AML/CFT legislation[5].

During the reporting year[6], the Bank of Russia regional branches initiated almost 1,500 administrative cases with respect to 405 credit institutions and their officers, including 534 cases with respect to officers. Of these, 110 administrative cases were dropped during the investigation. As a result, 1,322 administrative cases were examined in 2012; 307 resulted in rulings which imposing fines, 490 ending in warnings, and there were 525 where the administration's charges were dropped.

An important event in 2012 was a successful review at the FATF[7] plenary session (June 2012) of the Third Progress Report on Russia, which addressed the deficiencies in its AML/CFT system that had been identified by international experts during the third round of mutual assessments[8]. The Bank of Russia was included in the inter-agency Russian delegation that defended the Report. During the defence of the Third Progress Report, experts made no criticisms on the activities of credit institutions or the Bank of Russia.

Additionally, in 2012, Bank of Russia experts jointly with other involved governmental agencies participated in the activities of international organisations working in the AML/CFT area, such as FATF, MONEYVAL[9], and EAG[10]. They advocated the interests of the Russian banking community.

In implementing the principle of uniform enforcement, the Bank of Russia continued in 2012 to generalise and systematise issues related to compliance with AML/CFT laws and publish explanatory letters clarifying the most pressing questions concerning the application of Bank of Russia AML/CFT regulations.

In addition to its enforcement activity, the Bank of Russia actively continued to provide credit institutions with methodological recommendations concerning their compliance with AML/CFT rules in the reporting year.

Based on the analysis of data collected during the course of its supervisory activities, the Bank of Russia prepared recommendations for credit institutions that describe the typical features of transactions requiring

[1] Point 2 of Article 7 of the Federal Law No. 115-FZ.
[2] Bank of Russia Regulation No. 375-P, dated March 2, 2012, "On Requirements Regarding Bank Internal Control Rules to Prevent Money Laundering and the Financing of Terrorism" (registered by the Ministry of Justice on April 6, 2012, under No. 23744; published in Bank of Russia Bulletin No. 20 of April 18, 2012).
[3] New version of "International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation – the FATF Recommendations" adopted in February 2012.
[4] The Bank of Russia is authorised to initiate and examine cases of administrative offences involving the failure of credit institutions (branches) and their officers to comply with AML/CFT legislation by Federal Law No. 176-FZ, dated July 23, 2010, "On Amending the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism and the Russian Code of Administrative Offences" (effective since January 24, 2011).
[5] Stipulated by Article 15.27 of the Russian Code of Administrative Offences.
[6] As of January 1, 2013.
[7] Financial Action Task Force.
[8] The Mutual Assessment Report on Russia was approved at the FATF plenary meeting in June 2008.
[9] The Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures.
[10] The Eurasian Group on Countering Money Laundering and Terrorism Financing.

increased attention. Such transactions required scrutiny because their economic sense or lawful purpose was not evident (Bank of Russia Letter No. 167-T of December 7, 2012, “On Increased Bank Attention to Certain Operations by Their Customers”). The recommendations are intended to help identify such transactions and mitigate the associated risks.

In 2012, the Bank of Russia continued to train and retrain the executives and specialists of its regional branches in AML/CFT issues, in accordance with its Catalogue of Professional Training. Eight training sessions for 416 participants were organised by experts from the Bank of Russia head office, the Ministry of Interior, Rosfinmonitoring and Rosfinnadzor.

III.7. The Central Catalogue of Credit Histories

For the system of credit histories launched in 2006, the reporting year was characterised by increased growth in the number of credit history titles accumulated at the Central Catalogue of Credit Histories (CCCH) and by a growing number of inquiries from credit history makers and users.

During 2012, the number of credit history titles at the CCCH[1] increased by 33 million (which is 11% more than in the previous year) to 175 million at the end of the reporting year[2].

At the beginning of 2013, there were 174.6 million credit history titles of individual borrowers (a 23.2% year-on-year increase) and 446,800 credit history titles of corporate borrowers (a 35.5% year-on-year increase). The number of credit history titles of corporate borrowers that were transferred to the CCCH increased two-fold as compared with 2011, due, first of all, to the adjusted approach to assessing borrower risk[3] that stimulated the creation of corporate credit histories.

The number of information inquiries addressed to the CCCH by credit history makers and users about the credit history bureaus (CHBs) in which their credit histories were filed and the number of requests for creating or cancelling credit history maker codes grew by 3 million in the reporting year and reached 12 million since the launch of the CCCH. The majority of inquiries about CHBs (61.4%, or 1.8 million) were filed in 2012 by credit institutions that were credit history users.

In 2012, the CCCH was able to provide information on 72.3% of all inquiries from credit history makers and users about CHBs in which their credit histories were filed (71.0% in 2011, 60.7 in 2010). This confirms the fact that the majority of borrowers had had their credit histories put on file.

With respect to the service's technical support, the CCCH continued to improve the functionality of its automated "Central Catalogue of Credit Histories" system.

The number of CHBs in 2012 fell from 31 to 26, which testifies to the further consolidation of the CHB services market.

[1] The CCCH operation is governed by Federal Law No. 218-FZ, dated December 30, 2004, "On Credit Histories".

[2] The number of credit history titles is defined as a sum total of all credit history titles transferred to the CCCH by all credit history bureaus (data about the same borrower can be kept in several credit history bureaus), including credit history titles filed only following a lender's request.

[3] Relevant requirements, established in Bank of Russia Ordinance No. 2613-U of April 20, 2012, "On Amending Bank of Russia Instruction No. 110-I, Dated January 16, 2004, on Banks' Required Ratios", are included in Bank of Russia Instruction No. 139-I, dated December 3, 2012, "On Banks' Required Ratios".

III.8. Cooperation with Russia's Banking Community

The Bank of Russia developed its banking regulations while in active consultation with the Association of Russian Banks (ARB) and the Association of Regional Banks of Russia (Russia Association), as well as with major credit institutions. In December 2012, the Bank of Russia launched a new FAQ section on its website, "Answers to Frequently Asked Questions from Credit Institutions and Bank of Russia Regional Branches Concerning Banking Regulation and Supervision", which is regularly updated and contains materials from previous years' correspondence with credit institutions.

In 2012, the Bank of Russia and the Government of St Petersburg, jointly with the St Petersburg Foundation for the Support of International Banking Congresses, organised the 21st International Banking Congress, "Banks and Banking Regulation: Strategy, Results, and Prospects". The event was held in St Petersburg on June 5-8. During its plenary sessions and panels, the Congress participants discussed the economic development outlook on all levels – from national to global; additionally they discussed the impact of macroeconomic conditions on banking systems; global trends in the development of the banking industry; the relevant banking regulation issues; systemic and individual risk management; information security issues in banking; the development of payment systems and the banking business; the economic, organisational, and structural factors affecting bank and banking system soundness; ways to increase banking efficiency; as well as the regulation and supervision of systemically important financial institutions.

In the period under review, the Bank of Russia actively interacted with credit institutions within the framework of participating in traditional banking forums, conferences and meetings, including those that were organised by the ARB and the Russia Association. Thus, Bank of Russia representatives participated in the 10th International Banking Forum, "Russian Banks: the 21st Century" (Sochi, September 5-8, 2012), and in the traditional annual meeting of credit institutions with Bank of Russia executives (Moscow Region, February 2–3, 2012).

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

In 2012, the Bank of Russia continued to participate in the Basel Committee on Banking Supervision (BCBS) and in the activities of its working groups and sub-groups on the issues of macro-prudential supervision and the supervisory college activities.

During 2012, the Bank of Russia prepared information and materials requested by the Secretariat of the BCBS Group of Bank Supervisors from Central and Eastern Europe (BSCEE), including amendments to the BSCEE Agreement and the BSCEE Secretariat Operational Bylaw.

During the reporting year, the Bank of Russia also participated in mutual assessment of BCBS member countries' compliance with "Principles for Sound Stress Testing Practices and Supervision" (May 2009) and "Good Practice Principles on Supervisory Colleges" (October 2010).

As part of its cooperation with the G20 and the Financial Stability Board (FSB), the Bank of Russia participated in the evaluation of Russian banks' adherence to the FSB's Principles and Standards for Sound Compensation Practices at financial institutions (Peer Review 2012). It contributed to quarterly reports on the implementation of Russia's commitments under the Framework for Strong, Sustainable and Balanced Growth and the Seoul Plan of Action with respect to building additional capacity and enhancing the transparency of the financial market; improving legal regulation of the financial market; and on the creation of an international financial centre in Russia.

In the framework of its cooperation with the International Monetary Fund (IMF), the Bank of Russia met with IMF experts for Article IV consultations (in May 2012).

Efforts were continued to update the information on banking laws and regulations for the IMF electronic database on a regular basis. This information is published quarterly on the Bank of Russia website.

In June 2012, the Bank of Russia hosted a meeting with World Bank representatives to evaluate the efficiency of the World Bank's programmes in Russia.

Within the framework of cooperation with the Organisation for Economic Cooperation and Development (OECD), the Bank of Russia worked and consulted with the OECD Investment Committee in the area of Russia's OECD accession commitments. The Bank of Russia prepared comments on accession reviews of Russia's investment and financial systems made by the OECD Committee on Financial Markets, and suggestions for a draft legislative plan to bring Russian legislation in line with its future obligations in the OECD.

In preparing Russia's AML/CFT progress report, the Bank of Russia supplied information on its compliance with the 23rd Recommendation of the Financial Action Task Force (FATF) (on preventing criminals from managing or owning financial institutions).

Attaching great importance to cooperation and information exchange with the banking supervisory authorities of foreign countries, the Bank of Russia has signed 37 cooperation agreements (memoranda of understanding) with foreign bank supervisors so far.

In the reporting year, to expand cooperation in the area of banking supervision and exchange supervisory information (including information related to the supervision of cross-border establishments of Russian and foreign banks with respect to the BCBS recommendations) the Bank of Russia signed memoranda of understanding with the Swedish Financial Supervisory Authority (February 2012) and the Reserve Bank of India (August 2012). The Bank of Russia also worked on drafting memoranda (agreements) with a number of supervisory authorities from other countries.

In 2012, the Bank of Russia organised meetings to discuss issues that were relevant to banking regulation and supervision with the supervisors of Austria, Belarus, Hungary, Germany, India, Kazakhstan, and Latvia; it also held consultations with the Bank of Korea.

To coordinate the activities of authorities supervising banking group cross-border establishments, the Bank of Russia has been cooperating with foreign supervisors in multilateral colleges.

The Banks/Financial Services Sub-group of the Russian-German Inter-governmental Working Group on Strategic Cooperation in Economics and Finance continued to operate in 2012. In June, it met to discuss the operation of the derivatives market and the local bonds market, the consequences of Russia's accession to the WTO, and the implementation of the FSB's recommendations.

In its cooperation with the Eurasian Economic Community (EurAsEC), the member states of the Common Economic Space (CES) and the Commonwealth of Independent States (CIS), the Bank of Russia participated in preparing materials for meetings of the EurAsEC integration bodies and the Council of Governors of EurAsEC Central (National) Banks. It drafted documents on the issues of cooperation, banking sector and supervision development within the EurAsEC member states, as well as made suggestions for draft agreements on the operational requirements of the financial market of the CES member states and on the exchange of information (including confidential information) on banking, the securities market and insurance.

In 2012, the Bank of Russia provided in-house training for the National Bank of the Kyrgyz Republic on “Consolidated Supervision” (May 2012), in accordance with the Professional Training Programme for EurAsEC Central (National) Banks.

In July 2012, Bank of Russia representatives took part in a meeting/training session, “The Protection of Financial Services Consumer Rights and Financial Education”, which was organised by the Central Bank of the Republic of Armenia, to share its experiences in improving the financial literacy of the general public and protecting the rights of financial services consumers. In November 2012, the National Bank of the Republic of Belarus arranged a meeting/training session which was attended by Bank of Russia specialists. There, they shared their experiences in the area of banking regulation and supervision and discussed the harmonisation of banking regulatory and supervisory requirements within the CES.

