



Bank of Russia

# RUSSIAN FINANCIAL SECTOR INVESTOR PRESENTATION

March 2020



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Bank of Russia

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BANK OF RUSSIA: OVERVIEW

## Evolution (1)

### Central Bank of Russia (CBR): founded in 1990

- 1990 – Law on banks and banking activities  
– Law on Central bank of RSFSR
- 1992 – Russia becomes an IMF member
- 1995 – Law on Central bank of RSFSR: amendments
- 1996 – CBR becomes a BIS member

- 2001 – Law on AML/CFT
- 2002 – Law on the Central Bank of the Russian Federation
- 2003 – Russia becomes a FATF member  
– Start of the IFRS reporting project  
– Law on deposit insurance
- 2005 – Introduction of corridor for USD&EUR basket within the exchange rate policy framework
- 2009 – CBR becomes a BCBS member  
– CBR becomes a CPMI member
- 2010 – Introduction of floating exchange rate corridor
- 2011 – Law on National Payment System

- 2013 – CBR becomes an IAIS member as well as IOSCO member
- 2014 – Inflation targeting regime with 4% medium-term target rate  
– Introduction of a floating exchange rate regime  
– Approval of a new corporate governance code  
– National Card Payment System Joint-Stock Company (AO NSPK) established
- 2015 – Signing of the IOSCO Multilateral Memorandum of Understanding  
– National payment system “Mir” established and “Mir” card issue started
- 2016 – Banking regulation in Russia assessed as compliant with Basel II, Basel 2.5 and Basel III (RCAP)
- 2017 – Introduction of proportional regulation in banking sector  
– Introduction of new financial rehabilitation mechanism
- 2018 – Bank of Russia joins MMoU IAIS



- 1992 – MICEX established  
– Law on insurance business
- 1995 – RTS exchange established
- 1996 – Law on securities market
- 1996 – Law on joint-stock companies
- 1999 – Law on protection of rights of securities market investors

- 2002 – First edition of the Russian corporate conduct code
- 2003 – Law on mortgage-backed securities
- 2011 – Law on insider trading  
– MICEX and RTS merge into the Moscow Exchange  
– FISS joins FFMS and the latter becomes insurance market regulator
- 2012 – National Settlement Depository obtains status of the Central Securities Depository (CSD) of Russia
- 2013 – National Clearing Center obtains status of the first qualified Central Counterparty (CCP) in Russia

Focus on Russian financial market development

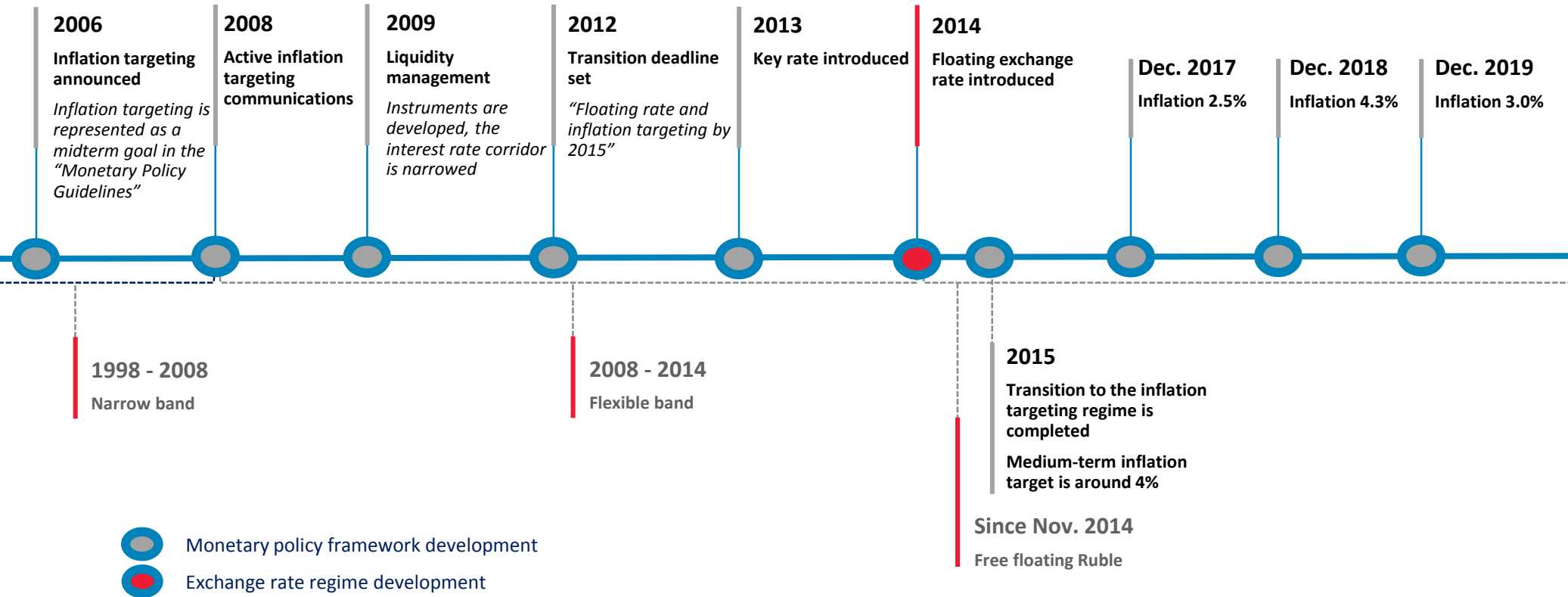
2013  
CBR becomes the megaregulator of the Russian financial sector