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

III.10.1. The state registration of credit institutions and the licensing of banking operations

In 2013, the Bank of Russia will continue to work on drafting federal laws to:

– improve Russian legislation with respect to specifying eligibility requirements for executives and founders (members) of credit institutions, empowering the Bank of Russia to monitor these persons' eligibility according to the established requirements, to collect information on their business reputation, to maintain the appropriate databases, and to reduce the range of bank branch executives who have to be approved by the Bank of Russia;
– reduce from 20% to 10% the minimum percentage of acquired shares (stakes) in credit institutions that would require Bank of Russia approval;
– ensure control over large buyers of shares (stakes) in credit institutions and specify requirements for the executives and founders of credit institutions;
– establish by law a new type of a bank deposit that cannot be prematurely withdrawn in full or in part or is certified by a savings (deposit) certificate that cannot be prematurely presented for payment;
– forbid foreign banks from opening branches;
– exclude of the "reciprocity principle", in line with Russia's commitments concerning its membership in international organisations;
– cancel the prohibition preventing bank founders from leaving the bank membership within the first three years;
– oblige credit institutions to make the information on the professional qualifications and expertise of their executives publicly available.

In 2013, the Bank of Russia plans to complete the drafting of its Ordinance "On Amending Bank of Russia Instruction No. 135-I, Dated April 2, 2010, on the Bank of Russia Decision-Making Procedure for the State Registration of Credit Institutions and the Licensing of Banking Operations". The above draft includes amendments related to the following:

– the verification of information regarding the availability (absence) of a criminal record among candidates for bank executive positions;
– the requirement that education certificates received abroad by candidates for bank executive positions be confirmed;
– the establishment of a provision that deems that the verification of sources of funds paid for stock (shares) of a credit institution is unnecessary when its authorised capital is increased solely on the account of the bank property;
– the procedure for filing bank charters (changes to the charters) with the Federal Tax Service of the Russian Federation (FTS) in the course of registering credit institutions with the state (amending the charter) and for the return by the FTS of said charters (changes to the charters) with notes of registration to the credit institutions that file them;
– reconciling the provisions of Bank of Russia Instruction No. 135-I, dated April 2, 2010, and Bank of Russia Regulation No. 337-P, dated June 19, 2009, "On the Procedure and Criteria for Assessing the Financial Situation of Legal Entities Which are Founders (Members) of a Credit Institution", concerning credit ratings assigned by rating agencies;
– permitting credit institutions (branches) to house additional offices in quickly-erected constructions, including modular buildings, which do not qualify as immovable property.

Additionally, this draft regulation includes changes related to the implementation of Federal Law No. 282-FZ, dated December 29, 2012, "On Amending Some Russian Laws and Invalidating Certain Provisions in Russian Laws" (hereinafter referred to as Federal Law No. 282-FZ). In particular, Federal Law No. 282-FZ amends the Federal Law "On Banks and Banking Activities" and the Law "On the Central Bank of the Russian Federation (Bank of Russia)". It eliminates the requirement that a notification be filed by a party that acquires more than 1% of stock (shares) of a credit institution when the latter is founded. It also mandates that the Bank of Russia must grant prior and subsequent approval (in cases stipulated by the Federal Law "On Banks and Banking Activities") when more than 20% of a credit institution's stock (shares) is acquired, and/or when a company or an individual (group) establishes direct or indirect (through third parties) control over the shareholders (members) of a credit institution who own more than 20% of the stock (shares) in that credit institution.

In 2013, a new version of Bank of Russia Ordinance No. 1548-U of February 7, 2005, "On the Procedure for Opening (Closing) and Managing a Mobile Banking (Branch) Vehicles" is expected to be published, which will provide for:

– expanding customer service points where mobile banking vehicles (MBV) can operate;
– adjusting a list of operations with foreign exchange and cheques, in line with Bank of Russia Instruction

No. 136-I, dated September 16, 2010, "On the Procedure for Authorised Banks (Branches) Conducting Some Types of Banking Operations with Foreign Exchange and Cheques, Including Traveller's Cheques, Denominated in Foreign Currency, with the Participation of Individuals";
- prohibiting MBVs from exclusively engaging in the sale/purchase of foreign cash.

A number of amendments will be introduced to Bank of Russia regulations due to the development and launching of the "The Registration and Licensing of Bank Activities" module in the "Digital Collection of Bank Legal Files" system.

III.10.2. Banking regulation

In 2013, the Bank of Russia will continue to implement Basel III:
- following the assessment of the impact of new rules for calculating the capital amount and capital adequacy ratio of credit institutions which were established by Bank of Russia Regulation No. 395-P, dated December 28, 2012, "On the Methodology for Calculating the Amount and Assessing the Adequacy of Bank Capital (Basel III)", the Bank of Russia will publish a regulation concerning the application of these rules for prudential purposes. It is expected that the regulatory act will come into effect starting with reporting as of October 1, 2013;
- the Bank of Russia will monitor the level and components of the leverage indicator in correlation with existing regulatory requirements concerning the calculation of the bank capital adequacy ratio. Mandatory public disclosure of the financial leverage indicator by credit institutions is expected as of January 1, 2015. For prudential purposes, the leverage indicator will be used since January 1, 2018;
- within the framework of implementing new liquidity standards according to Basel III, the Bank of Russia will develop in 2013 a procedure for calculating liquidity indicators, in line with revisions to the BCBS document approved by central bank governors and head supervisors in early 2013.

In 2013, the Bank of Russia will also continue its efforts on:

1. Improving approaches to consolidated supervision, for which the Bank of Russia plans to publish a regulation that would establish procedures for calculating capital and required ratios at the level of a (consolidated) group of banks with an account of Basel III provisions.

2. Implementing the provisions of Basel II Pillar 2 (Supervisory Review Process) and Pillar 3 (Market Discipline) in Russian banking.

With respect to Pillar 2 (Supervisory Review Process), the Bank of Russia will start preparing a regulatory framework providing a methodology for the supervision of bank capital adequacy, including methods of assessing bank internal procedures for monitoring the capital adequacy and its use in evaluating the economic position of banks.

After the Bank of Russia is delegated the authority to define risk and capital management standards for credit institutions and banking groups and to require banks to develop and implement internal procedures for assessing their capital adequacy, it plans to republish a revised version of its 2011 recommendations concerning minimal standards for internal capital adequacy assessment as a Bank of Russia regulation. These requirements will be applied by the Bank of Russia on a gradual basis, beginning with the largest credit institutions, so that all the credit institutions implement these procedures by 2017.

With respect to Pillar 3 (Market Discipline), the Bank of Russia intends to publish methodological recommendations on the disclosure by credit institutions of assumed risks, procedures for risk management, and capital adequacy. Similar to implementation of Basel II Pillar 2, these recommendations will be republished as a regulation after the Bank of Russia is assigned the authority to oblige credit institutions to disclose information on their exposures, risk assessment procedures, and capital adequacy.

3. Defining approaches to the regulation and supervision of domestic systemically important banks (D-SIBs), in line with the BCBS document "A Framework for Dealing with Domestic Systemically Important Banks" (October 2012).

The Bank of Russia plans to develop the criteria for identifying credit institutions as D-SIBs. In developing such criteria along the lines recommended by the BCBS, the Bank of Russia will proceed from the assumption that the systemic importance of a bank should be determined based on the consolidated impact that the failure of such a bank can have on the domestic economy.

The development of rules for the operation of D-SIBs will be based on decisions made by the G20 leaders; however, considering that the BCBS work on a number of D-SIB supervision aspects is not yet finalised, the Bank of Russia regulatory framework in this area will be developed gradually, following the publication of finalised versions of appropriate BCBS documents.

As part of implementing the Russian Banking Sector Development Strategy until 2015, the Bank of Russia will continue its work on the draft Federal Law "On Amending the Federal Law on the Insurance of Household Deposits with Russian Banks" that aims to establish uniform supervisory requirements for assessing bank sustainability and requirements for participation in the deposit insurance system, based on international supervisory and enforcement principles.

III.10.3. Off-site supervision

In 2013, the banking supervisory activities will focus on the following key areas:
- the further development of risk-based supervisory practices, including the consolidated supervision of banking groups and other groups of financial market participants;
- particular attention within the "second line" of super-

vision will be paid to systemically important banks, in line with internationally-recognised approaches to their identification and assessment of risk profiles, as established in the IFRS and in BCBS documents;
- increased focus will be given to bank capital quality;
- enhanced control is planned over Russian banks' cross-border operations, the accuracy of the reporting on their nature and counterparties in transactions under examination;
- the evaluation of bank asset quality will continue, as well as the verification of adequate representation of their fair value in banks balance sheets;
- priority will be given to establishing the final beneficiaries of credit institutions that have non-transparent ownership structures; determining owner-related credit risks; and when necessary – developing and approving action plans for decreasing levels of concentration of bank owner-related risks;
- the Bank of Russia will continue improving methods of and approaches to off-site supervision related to bank internal structural divisions and enhancing cooperation between the Bank of Russia regional branches in this area;
- special importance will be attached to expanding cooperation with foreign banking and financial supervisors, in line with existing international cooperation agreements and to developing the supervisory activities of international colleges with respect to Russian banking groups;
- in terms of expanding off-site supervisory tools, it will be relevant to develop a skilled assessment of the market value of bank assets, including a revaluation of property incorporated in capital calculation, as well as collateral that secures loans.

Further efforts will be made to improve macro-prudential analysis, based on the calculation and publication (jointly with the IMF) of financial stability indicators, and to assess systemic risks through stress testing. Within the framework of developing its stress-testing methodology for the Russian banking sector, the Bank of Russia will actively use the approaches that have been recommended by international organisations (the IMF, BCBS, etc.). In defining stress-testing parameters, the Bank of Russia will expand its list of sources for analysis to consider the opinions of investors when building scenarios (in particular, consider the negative scenarios of rating agencies, investment banks, market analysts, etc.). Additionally, hypothetical scenarios will be examined (the present scenarios are mostly based on historical data, in particular, most shocks are extracted from the real events of the 2008–2009 crisis).

III.10.4. On-site inspection

The main priorities of the Bank of Russia inspection policy in 2013 will be as follows:
- improving the quality of bank inspections by monitoring ongoing inspections, enhancing interaction between Bank of Russia regional branches and inspectorates and supervisory units at the Bank of Russia head office, and monitoring pre-inspection preparations;
- preparing for the fourth (final) stage of centralising the Bank of Russia inspection activities, which will extend the centralisation principle to inspectorates in Moscow and the Moscow Region;
- enhancing the quality control of inspection activity by developing a vertically integrated internal control service;
- improving information and analytical tools for inspection activities by implementing advanced IT technologies and new specialised solutions and by fully utilising the capabilities of the data analysis systems that exist at the Bank of Russia, federal ministries, and governmental agencies. In particular, the Bank of Russia plans to further develop IT tools for assessing consumer loan portfolios.

To improve uniform approaches and standards related to inspections, the Bank of Russia will draft revised versions of appropriate regulations in 2013.

Special importance will be attached to the continued practice of simultaneous inspections of both bank head offices and branches, as well as of credit institutions that are members of banking groups (bank holding companies). Consolidated inspections provide an opportunity to assess the risks of credit institutions that are members of banking groups (bank holding companies) on a consolidated basis. Simultaneous inspections of both head offices and branches improve the accuracy of assessments of bank financial soundness.

III.10.5. Bank financial rehabilitation

Taking positive experience into account with respect to the application of Federal Law No. 175-FZ, dated October 27, 2008, “On Additional Measures to Strengthen the Stability of the Banking System until December 31, 2014”, the Bank of Russia will continue its work in 2013 on drafting the Federal Law “On Amending Federal Law No. 175-FZ, Dated October 27, 2008, on Additional Measures to Strengthen the Stability of the Banking System until December 31, 2014” to change the status of this Federal Law to a permanent one.

The adoption of the envisioned amendments, which would make the Agency perform its functions of financially rehabilitating credit institutions on a permanent basis rather than only during the financial crisis, will become an important element in the overall efforts to maintain the soundness of the banking system and the public trust in it. It will allow for banking businesses to be rescued, reduce the financial burden on the deposit insurance system, streamline liquidation procedures, and improve the protection of lenders.

Continuing its application of core recommendations of the Financial Stability Board regarding the efficient rehabilitation/liquidation of financial institutions, the Bank of Russia, pursuant to the approved plan for implementing the Key Attributes of Effective Resolution Regimes for Financial Institutions, intends to undertake the following:

– determine key issues that require amendments to Russian legislation and Bank of Russia regulations to establish the requirements for systemically important credit institutions to develop and regularly update financial rehabilitation plans, as well as to authorise the Bank of Russia to monitor the development of financial rehabilitation plans and their submission to the Bank of Russia;
– assess the possibilities and forms of introducing in Russia new tools for resolving bank insolvency (bankruptcy) that are not currently in use nor provided for in current legislation (bridge banks, “bail-in” mechanisms, imposing a moratorium on payments to some lenders, etc.).

III.10.6. Control over bank liquidation

As a part of implementing the Russian Banking Sector Development Strategy until 2015, the Bank of Russia will continue its work in 2013 on drafting the Federal Law “On Amending the Russian Federation Criminal Code and Other Legislative Acts of the Russian Federation”.

This draft Federal Law establishes the criminal liability of bank officers for including incomplete or false information (fraudulent representation) in bank books, statements, and other reporting documents to conceal material information about the bank actual financial standing, and for reporting such false information to the Bank of Russia, or for publishing it, or for disclosing it in cases stipulated by federal banking laws.

Proposed amendments to Russian criminal legislation aim to prevent the concealment of information about the real financial standing of credit institutions, to eliminate bank fraudulent reporting practices, and to enhance the protection of rights and the lawful interests of bank customers.

III.10.7. Countering the legalisation (laundering) of criminally obtained incomes and the financing of terrorism

In 2013, Bank of Russia AML/CFT activities will take into account new international approaches set out in revised “International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation - FATF Recommendations”[1] and the required preparations of the Russian Federation for the fourth round of AML/CFT mutual evaluations.

The key task faced by the Bank of Russia and its regional branches in 2013 is to ensure the efficient implementation of a risk-based approach to AML/CFT among credit institutions, including the risk minimisation of bank involvement in money laundering and terrorism financing.

In 2013, the Bank of Russia will continue its efforts on refining the list of transactions subject to mandatory control; improving risk-based identification procedures with regard to customers, customer agents, and beneficiaries; expanding grounds for banks to refuse to open accounts or perform operations which are ordered by their customers; and on empowering credit institutions to repudiate bank deposit contracts.

Additionally, the Bank of Russia activities in 2013 will include the objectives and functions defined in the process of reforming financial market regulation and establishing a single regulator on the basis of the Bank of Russia.

III.10.8. Improving the Central Catalogue of Credit Histories

In 2013, the Bank of Russia will continue its efforts to improve the efficiency of the CCCH and credit history bureaus and to expand the functionality of the CCCH automated system.

To improve the legal regulation of activities required to create credit histories, the Bank of Russia (in compliance with Point 9 of the Russian Banking Sector Development Strategy until 2015) will continue its participation in drafting the Law “On Amending the Federal Law on Credit Histories” (hereinafter referred to as the draft Law) as follows:

– to oblige credit history sources to supply credit history bureaus with information on all individuals who have received loans of amounts totalling less than one million roubles without their consent;
– to include organisations that acquire the rights of claim on loan agreements (credit contracts) and organisations entitled to collect debt by court ruling into the definition of credit history sources;
– to oblige credit history sources to correct wrong information in credit histories within a set period of time at the request of the credit history maker;
– to include loan guarantors in the definition of credit history makers;
– to specify a procedure for transferring credit histories in the event of transfers of claims on loan agreements (credit contracts) or for other reasons;
– to ensure that credit history bureaus only file credit histories if a bank supplies them with information on the liabilities of a credit history maker.

In 2013, the Bank of Russia also plans to continue improving the functionality of the CCCH automated system to refine the database search for credit history makers, accelerate data processing, and expand the possibilities of data analysis.

[1] The revised FATF Recommendations were adopted in February 2012.

III.11. Bank of Russia Supervisors

The Bank of Russia supervisory divisions employ 4,468 executives and specialists, of whom 30.2% work at the head office, and 69.8% are engaged in the regional branches. The vast majority of specialists (98.2%) has a higher education, are aged between 30 and 50 years (62.2%), and have worked in the banking system for more than three years (93.8%).

The Bank of Russia pays close attention to improving the skills of its supervisors. In 2012, 1,635 Bank of Russia employees participated in 130 training sessions on most topical subjects of banking regulation, licensing and inspection, the supervision of credit institutions and their financial recovery, as well as financial monitoring and foreign exchange control. Trainings were organised in accordance with the Bank of Russia Vocational Training Plan and contracts for the provision of educational/consulting services which were signed with universities and other organisations.

In 2012, 42 staff members of supervisory divisions completed professional training programmes exceeding 500 academic hours on topics such as “Provisional Administration Head – Bank Manager” and “Financial Recovery Advisor for Credit Institutions”, whose development was ordered by the Bank of Russia. Two new training programs were introduced: “Commercial Bank Curator – Bank Manager” and “Commercial Bank Inspector – Bank Manager”.

To acquire additional skills in the area of assessing the credit risk and financial soundness of companies acting as bank counterparties, six training sessions were organised for 106 supervisors on the issue of reconciling Russian accounting standards with the IFRS. A specialised advanced course on individual international standards and their application was attended by 39 trainees.

Eleven short-term training sessions were arranged for 68 supervisors by outsourcing organisations under contracts for educational/consulting services. The most relevant topics included: “International Settlements and Foreign Currency Operations”, “Accounting for Operations with Financial Instruments”, “Countering the Misuse of Insider Information and Market Manipulation”, and “International Experience of Using Electronic Money and Its Application in Russia”.

During the reporting year, 221 staff members took courses on “Bank Financial Standing Analysis” and “Bank Correspondent Account Analysis” with the PROGNOZ business intelligence solution, and 107 specialists completed their training in the course “Inspector Workstation Installation, Setup, Administration and Maintenance”.

Short-term skills improvement programmes for the supervisory staff of regional branches were carried out in accordance with the Bank of Russia Vocational Training Plan by the most experienced specialists of the Bank of Russia and its training units, by university lecturers, and by experts from other organisations and government agencies. A total of 28 short-term training sessions were organised in 2012 for 705 employees.

Within the framework of sharing international experience in the area of banking supervision through the Russian-language version of the FSI Connect solution developed by the BIS Financial Stability Institute (Basel, Switzerland), 151 Bank of Russia staff members successfully participated in distance learning courses and received the appropriate certificates.

In addition to planned centralised training programmes, the Bank of Russia schools (colleges) organised 13 training events for 172 specialists at the request of regional branches and tailored these events to their demands.

In the framework of international cooperation, there were ten training events in Russia and 31 abroad, which were attended by 160 supervisors. During study visits, the trainees learned, in particular, about conducting banking supervision in accordance with Basel II and Basel III; the latest trends in the regulation and supervision of systemically significant banks; the financial market infrastructure; AML/CFT measures; etc.

Bank of Russia supervisors also participated in a number of international events that were organised in Russia jointly with the Federal Financial Supervisory Authority of Germany (BaFin), the German Bundesbank, the Financial Services Volunteer Corps (USA), the Agency for the Exchange of Financial Technology (Luxemburg), and the Central Bank of Montenegro, as well as in several international seminars under the Vocational Training Programme for employees of the Eurasian Economic Community’s central (national) banks.

Annexes

IV

IV.1. Monitoring Banking Sector Stability

The monitoring of liquidity risk, risks of lending to non-financial organisations and households, capital adequacy, market risk and a number of other risks was performed in 2012 to identify at an early stage negative trends in the banking sector, including individual banks whose transactions make decisive contribution to these trends.

To improve monitoring quality, and in line with recommendations of international organisations and the experience of regulators and central banks in assessing banking sector stability, the so-called risk map was employed. It permits to systematise the existing assessments of banking sector risks, prioritise external and internal risk drivers, and visualise their trends.

The risk map is build on the basis of quarterly analyses of the groups of indicators that shape the main vectors of risks characterising the macroeconomy, credit risk, market risk and external risks, capital adequacy, bank profitability, and liquidity risk.

The overall level of risks during 2012 remained moderate (as of January 2013, the financial stability indicator calculated with the risk map exceeded 70%; it was at its lowest level of 56% in the first quarter of 2009). At the same time, the analysis shows changes in the banking sector risks structure in 2012.

Thus, external risks decreased due to somewhat weakened tension on the eurozone debt markets by the end of 2012, including credit risks (that was reflected in the CDS changed value on European sovereign bonds and on the debt obligations of European banks). Market risks also decreased against the backdrop of positive dynamics on Russian debt securities and stock markets.

At the same time, decreased capital adequacy remains the main growth driver for systemic risks in the banking sector. In addition, amid structural liquidity deficit, Bank of Russia refinancing operations played an important role in constraining the respective risks.

IV.2. Banking Sector Clustering

As in previous years, the clustering of credit institutions is used to analyse banking sector stability, with banks grouped into the following six clusters:

— state-controlled banks;

—foreign-controlled banks;

— large private banks;

— small and medium-sized banks based in Moscow and the Moscow Region;

— small and medium-sized regional banks;

— non-bank credit institutions.

In this Report, for the first time a sub-group of banks under the material influence of Russian residents is identified within the group of foreign-controlled banks.

The clustering allowed scrutinising the transactions and risks of various groups of banks and assessing the structure of different segments of the banking services market and potential for negative developments in these segments.

No substantial changes were reported in the banking sector cluster structure in 2012 *(see Table 4.1).*

State-controlled banks slightly increased their share of total assets, from 50.2% to 50.4%, while their share of total capital went down from 50.8% to 48.2%.

Foreign-controlled bank share of total banking assets rose from 16.9% to 17.8%, and their share of total capital went up from 17.6% to 19.2%. Meanwhile, the share of non-resident subsidiaries under the material influence of Russian residents in total banking sector assets expanded by 1.7 percentage points (from 4.2% to 5.9%), and in total capital – by 1.5 percentage points (from 3.9% to 5.4%).

Large private banks lowered their share of total banking sector assets from 27.5% to 26.6%; their share of total capital, however, increased from 24.9% to 26.1%.

The most numerous groups were small and medium-sized banks based in Moscow and the Moscow Region and small and medium-sized regional banks. Their total share of banking sector assets went down in 2012 from 5.0% to 4.9% and their share of capital decreased from 6.5% to 6.3%.

Indicators of bank groups*

TABLE 4.1

Bank group	No. of credit institutions		% share of total banking sector assets		% share of total banking sector capital	
	01.01.2012	01.01.2013	01.01.2012	01.01.2013	01.01.2012	01.01.2013
State-controlled banks	26	25	50.2	50.4	50.8	48.2
Foreign-controlled banks	108	112	16.9	17.8	17.6	19.2
of which: banks under the material influence of Russian residents	21	25	4.2	5.9	3.9	5.4
Large private banks	132	128	27.5	26.6	24.9	26.1
Small and medium-sized banks based in Moscow and the Moscow Region	301	291	2.5	2.4	3.4	3.3
Small and medium-sized regional banks	355	341	2.5	2.4	3.1	3.0
Non-bank credit institutions	56	59	0.4	0.3	0.2	0.2
Total	978	956	100	100	100	100

** The criteria for clustering credit institutions and the relevant indicators are used in this Report for analysis only.*

IV.3. Statistical Appendix

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

TABLE 1

	2006	2007	2008	2009	2010	2011	2012
GDP, billions of roubles[6]	26,917.2	33,247.5	41,276.8	38,807.2	46,308.5	55,799.6	62,599.1
GDP growth rate	108.2	108.5	105.2	92.2	104.5	104.3	103.4
Federal budget surplus (+)/deficit (–), as % of GDP	7.4	5.4	4.1	–6.0	–3.9	0.8	–0.1
Industrial output index	106.3	106.8	100.6	90.7	108.2	104.7	102.6
Agricultural output	103.0	103.3	110.8	101.4	88.7	123.0	95.3
Retail trade turnover	114.1	116.1	113.7	94.9	106.4	107.0	105.9
Fixed capital investment	116.7	122.7	109.9	84.3	106.0	110.8	106.6
Household real disposable money income	113.5	112.1	102.4	103.0	105.9	100.4	104.2
Unemployment rate, as % of economically active population (average for period)	7.0	6.0	6.2	8.2	7.3	6.5	5.5
Consumer price index(December as % of previous December)	109.0	111.9	113.3	108.8	108.8	106.1	106.6
Average nominal US dollar/rouble rate over period	27.18	25.57	24.81	31.68	30.36	29.35	31.07