### Federal Financial Markets Service (FFMS): founded in 1993



# EVOLUTION (2)

## Monetary policy framework development





## Evolution (3)

Bank of Russia supervises the following key segments

Banking sector

Payment  
infrastructure

Non-state pension  
funds

Market  
infrastructure,  
including fair pricing

Asset managers

Securities market,  
including securities  
market professionals

Microfinance

Credit rating  
agencies

Insurance sector

## REFORMS

Promoting price and financial stability, fair competition, newest technologies and best practices



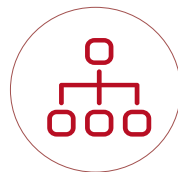
### Monetary policy

Inflation targeting regime adopted with a 4% medium-term target rate pursued using conventional monetary policy instruments



### Banking regulation and supervision

- Banking sector rehabilitation in progress, new bank resolution mechanism introduced
- Proportional regulation introduced and an advanced IRB approach for the largest banks gradually phased in
- Banking regulation compliant with the Basel II, Basel 2.5 and Basel III standards, maintaining AML/CFT supervision of credit and non-credit financial institutions (according to the Regulatory Consistency Assessment Program (RCAP) 2016)
- New macroprudential regulation mechanism in force – add-ons to risk ratios are introduced and set by the Bank of Russia Board of Directors
- Introduction of PTI ratio for macroprudential regulation purposes starting October 1, 2019
- Setting up a national rating industry - only credit ratings of Russian national agencies may be used for regulatory purposes



### Market infrastructure

- Benefits from infrastructure put in place, tax and regulatory reforms (T+2, CSD and access of ICSDs, up-to-date CCP, Individual Investment Accounts)
- Marketplace project infrastructure is developed – launch of the platform is planned for 2019



### Corporate governance

JS companies segregation into public and non-public, corporate actions reform, new corporate governance code adopted in 2014, listing rules based on the new corporate governance code, listing committees established



### Payment infrastructure

- Russian payment system infrastructure developed and currently in use by all leading international payment systems
- Payment infrastructure monitoring and supervision
- System for transfer of financial messages (SPFS) has been developed
- The Faster Payments System launched in January 2019



### Pension system

- Guarantee fund mechanism introduced
- Investment horizon for non-state pension funds extended to 5 years
- Guaranteed pension plan (GPP) legislation introduced in 2019

## COMPLIANCE WITH INTERNATIONAL STANDARDS

Russia complies with or implements key international standards and best practices



Russia's Anti-Money Laundering system is **compliant with FATF Recommendations**



Banking regulation is **compliant with Basel II, 2.5 and Basel III (RCAP 2016)**



**High FSAP grades** in all surveyed segments, including securities market, insurance and payment infrastructure



Bank for International Settlements, IAIS and IOSCO **Principles for financial market infrastructures (PFMI)** are being implemented  
Upon monitoring the implementation of the **PFMI**, the CPMI gave Russia the highest-possible **'4' rating**



Russia advanced to **#28** in global **DOING BUSINESS-2020** rankings from 31<sup>st</sup> in the 2019 report (#35 in 2018, #40 in 2017)



National Settlement Depository is **eligible for custody arrangements under Rule 17f-7** of the US Investment Company Act of 1940