[1] *In current prices.*

Russian banking sector macroeconomic indicators

TABLE 2

	01.01.2009	01.01.2010	01.01.2011	01.01.2012	01.01.2013
Banking sector assets (liabilities), billions of roubles	28,022.3	29,430.0	33,804.6	41,627.5	49,509.6
as % of GDP	67.9	75.8	73.0	74.6	79.1
Banking sector capital, billions of roubles	3,811.1	4,620.6	4,732.3	5,242.1	6,112.9
as % of GDP	9.2	11.9	10.2	9.4	9.8
as % of banking sector assets	13.6	15.7	14.0	12.6	12.3
Loans and other funds provided to non-financial organisations and households, including overdue debt, billions of roubles	16,526.9	16,115.5	18,147.7	23,266.2	27,708.5
as % of GDP	40.0	41.5	39.2	41.7	44.3
as % of banking sector assets	59.0	54.8	53.7	55.9	56.0
Securities acquired by banks, billions of roubles	2,365.2	4,309.4	5,829.0	6,211.7	7,034.9
as % of GDP	5.7	11.1	12.6	11.1	11.2
as % of banking sector assets	8.4	14.6	17.2	14.9	14.2
Household deposits, billions of roubles	5,907.0	7,485.0	9,818.0	11,871.4	14,251.0
as % of GDP	14.3	19.3	21.2	21.3	22.8
as % of banking sector liabilities	21.1	25.4	29.0	28.5	28.8
as % of household income	23.4	26.1	30.6	33.7	36.5
Funds raised from organisations, billions of roubles[1]	8,774.6	9,557.2	11,126.9	13,995.7	15,648.2
as % of GDP	21.3	24.6	24.0	25.1	25.0
as % of banking sector liabilities	31.3	32.5	32.9	33.6	31.6

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

The registration and licensing of credit institutions as of January 1, 2013

TABLE 3

Registration of credit institutions	
1. Credit institutions[1] registered by the Bank of Russia or the registration authority, in line with decisions made by the Bank of Russia, total[2]	**1,094**
of which: – banks	1,027
– non-bank credit institutions	67
1.1. Registered wholly foreign-owned credit institutions	73
1.2. Credit institutions that have been registered by the Bank of Russia but have not yet paid authorised capital and have not received a licence (within the time period established by law)	1
of which: – banks	0
– non-bank credit institutions	1
Operating credit institutions	
2. Credit institutions licensed to conduct banking operations, total[3]	**956**
of which: – banks	897
– non-bank credit institutions	59
2.1. Credit institutions holding licences (permits):	
– to take household deposits	784
– to conduct operations in foreign currencies	648
– general licences	270
– to conduct operations with precious metals	211
2.2. Credit institutions with a foreign stake in authorised capital, total	244
of which: – wholly foreign-owned credit institutions	73
– credit institutions with a 50%-plus foreign stake	44
2.3. Credit institutions registered with the deposit insurance system[4]	793
3. Registered authorised capital of operating credit institutions, millions of roubles	**1,341,425**
4. Branches of operating credit institutions in Russia, total	**2,349**
of which: – Sberbank branches[5]	239
– branches of wholly foreign-owned credit institutions	136
5. Branches of operating credit institutions abroad, total[6]	**6**
6. Branches of non-resident banks in Russia	**0**
7. Representative offices of Russian operating credit institutions, total[7]	**415**
of which: – in Russia	375
– in non-CIS countries	28
– in CIS countries	12
8. Additional offices of credit institutions (branches), total	**23,347**
of which: – Sberbank additional offices	10,923
9. External cash desks of credit institutions (branches), total	**9,685**
of which: – Sberbank cash desks	6,724

END 3

This information includes data received from the registration authority as of the reporting date.	
10. Cash and credit offices of credit institutions (branches), total	**2,161**
of which: – Sberbank cash and credit offices	0
11. Operations offices of credit institutions (branches), total	**7,447**
of which: – Sberbank cash and credit offices	670
12. Mobile banking vehicles of credit institutions (branches), total	**118**
of which: – Sberbank mobile banking vehicles	113
Licence revocation and liquidation of corporate entities	
13. Credit institutions that had their banking licences revoked (cancelled) but have not been struck off the state register[8]	**137**
14. Liquidated credit institutions struck off the state register, total[9]	**2,055**
of which: – liquidated due to licence revocation (cancellation)	1,594
– liquidated due to reorganisation	460
of which: – by merger	2
– by acquisition	458
of which:	
– by being transformed into other banks' branches	377
– by being merged with other banks (without setting up a branch)	81
– liquidated due to an infraction of law in respect of the payment of authorised capital	1

[1] The term "credit institution" in this Table denotes one of the following:

— a corporate entity registered by the Bank of Russia (prior to July 1, 2002) or the registration authority and having the right to conduct banking operations;

— a corporate entity registered by the Bank of Russia (prior to July 1, 2002) or registration authority, which had but lost the right to conduct banking operations.

[2] 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.

[3] Credit institutions registered by the Bank of Russia (prior to July 1, 2002) or the registration authority and holding the right to conduct banking operations.

[4] Based on data provided to the Bank of Russia by the Deposit Insurance Agency as of the reporting date.

[5] Sberbank branches put on the state register of credit institutions and assigned a serial number. Before January 1, 1998, monthly data on credit institutions in this line indicated the total number of Sberbank establishments (34,426).

[6] Branches opened by Russian credit institutions abroad.

[7] Representative offices of Russian credit institutions abroad include the offices of whose opening abroad the Bank of Russia has been notified.

[8] Total credit institutions that had their banking licences revoked (cancelled) by the Bank of Russia, including liquidated credit institutions struck off the state register: 1,731.

[9] After July 1, 2002, the liquidated credit institution is struck off the state register as a corporate entity only after its liquidation has been registered by the registration authority.

Credit institutions by form of incorporation

TABLE 4

	01.01.2012		01.01.2013	
	Number	% share	number	% share
Operating credit institutions licensed to conduct banking operations, total	**978**	**100**	**956**	**100**
of which: – joint-stock companies	645	65.95	634	66.32
of which: – closed joint-stock companies	261	26.69	254	26.57
– open joint-stock companies	384	39.26	380	39.75
– limited liability companies	333	34.05	322	33.68

Number of credit institutions and their branches by region as of January 1, 2013

TABLE 5

	Number of credit institutions in region	Number of branches in region		
		total	credit institutions with head office in given region	credit institutions with head office in another region
Total for the Russian Federation	**956**	**2349**	**403**	**1946**
CENTRAL FEDERAL DISTRICT	**564**	**458**	**102**	**356**
Belgorod Region	5	12	1	11
Bryansk Region	0	13	0	13
Vladimir Region	3	18	0	18
Voronezh Region	3	31	0	31
Ivanovo Region	6	14	0	14
Kaluga Region	4	13	0	13
Kostroma Region	5	9	0	9
Kursk Region	2	11	0	11
Lipetsk Region	2	13	1	12
Moscow Region	12	70	2	68
Orel Region	1	15	0	15
Ryazan Region	4	14	0	14
Smolensk Region	4	15	6	9
Tambov Region	1	6	0	6
Tver Region	6	14	1	13
Tula Region	5	15	1	14
Yaroslavl Region	7	28	2	26
Moscow	494	147	20	127
Moscow and the Moscow Region (for reference)	*506*	*217*	*90*	*127*
NORTH-WESTERN FEDERAL DISTRICT	**70**	**311**	**9**	**302**
Republic of Karelia	1	14	2	12
Komi Republic	2	24	2	22
Arkhangelsk Region	2	27	0	27
of which: Nenets Autonomous Area	0	1	0	1
Vologda Region	10	17	4	13
Kaliningrad Region	3	27	1	26
Leningrad Region	5	13	0	13
Murmansk Region	3	16	0	16
Novgorod Region	2	10	0	10
Pskov Region	3	6	0	6
St Petersburg	39	157	0	157
SOUTHERN FEDERAL DISTRICT	**46**	**249**	**17**	**232**
Republic of Adygeya (Adygeya)	4	5	1	4
Republic of Kalmykia	2	3	0	3
Krasnodar Territory	15	80	1	79
Astrakhan Region	5	21	4	17
Volgograd Region	4	43	0	43
Rostov Region	16	97	11	86
NORTH-CAUCASIAN FEDERAL DISTRICT	**50**	**169**	**82**	**87**
Republic of Daghestan	27	85	69	16
Republic of Ingushetia	2	8	1	7
Kabardino-Balkaria Republic	5	13	3	10
Karachai-Cherkess Republic	5	4	0	4
Republic of North Ossetia – Alaniya	5	11	4	7
Chechen Republic	0	6	0	6
Stavropol Territory	6	42	5	37

END 5

	Number of credit institutions in region	Number of branches in region		
		total	credit institutions with head office in given region	credit institutions with head office in another region
VOLGA FEDERAL DISTRICT	**106**	**518**	**85**	**433**
Republic of Bashkortostan	11	36	0	36
Republic of Mari El	2	16	4	12
Republic of Mordovia	4	8	1	7
Republic of Tatarstan (Tatarstan)	23	89	50	39
Udmurt Republic	2	22	0	22
Chuvash Republic – Chuvashia	4	16	0	16
Perm Territory	5	57	0	57
Kirov Region	3	18	0	18
Nizhny Novgorod Region	11	97	6	91
Orenburg Region	8	19	0	19
Penza Region	1	17	0	17
Samara Region	20	60	6	54
Saratov Region	9	48	16	32
Ulyanovsk Region	3	15	2	13
URALS FEDERAL DISTRICT	**44**	**254**	**80**	**174**
Kurgan Region	3	9	0	9
Sverdlovsk Region	16	70	4	66
Tyumen Region	16	98	38	60
of which: Khanty-Mansi Autonomous Area – Yugra	9	28	6	22
Yamalo-Nenets Autonomous Area	0	19	0	19
Chelyabinsk Region	9	77	38	39
SIBERIAN FEDERAL DISTRICT	**53**	**269**	**21**	**248**
Republic of Altai	3	6	1	5
Republic of Buryatiya	1	12	2	10
Republic of Tyva	1	3	0	3
Republic of Khakassia	2	4	0	4
Altai Territory	7	21	5	16
Trans-Baikal Territory	0	8	0	8
Krasnoyarsk Territory	5	46	1	45
Irkutsk Region	8	33	4	29
Kemerovo Region	9	20	0	20
Novosibirsk Region	9	62	0	62
Omsk Region	6	30	0	30
Tomsk Region	2	24	8	16
FAR EASTERN FEDERAL DISTRICT	**23**	**121**	**7**	**114**
Republic of Sakha (Yakutia)	4	27	0	27
Kamchatka Territory	3	9	3	6
Primorsky Territory	6	24	2	22
Khabarovsk Territory	3	30	0	30
Amur Region	2	6	0	6
Magadan Region	0	8	0	8
Sakhalin Region	5	9	2	7
Jewish Autonomous Region	0	4	0	4
Chukchee Autonomous Area	0	4	0	4

Notes.
1. The number of credit institutions indicated for St Petersburg and the Leningrad Region (column 2) and their branches (column 3) pertains to credit institutions and their branches registered by the Bank of Russia regional branch for St Petersburg and the Bank of Russia regional branch for the Leningrad Region respectively.
2. In line "Moscow and the Moscow Region", figures in column 4 and 5 indicate the number of branches whose parent credit institution is located in the given region (Moscow and the Moscow Region) and in other regions.

TABLE 6

Credit institutions grouped by registered authorised capital as of January 1, 2013

	Up to 3 mln roubles	3 mln to 10 mln roubles	10 mln to 30 mln roubles	30 mln to 60 mln roubles	60 mln to 150 mln roubles	150 mln to 300 mln roubles	300 mln to 500 mln roubles	500 mln to 1 bln roubles	1 bln to 10 bln roubles	10 bln roubles and over	Total
Total for the Russian Federation	**15**	**15**	**41**	**46**	**168**	**276**	**95**	**123**	**154**	**23**	**956**
CENTRAL FEDERAL DISTRICT	**4**	**8**	**25**	**25**	**80**	**155**	**50**	**86**	**111**	**20**	**564**
Belgorod Region	0	0	0	0	1	1	2	1	0	0	5
Bryansk Region	0	0	0	0	0	0	0	0	0	0	0
Vladimir Region	0	0	0	0	1	2	0	0	0	0	3
Voronezh Region	0	0	0	1	1	0	1	0	0	0	3
Ivanovo Region	0	0	0	0	4	2	0	0	0	0	6
Kaluga Region	0	0	0	1	1	2	0	0	0	0	4
Kostroma Region	0	0	0	0	1	2	1	0	1	0	5
Kursk Region	0	0	1	0	1	0	0	0	0	0	2
Lipetsk Region	0	0	0	0	0	1	0	1	0	0	2
Moscow Region	0	1	0	0	1	4	1	3	2	0	12
Orel Region	0	0	0	0	0	0	1	0	0	0	1
Ryazan Region	0	0	0	3	0	1	0	0	0	0	4
Smolensk Region	0	0	0	0	2	0	1	0	1	0	4
Tambov Region	0	0	0	0	1	0	0	0	0	0	1
Tver Region	0	0	0	1	3	2	0	0	0	0	6
Tula Region	0	0	1	0	1	3	0	0	0	0	5
Yaroslavl Region	0	0	1	2	1	2	0	0	1	0	7
Moscow	4	7	22	17	61	133	43	81	106	20	494
Moscow and the Moscow Region (for reference)	4	8	22	17	62	137	44	84	108	20	506
NORTH-WESTERN FEDERAL DISTRICT	**3**	**3**	**4**	**7**	**14**	**19**	**3**	**10**	**7**	**0**	**70**
Republic of Karelia	0	0	0	0	1	0	0	0	0	0	1
Komi Republic	0	0	0	2	0	0	0	0	0	0	2
Arkhangelsk Region	0	0	1	0	0	1	0	0	0	0	2
of which: Nenets Autonomous Area	0	0	0	0	0	0	0	0	0	0	0
Vologda Region	0	0	1	0	4	3	0	2	0	0	10
Kaliningrad Region	0	0	0	0	0	2	0	0	1	0	3
Leningrad Region	0	0	1	0	0	3	0	1	0	0	5
Murmansk Region	1	0	0	0	0	1	0	1	0	0	3
Novgorod Region	0	1	0	0	0	1	0	0	0	0	2
Pskov Region	0	0	0	0	2	1	0	0	0	0	3
St Petersburg	2	2	1	5	7	7	3	6	6	0	39

CONT. 6

	Up to 3 mln roubles	3 mln to 10 mln roubles	10 mln to 30 mln roubles	30 mln to 60 mln roubles	60 mln to 150 mln roubles	150 mln to 300 mln roubles	300 mln to 500 mln roubles	500 mln to 1 bln roubles	1 bln to 10 bln roubles	10 bln roubles and over	Total
SOUTHERN FEDERAL DISTRICT	**1**	**1**	**3**	**1**	**10**	**20**	**6**	**3**	**1**	**0**	**46**
Republic of Adygeya (Adygeya)	0	0	2	0	0	2	0	0	0	0	4
Republic of Kalmykia	0	0	0	0	2	0	0	0	0	0	2
Krasnodar Territory	0	0	1	0	4	5	3	1	1	0	15
Astrakhan Region	1	1	0	0	0	2	1	0	0	0	5
Volgograd Region	0	0	0	0	0	4	0	0	0	0	4
Rostov Region	0	0	0	1	4	7	2	2	0	0	16
NORTH-CAUCASIAN FEDERAL DISTRICT	**3**	**1**	**1**	**2**	**12**	**24**	**4**	**3**	**0**	**0**	**50**
Republic of Daghestan	2	1	1	0	6	15	1	1	0	0	27
Republic of Ingushetia	0	0	0	0	0	2	0	0	0	0	2
Kabardino-Balkaria Republic	0	0	0	1	2	2	0	0	0	0	5
Karachai-Cherkess Republic	0	0	0	1	1	0	2	1	0	0	5
Republic of North Ossetia – Alaniya	0	0	0	0	1	2	1	1	0	0	5
Chechen Republic	0	0	0	0	0	0	0	0	0	0	0
Stavropol Territory	1	0	0	0	2	3	0	0	0	0	6
VOLGA FEDERAL DISTRICT	**1**	**1**	**2**	**2**	**19**	**30**	**20**	**9**	**20**	**2**	**106**
Republic of Bashkortostan	0	0	0	0	2	1	5	2	1	0	11
Republic of Mari El	0	0	2	0	0	0	0	0	0	0	2
Republic of Mordovia	0	0	0	0	0	1	3	0	0	0	4
Republic of Tatarstan (Tatarstan)	0	1	0	0	2	7	1	3	8	1	23
Udmurt Republic	0	0	0	0	0	1	1	0	0	0	2
Chuvash Republic – Chuvashia	0	0	0	0	2	1	1	0	0	0	4
Perm Territory	1	0	0	0	1	1	0	0	2	0	5
Kirov Region	0	0	0	1	0	0	0	1	1	0	3
Nizhny Novgorod Region	0	0	0	0	3	2	4	0	2	0	11
Orenburg Region	0	0	0	0	3	1	0	2	2	0	8
Penza Region	0	0	0	0	0	1	0	0	0	0	1
Samara Region	0	0	0	0	3	9	2	1	4	1	20
Saratov Region	0	0	0	1	2	3	3	0	0	0	9
Ulyanovsk Region	0	0	0	0	1	2	0	0	0	0	3

END 6

	Up to 3 mln roubles	3 mln to 10 mln roubles	10 mln to 30 mln roubles	30 mln to 60 mln roubles	60 mln to 150 mln roubles	150 mln to 300 mln roubles	300 mln to 500 mln roubles	500 mln to 1 bln roubles	1 bln to 10 bln roubles	10 bln roubles and over	Total
URALS FEDERAL DISTRICT	**1**	**0**	**2**	**5**	**9**	**11**	**3**	**3**	**9**	**1**	**44**
Kurgan Region	0	0	0	1	2	0	0	0	0	0	3
Sverdlovsk Region	0	0	0	2	4	5	0	1	4	0	16
Tyumen Region	1	0	1	1	3	4	1	0	4	1	16
of which: Khanty-Mansi Autonomous Area – Yugra	0	0	1	1	2	1	1	0	2	1	9
Yamalo-Nenets Autonomous Area	0	0	0	0	0	0	0	0	0	0	0
Chelyabinsk Region	0	0	1	1	0	2	2	2	1	0	9
SIBERIAN FEDERAL DISTRICT	**2**	**1**	**3**	**2**	**17**	**10**	**8**	**5**	**5**	**0**	**53**
Republic of Altai	0	0	1	0	1	0	0	0	1	0	3
Republic of Buryatiya	0	0	0	0	0	0	1	0	0	0	1
Republic of Tyva	0	0	0	0	0	1	0	0	0	0	1
Republic of Khakassia	0	0	0	0	0	1	1	0	0	0	2
Altai Territory	0	0	0	1	4	1	0	0	1	0	7
Trans-Baikal Territory	0	0	0	0	0	0	0	0	0	0	0
Krasnoyarsk Territory	0	0	1	0	1	1	2	0	0	0	5
Irkutsk Region	0	0	0	0	4	4	0	0	0	0	8
Kemerovo Region	0	0	1	1	3	1	2	1	0	0	9
Novosibirsk Region	2	0	0	0	1	0	1	3	2	0	9
Omsk Region	0	1	0	0	2	0	1	1	1	0	6
Tomsk Region	0	0	0	0	1	1	0	0	0	0	2
FAR EASTERN FEDERAL DISTRICT	**0**	**0**	**1**	**2**	**7**	**7**	**1**	**4**	**1**	**0**	**23**
Republic of Sakha (Yakutia)	0	0	0	0	1	1	0	1	1	0	4
Kamchatka Territory	0	0	1	1	0	0	0	1	0	0	3
Primorsky Territory	0	0	0	0	3	3	0	0	0	0	6
Khabarovsk Territory	0	0	0	0	2	1	0	0	0	0	3
Amur Region	0	0	0	0	0	0	0	2	0	0	2
Magadan Region	0	0	0	0	0	0	0	0	0	0	0
Sakhalin Region	0	0	0	1	1	2	1	0	0	0	5
Jewish Autonomous Region	0	0	0	0	0	0	0	0	0	0	0
Chukchee Autonomous Area	0	0	0	0	0	0	0	0	0	0	0

Density of banking services in Russian regions as of January 1, 2012

TABLE 7.1

	Number of credit institutions, branches, additional, operations, and cash and credit offices	Loans extended to resident organisations and households, millions of roubles[1]	Household deposits, millions of roubles[1]	Gross Regional Product (GRP) in 2011, billions of roubles	Population, thousands	Average monthly per capita income in 2011, roubles	Institutional density of banking services (by population)[2]	Financial density of banking services (by value of loans)[3]	Savings index[4]	Composite banking services density index by region[5]
CENTRAL FEDERAL DISTRICT	**9,531**	**10,034,768**	**5,946,471**	**16,170**	**38,538**	**25,814**	**1.06**	**1.28**	**1.50**	**1.27**
For reference: CENTRAL FEDERAL DISTRICT without Moscow	*5,666*	*3,137,011*	*1,499,147*	*6,149*	*26,925*	*17,965*	*0.90*	*1.05*	*0.78*	*0.90*
Belgorod Region	292	285,799	84,029	512	1,536	19,066	0.81	1.15	0.72	0.88
Bryansk Region	200	65,885	45,469	180	1,264	15,132	0.68	0.76	0.60	0.67
Vladimir Region	334	110,397	91,893	256	1,432	13,581	1.00	0.89	1.18	1.02
Voronezh Region	492	227,336	146,655	447	2,332	14,548	0.90	1.05	1.08	1.01
Ivanovo Region	235	68,137	51,641	127	1,054	12,808	0.95	1.11	0.96	1.00
Kaluga Region	271	100,619	58,330	234	1,008	17,659	1.15	0.89	0.82	0.94
Kostroma Region	155	45,649	32,303	111	662	13,784	1.00	0.85	0.89	0.91
Kursk Region	243	123,972	46,273	233	1,122	16,444	0.93	1.10	0.63	0.86
Lipetsk Region	254	131,396	59,625	286	1,166	17,068	0.93	0.95	0.75	0.87
Moscow Region	1,466	1,200,060	480,830	2,243	7,199	24,957	0.87	1.11	0.67	0.86
Orel Region	169	87,580	34,122	131	781	14,764	0.93	1.38	0.74	0.98
Ryazan Region	222	100,142	58,032	210	1,148	14,403	0.83	0.98	0.88	0.89
Smolensk Region	195	93,294	45,100	183	980	16,326	0.85	1.05	0.71	0.86
Tambov Region	203	89,448	39,067	182	1,083	15,053	0.80	1.01	0.60	0.79
Tver Region	248	97,012	63,044	254	1,342	14,742	0.79	0.79	0.80	0.79
Tula Region	301	163,675	80,140	272	1,545	17,013	0.83	1.24	0.76	0.92
Yaroslavl Region	386	146,610	82,594	285	1,271	14,920	1.30	1.06	1.09	1.15
Moscow	3,865	6,897,757	4,447,324	10,022	11,613	44,011	1.42	1.42	2.18	1.64
NORTH-WESTERN FEDERAL DISTRICT	**3,759**	**2,496,607**	**1,313,116**	**4,711**	**13,660**	**21,625**	**1.18**	**1.10**	**1.11**	**1.13**
Republic of Karelia	179	62,856	30,155	143	640	17,437	1.20	0.91	0.68	0.90
Komi Republic	215	71,326	63,831	434	890	24,616	1.03	0.34	0.73	0.64
Arkhangelsk Region	273	113,562	74,583	440	1,214	20,990	0.96	0.53	0.73	0.72
Vologda Region	398	173,619	67,389	317	1,199	15,353	1.42	1.13	0.92	1.14
Kaliningrad Region	283	162,772	66,284	230	947	16,569	1.28	1.46	1.06	1.26
Leningrad Region	388	228,335	65,686	564	1,734	16,804	0.96	0.84	0.56	0.77
Murmansk Region	243	82,694	63,011	260	788	25,574	1.32	0.66	0.78	0.88
Novgorod Region	189	60,564	24,590	149	630	16,890	1.28	0.84	0.58	0.85
Pskov Region	179	47,204	22,090	102	667	14,101	1.15	0.95	0.59	0.86
St Petersburg	1,412	1,493,673	835,498	2,072	4,953	27,011	1.22	1.49	1.56	1.42

CONT. 7.1

	Number of credit institutions, branches, additional, operations, and cash and credit offices	Loans extended to resident organisations and households, millions of roubles[1]	Household deposits, millions of roubles[1]	Gross Regional Product (GRP) in 2011, billions of roubles	Population, thousands	Average monthly per capita income in 2011, roubles	Institutional density of banking services (by population)[2]	Financial density of banking services (by value of loans)[3]	Savings index[4]	Composite banking services density index by region[5]
SOUTHERN FEDERAL DISTRICT	**3,516**	**1,450,070**	**657,537**	**2,745**	**13,884**	**16,395**	**1.08**	**1.09**	**0.72**	**0.95**
Republic of Adygeya (Adygeya)	98	25,114	9,866	55	442	14,594	0.95	0.94	0.38	0.70
Republic of Kalmykia	48	17,194	4,706	29	287	8,240	0.72	1.23	0.50	0.76
Krasnodar Territory	1,494	705,603	284,378	1,230	5,284	18,197	1.21	1.19	0.74	1.02
Astrakhan Region	195	62,145	38,431	171	1,015	15,624	0.82	0.75	0.61	0.72
Volgograd Region	481	184,259	110,202	499	2,595	15,531	0.79	0.76	0.69	0.75
Rostov Region	1,200	455,755	209,954	762	4,261	15,637	1.21	1.24	0.79	1.06
NORTH-CAUCASIAN FEDERAL DISTRICT	**1,182**	**366,862**	**185,789**	**1,065**	**9,493**	**15,273**	**0.53**	**0.71**	**0.32**	**0.50**
Republic of Daghestan	300	45,421	25,050	327	2,930	18,448	0.44	0.29	0.12	0.24
Republic of Ingushetia	23	11,247	2,793	26	430	11,463	0.23	0.89	0.14	0.31
Kabardino-Balkaria Republic	101	50,053	17,349	91	859	12,517	0.50	1.14	0.40	0.61
Karachai-Cherkess Republic	46	33,192	9,463	50	475	11,330	0.41	1.38	0.44	0.63
Republic of North Ossetia – Alaniya	76	31,066	19,601	85	709	16,222	0.46	0.75	0.43	0.53
Chechen Republic	49	18,929	4,283	86	1,302	–	0.16	0.45	–	–
Stavropol Territory	587	176,953	107,250	400	2,787	13,768	0.90	0.91	0.70	0.83
VOLGA FEDERAL DISTRICT	**6,561**	**3,037,747**	**1,556,352**	**6,988**	**29,811**	**16,917**	**0.94**	**0.90**	**0.77**	**0.87**
Republic of Bashkortostan	898	359,996	164,954	952	4,064	19,302	0.95	0.78	0.53	0.73
Republic of Mari El	110	56,407	20,482	97	692	11,205	0.68	1.21	0.66	0.82
Republic of Mordovia	185	91,558	28,749	127	825	11,297	0.96	1.49	0.77	1.03
Republic of Tatarstan (Tatarstan)	945	560,301	241,363	1,276	3,803	19,763	1.06	0.91	0.80	0.92
Udmurt Republic	329	122,240	59,730	335	1,518	13,943	0.93	0.75	0.71	0.79
Chuvash Republic – Chuvashia	217	118,405	45,648	188	1,247	11,889	0.74	1.30	0.77	0.91
Perm Territory	606	392,181	153,072	803	2,631	20,584	0.99	1.01	0.71	0.89
Kirov Region	304	88,133	54,693	202	1,328	14,680	0.98	0.90	0.70	0.85
Nizhny Novgorod Region	750	366,761	208,858	770	3,297	17,810	0.97	0.98	0.89	0.95
Orenburg Region	466	156,188	82,999	554	2,024	14,947	0.99	0.58	0.69	0.73
Penza Region	260	87,263	52,728	200	1,377	14,117	0.81	0.90	0.68	0.79
Samara Region	748	367,584	268,481	833	3,214	21,161	1.00	0.91	0.99	0.96
Saratov Region	457	160,413	116,101	427	2,509	12,189	0.78	0.78	0.95	0.83
Ulyanovsk Region	286	110,319	58,494	223	1,282	13,432	0.95	1.02	0.85	0.94
URALS FEDERAL DISTRICT	**2,944**	**1,810,437**	**870,076**	**6,270**	**12,143**	**22,839**	**1.04**	**0.60**	**0.79**	**0.79**
Kurgan Region	162	50,912	22,213	137	896	14,601	0.77	0.77	0.43	0.63
Sverdlovsk Region	1,056	716,707	319,201	1,266	4,308	24,391	1.05	1.17	0.76	0.98
Tyumen Region	934	586,545	353,624	4,092	3,459	28,117	1.16	0.30	0.91	0.68
Chelyabinsk Region	792	456,273	175,038	776	3,480	17,906	0.97	1.22	0.70	0.94

END 7.1

	Number of credit institutions, branches, additional, operations, and cash and credit offices	Loans extended to resident organisations and households, millions of roubles[1]	Household deposits, millions of roubles[1]	Gross Regional Product (GRP) in 2011, billions of roubles	Population, thousands	Average monthly per capita income in 2011, roubles	Institutional density of banking services (by population)[2]	Financial density of banking services (by value of loans)[3]	Savings index[4]	Composite banking services density index by region[5]
SIBERIAN FEDERAL DISTRICT	**4,311**	**2,005,242**	**864,402**	**4,796**	**19,261**	**16,353**	**0.96**	**0.86**	**0.69**	**0.83**
Republic of Altai	53	25,119	4,114	26	208	14,156	1.09	1.96	0.35	0.91
Republic of Buryatiya	273	79,719	26,718	155	971	15,406	1.20	1.07	0.45	0.83
Republic of Tyva	48	13,171	3,820	34	309	11,421	0.66	0.81	0.27	0.53
Republic of Khakassia	140	34,135	15,137	166	532	13,783	1.13	0.61	0.52	0.71
Altai Territory	447	195,723	82,286	336	2,407	12,454	0.79	1.20	0.69	0.87
Trans-Baikal Territory	278	66,114	30,807	208	1,099	16,167	1.08	0.66	0.43	0.68
Krasnoyarsk Territory	769	375,705	138,497	1,189	2,838	19,870	1.16	0.65	0.62	0.78
Irkutsk Region	559	258,138	111,498	628	2,424	15,743	0.99	0.85	0.73	0.85
Kemerovo Region	509	360,672	134,569	741	2,751	16,996	0.79	1.01	0.72	0.83
Novosibirsk Region	633	328,192	173,448	577	2,687	17,429	1.01	1.18	0.93	1.03
Omsk Region	350	160,255	86,141	449	1,975	16,911	0,76	0,74	0,65	0,71
Tomsk Region	252	108,299	57,366	338	1,058	16,045	1.02	0.66	0.85	0.83
FAR EASTERN FEDERAL DISTRICT	**1,631**	**700,104**	**458,224**	**2,521**	**6,266**	**23,207**	**1.11**	**0.57**	**0.79**	**0.80**
Republic of Sakha (Yakutia)	234	167,532	49,806	483	956	25,483	1.05	0.72	0.51	0.73
Kamchatka Territory	122	45,924	33,418	113	320	30,632	1.63	0.84	0.85	1.05
Primorsky Territory	470	179,025	135,608	547	1,950	19,176	1.03	0.68	0.91	0.86
Khabarovsk Territory	339	151,161	122,328	401	1,342	24,911	1.08	0.78	0.92	0.92
Amur Region	211	74,946	40,222	224	822	18,595	1.10	0.69	0.66	0.79
Magadan Region	55	22,892	18,854	75	154	30,322	1.52	0.63	1.01	0.99
Sakhalin Region	140	43,964	47,418	597	465	31,665	1.21	0.15	0.76	0.52
Jewish Autonomous Region	44	8,110	5,480	37	174	16,828	1.08	0.46	0.47	0.61
Chukchee Autonomous Area	16	6,551	5,091	45	51	36,016	1.34	0.30	0.69	0.66
Total for the Russian Federation	**33,435**	**21,901,838**	**11,851,969**	**45,265**	**143,056**	**20,755**	**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 is divided by the value of the same indicator calculated for Russia as a whole.
[3] The ratio of total loans (column 3) to the 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 cash income (column 7) is calculated for each region and is 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).

Note.
The Report ceases using the fourth density index which is calculated based on bank asset data, since the reporting Form 0409101 is not sufficiently accurate in presenting the regional distribution of assets.

Density of banking services in Russian regions as of January 1, 2013

TABLE 7.2

	Number of credit institutions, branches, additional, operations, and cash and credit offices	Loans extended to resident organisations and households, millions of roubles[1]	Household deposits, millions of roubles[1]	Gross Regional Product (GRP) in 2012, billions of roubles (estimate)	Population, thousands	Average monthly per capita income in 2012, roubles (estimate)	Institutional density of banking services (by population)[2]	Financial density of banking services (by value of loans)[3]	Savings index[4]	Composite banking services density index by region[5]
CENTRAL FEDERAL DISTRICT	**10,269**	**11,849,064**	**7,082,699**	**18,071**	**38,684**	**29,111**	**1.05**	**1.26**	**1.45**	**1.24**
For reference: CENTRAL FEDERAL DISTRICT without Moscow	*6,250*	*3,805,144*	*1,869,524*	*6,872*	*26,706*	*20,915*	*0.93*	*1.06*	*0.77*	*0.91*
Belgorod Region	325	321,622	104,933	572	1,541	21,268	0.83	1.08	0.74	0.87
Bryansk Region	224	95,152	55,312	201	1,254	17,383	0.71	0.91	0.58	0.72
Vladimir Region	357	134,670	95,494	287	1,422	16,569	0.99	0.90	0.93	0.94
Voronezh Region	543	301,310	175,219	500	2,331	18,593	0.92	1.16	0.93	1.00
Ivanovo Region	261	75,634	62,729	142	1,049	15,977	0.98	1.02	0.86	0.95
Kaluga Region	271	127,350	72,911	262	1,006	20,502	1.07	0.93	0.81	0.93
Kostroma Region	181	59,480	37,661	125	659	16,576	1.09	0.91	0.79	0.92
Kursk Region	266	189,999	59,809	261	1,119	18,494	0.94	1.40	0.66	0.96
Lipetsk Region	288	142,587	72,563	319	1,162	19,660	0.98	0.86	0.73	0.85
Moscow Region	1,638	1,431,592	638,128	2,507	7,051	28,819	0.92	1.09	0.72	0.90
Orel Region	183	83,973	41,076	146	776	16,572	0.93	1.10	0.73	0.91
Ryazan Region	246	122,893	73,629	235	1,145	16,925	0.85	1.00	0.87	0.91
Smolensk Region	228	116,130	54,958	205	975	17,791	0.92	1.09	0.73	0.90
Tambov Region	213	118,008	47,811	204	1,076	17,417	0.78	1.11	0.59	0.80
Tver Region	279	119,737	77,896	284	1,335	17,072	0.83	0.81	0.79	0.81
Tula Region	353	199,431	95,828	304	1,533	19,169	0.91	1.26	0.75	0.95
Yaroslavl Region	394	165,577	103,566	319	1,272	18,028	1.22	1.00	1.04	1.08
Moscow	4,019	8,043,920	5,213,175	11,199	11,978	47,383	1.33	1.38	2.11	1.57
NORTH-WESTERN FEDERAL DISTRICT	**3,961**	**3,003,155**	**1,577,572**	**5,265**	**13,719**	**23,137**	**1.14**	**1.09**	**1.14**	**1.13**
Republic of Karelia	193	76,427	43,458	160	637	19,401	1.20	0.92	0.81	0.96
Komi Republic	229	89,807	78,053	485	881	25,730	1.03	0.35	0.79	0.66
Arkhangelsk Region	281	155,400	88,982	492	1,203	22,852	0.92	0.61	0.74	0.75
Vologda Region	410	197,915	79,966	354	1,196	17,429	1.36	1.07	0.88	1.09
Kaliningrad Region	287	191,997	89,812	257	955	18,432	1.19	1.43	1.17	1.26
Leningrad Region	407	293,540	89,824	630	1,751	17,675	0.92	0.89	0.67	0.82
Murmansk Region	256	98,545	97,331	291	781	28,033	1.30	0.65	1.02	0.95
Novgorod Region	199	79,084	34,476	166	626	18,475	1.26	0.91	0.69	0.92
Pskov Region	187	61,548	31,131	114	662	15,682	1.12	1.03	0.69	0.93
St Petersburg	1,512	1,758,892	944,539	2,315	5,028	28,234	1.19	1.46	1.53	1.38

CONT. 7.2

	Number of credit institutions, branches, additional, operations, and cash and credit offices	Loans extended to resident organisations and households, millions of roubles[1]	Household deposits, millions of roubles[1]	Gross Regional Product (GRP) in 2012, billions of roubles (estimate)	Population, thousands	Average monthly per capita income in 2012, roubles (estimate)	Institutional density of banking services (by population)[2]	Financial density of banking services (by value of loans)[3]	Savings index[4]	Composite banking services density index by region[5]
SOUTHERN FEDERAL DISTRICT	**3,747**	**1,761,607**	**808,130**	**3,068**	**13,913**	**18,309**	**1.06**	**1.10**	**0.73**	**0.95**
Republic of Adygeya (Adygeya)	96	34,906	12,293	62	445	17,587	0.85	1.08	0.36	0.69
Republic of Kalmykia	50	24,513	5,737	32	284	9,558	0.70	1.46	0.49	0.79
Krasnodar Territory	1,597	827,976	354,733	1,374	5,332	20,465	1.18	1.15	0.75	1.01
Astrakhan Region	220	79,594	48,992	191	1,014	17,298	0.86	0.80	0.64	0.76
Volgograd Region	523	229,988	135,444	558	2,583	16,333	0.80	0.79	0.74	0.78
Rostov Region	1,261	564,630	250,930	851	4,25	17,741	1.17	1.27	0.76	1.04
NORTH-CAUCASIAN FEDERAL DISTRICT	**1,230**	**469,357**	**225,438**	**1,190**	**9,543**	**17,145**	**0.51**	**0.76**	**0.32**	**0.50**
Republic of Daghestan	289	53,742	28,131	365	2,946	20,701	0.39	0.28	0.11	0.23
Republic of Ingushetia	27	12,179	3,367	29	443	12,400	0.24	0.80	0.14	0.30
Kabardino-Balkaria Republic	107	64,204	20,831	101	859	13,769	0.49	1.21	0.40	0.62
Karachai-Cherkess Republic	48	40,207	11,241	55	472	12,768	0.40	1.39	0.43	0.62
Republic of North Ossetia – Alaniya	83	42,055	24,026	95	706	17,333	0.46	0.85	0.45	0.56
Chechen Republic	52	24,286	7,850	96	1,325	–	0.16	0.48	–	–
Stavropol Territory	624	232,684	129,992	447	2,791	16,602	0.88	1.00	0.65	0.83
VOLGA FEDERAL DISTRICT	**7,161**	**3,612,536**	**1,875,063**	**7,809**	**29,778**	**19,295**	**0.95**	**0.89**	**0.75**	**0.86**
Republic of Bashkortostan	1,032	448,081	202,745	1,064	4,064	21,305	1.00	0.81	0.54	0.76
Republic of Mari El	127	68,254	25,357	108	691	12,247	0.73	1.21	0.69	0.85
Republic of Mordovia	209	109,863	33,800	142	819	12,735	1.01	1.49	0.75	1.04
Republic of Tatarstan (Tatarstan)	1,078	636,362	294,903	1,425	3,823	23,452	1.11	0.86	0.76	0.90
Udmurt Republic	359	138,856	73,255	375	1,518	15,757	0.94	0.71	0.70	0.78
Chuvash Republic – Chuvashia	246	132,135	56,848	210	1,244	13,466	0.78	1.20	0.78	0.90
Perm Territory	631	461,467	186,510	898	2,635	22,748	0.95	0.98	0.72	0.87
Kirov Region	330	108,210	66,133	226	1,319	16,541	0.99	0.92	0.70	0.86
Nizhny Novgorod Region	825	421,441	252,129	861	3,291	20,581	0.99	0.94	0.86	0.93
Orenburg Region	494	193,438	100,812	619	2,016	16,759	0.97	0.60	0.69	0.74
Penza Region	281	106,265	65,237	224	1,369	16,026	0.81	0.91	0.68	0.80
Samara Region	776	447,255	306,241	930	3,214	24,625	0.95	0.92	0.89	0.92
Saratov Region	487	207,102	147,616	477	2,504	13,713	0.77	0.83	0.99	0.86
Ulyanovsk Region	286	133,806	63,478	250	1,275	15,997	0.89	1.03	0.72	0.87
URALS FEDERAL DISTRICT	**3,422**	**2,220,501**	**1,038,898**	**7,007**	**12,200**	**24,982**	**1.11**	**0.61**	**0.78**	**0.81**
Kurgan Region	179	66,769	29,005	153	886	15,916	0.80	0.84	0.47	0.68
Sverdlovsk Region	1,163	843,873	380,761	1,414	4,317	27,145	1.07	1.14	0.75	0.97
Tyumen Region	1,126	779,721	419,965	4,572	3,511	30,522	1.27	0.33	0.90	0.72
Chelyabinsk Region	954	530,138	209,167	867	3,486	19,133	1.08	1.17	0.72	0.97

END 7.2

	Number of credit institutions, branches, additional, operations, and cash and credit offices	Loans extended to resident organisations and households, millions of roubles[1]	Household deposits, millions of roubles[1]	Gross Regional Product (GRP) in 2012, billions of roubles (estimate)	Population, thousands	Average monthly per capita income in 2012, roubles (estimate)	Institutional density of banking services (by population)[2]	Financial density of banking services (by value of loans)[3]	Savings index[4]	Composite banking services density index by region[5]
SIBERIAN FEDERAL DISTRICT	**4,696**	**2,546,128**	**1,061,417**	**5,359**	**19,281**	**17,842**	**0.96**	**0.91**	**0.71**	**0.85**
Republic of Altai	58	24,346	5,478	30	210	13,459	1.09	1.58	0.44	0.91
Republic of Buryatiya	288	114,475	31,137	173	972	16,493	1.17	1.27	0.45	0.87
Republic of Tyva	52	19,832	4,852	38	311	11,067	0.66	1.01	0.32	0.60
Republic of Khakassia	172	44,353	18,929	129	533	15,770	1.28	0.66	0.52	0.76
Altai Territory	488	231,863	93,922	376	2,399	13,427	0.80	1.18	0.67	0.86
Trans-Baikal Territory	265	86,537	38,002	233	1,095	17,469	0.96	0.71	0.46	0.68
Krasnoyarsk Territory	829	503,596	171,833	1,328	2,848	21,721	1.15	0.73	0.64	0.81
Irkutsk Region	601	325,387	141,661	702	2,422	17,470	0.98	0.89	0.77	0.88
Kemerovo Region	564	462,071	160,637	828	2,743	17,973	0.81	1.07	0.75	0.87
Novosibirsk Region	702	396,885	218,429	645	2,710	19,330	1.02	1.18	0.96	1.05
Omsk Region	387	201,825	106,442	501	1,974	19,003	0.78	0.77	0.65	0.73
Tomsk Region	290	134,960	70,095	377	1,065	17,556	1.08	0.69	0.86	0.86
FAR EASTERN FEDERAL DISTRICT	**1,774**	**937,323**	**552,895**	**2,817**	**6,252**	**24,809**	**1.12**	**0.64**	**0.82**	**0.84**
Republic of Sakha (Yakutia)	259	202,128	61,600	540	955	27,619	1.07	0.72	0.54	0.74
Kamchatka Territory	123	54,940	39,897	126	321	31,394	1.52	0.84	0.91	1.05
Primorsky Territory	532	253,628	166,755	611	1,948	20,182	1.08	0.80	0.98	0.94
Khabarovsk Territory	364	215,376	142,597	449	1,342	25,569	1.07	0.92	0.96	0.98
Amur Region	223	97,640	46,308	250	817	22,755	1.08	0.75	0.57	0.77
Magadan Region	59	29,683	22,979	84	152	34,515	1.53	0.68	1.01	1.01
Sakhalin Region	147	63,128	58,596	667	494	32,557	1.18	0.18	0.84	0.56
Jewish Autonomous Region	51	11,472	7,155	41	173	17,990	1.17	0.54	0.53	0.69
Chukchee Autonomous Area	16	9,327	7,008	50	51	39,525	1.25	0.36	0.80	0.71
Total for the Russian Federation	**36,260**	**26,399,670**	**14,222,112**	**50,585**	**143,370**	**22,811**	**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 is divided by the value of the same indicator calculated for Russia as a whole.
[3] The ratio of total loans (column 3) to the 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 cash income (column 7) is calculated for each region and is 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).

Note.
The Report ceases using the fourth density index which is calculated based on bank asset data, since the reporting Form 0409101 is not sufficiently accurate in presenting the regional distribution of assets.

Categorised performance indicators on credit institutions with foreign interest relative to indicators on operating credit institutions (%)

TABLE 8

	1.01.09	1.01.10	1.01.11	1.01.12	1.01.13
Credit institutions with a 50%-plus foreign stake in authorised capital					
Assets	18.7	18.3	18.0	16.9	17.8
Capital	17.3	17.0	19.1	17.6	19.3
Correspondent accounts with non-resident banks	17.0	15.6	20.3	14.3	21.7
Loans and other placements with non-financial organisations	16.6	14.8	15.1	14.0	14.2
Loans and other funds provided to households	23.3	25.1	25.7	22.0	22.6
Loans, deposits and other funds provided to credit institutions	25.0	31.7	25.1	30.0	27.3
Household deposits	10.3	12.0	11.5	11.4	13.5
Funds raised from organisations[1]	18.8	18.5	17.6	17.4	18.6
Current-year profits (losses)	19.7	29.8	20.7	17.4	19.6
For reference					
Number of credit institutions, units	102	108	111	113	117
of which wholly foreign-owned credit institutions					
Assets	13.0	11.3	11.0	10.0	9.8
Capital	12.2	11.0	12.1	11.1	11.4
Correspondent accounts with non-resident banks	12.1	9.0	9.2	6.9	15.2
Loans and other placements with non-financial organisations	11.6	9.1	9.2	8.3	7.5
Loans and other funds provided to households	15.4	15.6	14.9	10.7	11.1
Loans, deposits and other funds provided to credit institutions	21.6	23.8	20.0	24.2	20.0
Household deposits	5.4	6.2	5.3	5.4	6.1
Funds raised from organisations[1]	12.6	11.1	11.0	10.7	11.0
Current-year profits (losses)	14.8	27.4	15.1	12.0	13.4
For reference					
Number of credit institutions, units	76	82	80	77	73

[1] These include deposits, government and other extra-budgetary funds, funds of the Ministry of Finance, fiscal authorities, individual unincorporated entrepreneurs, and customers in factoring and forfeiting operations, certificates of deposit, float, and funds written off from customer accounts but not passed through a bank correspondent account (net of funds raised from credit institutions).

Bank assets grouped by investment (billions of roubles)

TABLE 9

Assets	01.01.2012	01.04.2012	01.07.2012	01.10.2012	01.01.2013
Money, precious metals and gemstones, total	1,225.6	999.2	1,097.0	1,206.9	1,554.0
of which money	1,125.0	910.7	986.4	1,040.9	1,423.5
Accounts with the Bank of Russia and authorised bodies of other countries, total	1,747.4	1,345.1	1,348.9	1,276.0	2,159.9
of which: bank correspondent accounts with the Bank of Russia	961.0	792.1	769.4	726.4	1,248.9
bank required reserves transferred to the Bank of Russia	378.3	385.1	392.6	411.3	425.6
deposits and other funds deposited with the Bank of Russia	392.1	151.8	171.3	120.0	461.6
Correspondent accounts with credit institutions, total	1,000.6	1,019.1	1,096.5	1,313.5	1,483.3
of which: correspondent accounts with correspondent credit institutions	227.4	210.9	228.7	211.4	315.8
correspondent accounts with non-resident banks	773.1	808.2	867.8	1,102.1	1,167.5
Securities acquired by credit institutions, total	6,211.7	6,434.8	6,587.9	6,751.4	7,034.9
of which: debt obligations	4,676.2	4,803.9	4,964.9	4,993.1	5,265.1
equities	914.4	873.8	903.6	887.6	791.6
discounted bills	233.9	347.8	278.0	310.9	398.8
shares of subsidiaries and affiliated joint-stock companies	387.3	409.3	441.4	559.7	579.4
Other stakes in authorised capital	291.9	303.0	307.2	316.5	333.4
Financial derivatives	–	115.8	188.1	158.4	163.9
Loans, total	28,737.0	28,987.3	31,142.7	32,271.7	33,993.1
of which loans, deposits and other placements	28,699.2	28,956.4	31,109.0	32,236.4	33,960.1
of which overdue debt	1,133.0	1,211.9	1,248.8	1,290.5	1,257.4
of which loans and other placements with non-financial organisations	17,715.3	17,720.7	18,806.0	19,499.1	19,971.4
of which overdue debt	822.6	891.4	923.8	952.3	924.1
of which loans and other funds extended to individuals	5,550.9	5,895.1	6,572.6	7,175.9	7,737.1
of which overdue debt	291.1	299.8	304.3	317.8	313.0
of which loans, deposits and other placements with credit institutions	3,958.0	3,771.8	4,072.3	3,800.4	4,230.4
of which: overdue debt	5.1	5.0	5.4	5.4	5.2
Fixed and intangible assets, other real estate, and inventories	973.8	995.3	1,013.8	1,051.0	1,090.5
of which real estate temporarily unused in the core activity	–	112.2	113.9	119.7	96.7
Disposition of profits	173.2	71.9	106.8	136.2	210.2
of which profit tax	155.4	58.2	106.7	135.6	204.4
Other assets, total	1,266.4	1,261.1	1,376.9	1,379.4	1,486.3
of which: float	589.8	489.3	572.1	540.4	647.8
debtors	181.0	213.1	216.1	222.5	210.0
deferred expenses	94.3	108.4	109.9	109.0	121.5
Total assets	**41,627.5**	**41,532.5**	**44,265.7**	**45,861.0**	**49,509.6**

Bank liabilities grouped by source of funds (billions of roubles)

TABLE 10

Liabilities	01.01.2012	01.04.2012	01.07.2012	01.10.2012	01.01.2013
Bank funds and profits, total	4,963.0	5,109.8	5,259.3	5,547.0	5,911.0
of which: funds	2,719.9	2,794.5	2,879.2	2,939.7	3,049.7
profits (losses), including previous-year financial results	2,243.1	2,315.4	2,380.2	2,607.2	2,861.3
of which current-year profits (losses)	848.2	267.9	507.0	750.1	1,011.9
Loans, deposits and other funds received by credit institutions from the Bank of Russia	1,212.1	1,469.4	2,250.7	2,350.6	2,690.9
Bank accounts, total	336.4	304.4	354.0	332.5	462.8
of which: correspondent bank correspondent accounts	216.6	185.9	204.8	186.9	289.6
non-resident bank correspondent accounts	105.5	111.2	136.9	133.7	145.5
Loans, deposits and other funds received from other credit institutions, total	4,560.2	4,124.9	4,221.6	4,317.6	4,738.4
Customer funds, total[1]	26,082.1	25,464.4	26,953.4	27,933.6	30,120.0
of which budget funds in settlement accounts	37.8	43.4	43.6	41.5	38.5
Government and extra-budgetary funds in settlement accounts	7.1	4.8	4.4	3.7	1.6
Organisations' funds in settlement and other accounts	5,326.7	5,521.7	5,348.8	5,366.7	5,706.6
Customer float	288.1	287.8	326.8	342.5	296.4
Deposits and other funds raised by corporate entities other than credit institutions	8,367.4	7,446.7	8,215.4	8,916.4	9,619.5
Household deposits	11,871.4	11,984.3	12,833.4	13,057.6	14,251.0
Customer funds in factoring and forfeiting operations	21.9	18.2	21.0	26.2	37.2
Bonds	666.7	778.6	807.2	924.7	1,037.4
Bills and bank acceptances	859.5	1,166.0	1,106.3	1,097.6	1,149.3
Financial derivatives	–	103.3	158.9	119.0	135.3
Other liabilities, total	2,947.5	3,011.6	3,154.1	3,238.5	3,264.7
of which: provisions	2,318.8	2,341.5	2,400.6	2,459.2	2,441.3
float	325.0	296.2	328.6	311.6	395.3
creditors	46.4	78.5	97.7	102.7	72.3
deferred income	5.5	4.9	5.2	5.3	10.2
accrued interest and interest/coupon liabilities on securities	251.7	290.5	322.0	359.8	345.5
of which overdue interest	0.0	0.0	0.0	0.0	0,0
Total liabilities	**41,627.5**	**41,532.5**	**44,265.7**	**45,861.0**	**49,509.6**

[1] Including certificates of deposit and savings certificates.

TABLE 11

Major characteristics of banking sector lending operations (billions of roubles)

	Roubles					Foreign currency					Total				
	01.01.2012	01.04.2012	01.07.2012	01.10.2012	01.01.2013	01.01.2012	01.04.2012	01.07.2012	01.10.2012	01.01.2013	01.01.2012	01.04.2012	01.07.2012	01.10.2012	01.01.2013
1. Loans, deposits and other placements, total	**21,378.5**	**21,875.8**	**23.244.9**	**24,861.0**	**26,757.1**	**7,320.7**	**7,080.6**	**7,864.1**	**7,375.5**	**7,203.0**	**28,699.2**	**28,956.4**	**31,109.0**	**32,236.4**	**33,960.1**
of which overdue debt	944.1	1,064.7	1,080.7	1,133.2	1,122.8	138.9	147.2	168.1	157.3	134.6	1,133.0	1,211.9	1,248.8	1,290.5	1,257.4
1.1. Loans and other placements with resident non-financial organisations	***12,799.6***	***13,126.0***	***13,750.8***	***14,604.4***	***15,097.0***	***3,088.3***	***2,811.1***	***3,245.8***	***3,071.6***	***2,988.9***	***15,877.9***	***15,937.1***	***16,996.5***	***17,676.0***	***18,086.0***
including overdue debt	721.9	770.1	785.9	819.9	805.4	67.9	63.5	73.1	68.1	58.0	789.8	833.6	858.9	888.0	863.4
1.1.1. Loans and other funds to individual unincorporated entrepreneurs	430.8	450.9	491.4	529.4	568.4	7.0	6.5	7.2	6.0	5.3	437.9	457.4	498.6	535.3	573.7
of which overdue debt	27.3	27.7	26.5	26.0	24.9	0.5	0.5	0.5	0.4	0.4	27.9	28.2	27.0	26.5	25.2
1.2. Loans and other placements with non-resident corporate entities, other than banks	***469.4***	***506.5***	***468.5***	***498.4***	***509.6***	***1,357.9***	***1,277.0***	***1,341.0***	***1,324.7***	***1,375.9***	***1,827.4***	***1,783.6***	***1,809.5***	***1,823.1***	***1,885.4***
of which overdue debt	9.7	19.0	19.9	22.1	21.9	23.0	38.8	44.9	42.2	38.9	32.8	57.8	64.8	64.3	60.8
1.3. Loans, deposits and other placements with financial sector	***1,836.6***	***1,631.0***	***1,750.1***	***1,830.5***	***2,306.7***	***495.8***	***503.7***	***518.1***	***609.1***	***654.9***	***2,332.4***	***2,134.7***	***2,268.2***	***2,439.5***	***2,961.6***
including overdue debt	17.9	19.2	18.6	18.2	18.5	1.3	1.1	1.8	1.7	1.6	19.2	20.3	20.4	19.9	20.1
1.3.1. Loans, deposits and other placements with resident credit institutions	1,227.1	955.3	1,052.4	1,082.8	1,478.1	419.7	434.8	416.7	480.0	537.6	1,646.8	1,390.1	1,469.1	1,562.8	2,015.6
of which overdue debt	4.8	4.8	5.1	4.9	4.8	0.1	0.1	0.1	0.1	0.2	4.9	4.9	5.1	4.9	5.0

END 11

	Roubles					Foreign currency					Total				
	01.01.2012	01.04.2012	01.07.2012	01.10.2012	01.01.2013	01.01.2012	01.04.2012	01.07.2012	01.10.2012	01.01.2013	01.01.2012	01.04.2012	01.07.2012	01.10.2012	01.01.2013
1.3.2. Loans, deposits and other placements with resident financial organisations of different forms of ownership	609.5	675.7	697.7	747.7	828.6	76.1	68.9	101.4	129.1	117.4	685.6	744.6	799.1	876.7	945.9
of which overdue debt	13.0	14.4	13.6	13.3	13.6	1.2	1.0	1.7	1.7	1.4	14.3	15.4	15.3	14.9	15.0
1.4. Loans, deposits and other placements with non-resident banks	***398.4***	***361.1***	***385.1***	***351.8***	***451.4***	***1,912.8***	***2,020.6***	***2,218.1***	***1,885.7***	***1,763.4***	***2,311.2***	***2,381.7***	***2,603.3***	***2,237.6***	***2,214.8***
of which overdue debt	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.3	0.4	0.2	0.2	0.2	0.3	0.5	0.2
1.5. Loans and other funds placed with government fiscal authorities and extrabudgetary funds	***367.7***	***370.6***	***336.0***	***339.9***	***530.2***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***367.7***	***370.6***	***336.0***	***339.9***	***530.2***
of which overdue debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.6. Loans and other funds extended to resident individuals	***5,223.0***	***5,611.6***	***6,274.5***	***6,906.9***	***7,484.4***	***316.7***	***272.3***	***282.4***	***254.1***	***237.6***	***5,539.7***	***5,883.9***	***6,556.9***	***7,160.9***	***7,721.9***
of which overdue debt	244.5	256.0	256.2	272.9	276.9	45.9	43.2	47.5	44.4	35.6	290.4	299.2	303.8	317.3	312.5
1.7. Loans and other funds extended to non-resident individuals	***4.3***	***5.0***	***6.3***	***7.1***	***8.3***	***6.9***	***6.3***	***9.4***	***7.8***	***6.8***	***11.2***	***11.2***	***15.7***	***14.9***	***15.1***
of which overdue debt	0.1	0.2	0.1	0.1	0.1	0.5	0.5	0.4	0.4	0.4	0.7	0.6	0.6	0.5	0.5
For reference															
Provisions for loans, deposits and other placements	1,987.9	2,019.4	2,069.4	2,113.6	2,095.7	0.0	0.0	0.0	0.0	0.0	1,987.9	2,019.4	2,069.4	2,113.6	2,095.7
Overdue interest on loans, deposits and other placements recorded in balance-sheet accounts	42.2	46.0	50.5	56.8	58.7	4.7	5.2	5.0	4.5	4.6	46.9	51.1	55.4	61.4	63.4
Bank portfolios of resident bills	213.9	307.0	236.6	251.3	308.2	17.8	38.7	39.2	57.4	88.6	231.7	345.7	275.8	308.7	396.8
Bank portfolios of non-resident bills	0.0	0.1	0.0	0.0	0.0	2.1	1.9	2.2	2.2	2.0	2.1	2.1	2.2	2.2	2.0

Banking sector capital structure (%)[1]

TABLE 12

	01.01.2012	01.04.2012	01.07.2012	01.10.2012	01.01.2013
Capital growth factors	**115.2**	**115.3**	**115.8**	**118.2**	**117.4**
Authorised capital	24.5	24.0	23.9	23.4	22.8
Share premiums	21.5	21.1	22.4	21.8	20.3
Profits and funds	42.9	44.9	45.1	47.6	46.8
Subordinated loans	22.7	21.6	20.7	21.7	24.2
Property value growth on account of revaluation	3.7	3.8	3.8	3.7	3.3
Other factors	0.0	0.0	0.0	0.0	0.0
Capital reducing factors	**15.2**	**15.3**	**15.8**	**18.2**	**17.4**
Losses	1.7	1.7	1.9	2.2	1.7
Intangible assets	0.1	0.1	0.1	0.1	0.1
Own shares (equities) bought out	0.0	0.0	0.0	0.0	0.0
Sources of capital formed on account of improper assets	0.1	0.1	0.1	0.1	0.1
Reduction of additional sources of capital with account of restrictions imposed by Point 3.11 of Bank of Russia Regulation No. 215-P, dated February 10,2003	0.2	0.2	0.1	0.1	0.5
Bank shareholding	12.4	12.6	13.1	15.1	14.5
Other factors	0.7	0.6	0.5	0.5	0.4
Capital, total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[1] *Calculated based on bank reporting Form 0409134.*

TABLE 13

Quantitative and qualitative characteristics of the supervisors of the Bank of Russia head office and regional branches as of January 1, 2013

	Total number of employees as of January 1, 2013 (excluding employed under fixed-term contract and part-timers)	of whom							
		age			educational status		duration of work in banking system		women
		under 30 years	50 years and more	of whom women aged 55 years and more and men aged 60 years and more	higher education	secondary vocational training	up to 3 years	15 years and more	
Head office									
Credit Institution Licensing and Financial Rehabilitation Department	138	13	39	16	135	3	4	86	104
Banking Supervision Department	129	18	45	24	125	3	21	65	73
Banking Regulation Department	62	14	17	4	62		10	22	45
Main Inspectorate of Credit Institutions	921	97	235	75	915	4	70	564	508
Financial Monitoring and Foreign Exchange Control Department	101	13	29	13	97	2	5	53	61
Head office, total	**1,351**	**155**	**365**	**132**	**1,334**	**12**	**110**	**790**	**791**
Regional branches									
Financial Monitoring and Foreign Exchange Control Division (Department, Section)	595	76	132	38	588	7	32	381	414
Division (Department) for Bank Supervision	1,251	135	311	107	1,235	14	57	849	1,034
Division (Department, Section) for Bank Inspection	492	117	83	36	476	12	27	221	327
Division (Department) for Bank Licensing	349	39	83	27	346	3	9	235	293
Moscow branch divisions	430	128	66	40	407	21	44	176	340
Regional branches, total	**3,117**	**495**	**675**	**248**	**3,052**	**57**	**169**	**1,862**	**2,408**
Bank of Russia, total	**4,468**	**650**	**1,040**	**380**	**4,386**	**69**	**279**	**2,652**	**3,199**