Russia is a party to the Articles of Agreement of the IMF and **upholds free movement of capital**



Insurance sector has **started implementing Solvency II** European principles



## INTERNATIONAL COOPERATION

Bank of Russia cooperates with international financial institutions, regulators and associations



BANK FOR  
INTERNATIONAL  
SETTLEMENTS



THE WORLD BANK  
IBRD • IDA

WORLD TRADE  
ORGANIZATION



INTERNATIONAL ORGANISATION  
OF PENSION SUPERVISORS

G20



OICU-IOSCO



EAEU  
Eurasian  
Economic  
Union



COUNCIL OF EUROPE  
CONSEIL DE L'EUROPE

COMMITTEE OF EXPERTS ON THE  
EVALUATION OF ANTI-MONEY  
LAUNDERING MEASURES AND THE  
FINANCING OF TERRORISM  
(MONEYVAL)

FSB

FINANCIAL  
STABILITY  
BOARD



Monetary Authority of Singapore



BRICS



ISDA | Safe,  
Efficient  
Markets



European Securities and  
Markets Authority



ICMA

International Capital Market Association



INTERNATIONAL ACTUARIAL ASSOCIATION  
ASSOCIATION ACTUARIELLE INTERNATIONALE



IAIS

INTERNATIONAL ASSOCIATION OF  
INSURANCE SUPERVISORS



OECD

BETTER POLICIES FOR BETTER LIVES



## NEWSLETTER (1)

### Key news from the Russian financial market

March 2020	<p><b>Measures taken by the Bank of Russia to stabilise the situation and mitigate the negative impact on the Russian financial system and the economy from the increased volatility in global financial markets in the context of the coronavirus infection outbreak</b></p> <p><b>13 March 2020:</b> Fine-tuning repo auction in the amount of 500 billion rubles Temporary regulatory easing: banks are allowed not to apply add-ons to risk weights to foreign currency-denominated loans issued to manufacturers of pharmaceuticals, medical products and equipment extended from 1 March 2020 to 30 September 2020. Risk weights for investments in foreign currency-denominated debt securities of such organisations are also set free from the add-ons made during the above-mentioned period.</p> <p><b>10 March 2020:</b> the Bank of Russia decided to <b>start pre-emptive foreign currency sales</b> in the domestic market under the fiscal rule, taking into account the current oil price and its impact on the operations of the National Wealth Fund (NWF) in April 2020.</p> <p><b>9 March 2020:</b> the Bank of Russia decided to <b>suspend foreign currency purchases</b> in the domestic market under the fiscal rule over the course of the next 30 days.</p>
23 January 2020	<p>The Bank of Russia issued the <a href="#">report</a> “On determining <b>systemically important financial institutions (SIFI) and approaches to their regulation</b>” (in Russian) for public consultations. The report invites to discuss: (1) differentiated requirements for the SIFI capital buffer depending on a bank’s size and its impact on the financial system; (2) implementation of a new credit risk concentration ratio in accordance with “Basel III: Supervisory framework for measuring and controlling large exposures”; (3) make it obligatory for SIFI to apply the internal ratings-based (IRB) approach to credit risk assessment.</p>
20 January 2020	<p>The Bank of Russia issued the <a href="#">report</a> for public consultations (in Russian) to discuss the best practices in <b>interest rate risk management</b> – in line with the plans to implement new interest rate risk requirements in relation to bank portfolios and determine a procedure for calculating interest rate risk applicable to bank portfolios.</p>



## NEWSLETTER (2)

### Key news from the Russian financial market

1 January 2020	<p style="text-align: center;"><b>New standardised approach to credit risk assessment</b> in accordance with “Basel III: Finalising post-crisis reforms”:</p> <ul style="list-style-type: none"> <li>• <b>Corporate exposures</b> received a 100% risk weight, except: (1) “investment class” corporates (65%); (2) 85% risk weight for claims to small and medium-sized enterprises (SMEs) assessed on an individual basis, with the current 75% risk weight remaining for SMEs assessed on a portfolio basis; and (3) ‘special-purpose lending’ class with differentiated risk ratios (80-130%) depending on a lending type (project finance, object or commodity finance).</li> <li>• Earlier, in June 2019, lower risk-weights for <b>sovereign exposures in foreign currency</b> and for <b>lending with export guarantees</b> were introduced (50% instead of 100%).</li> <li>• Higher risk ratios (instead of the current 150% ratio) applies to <b>investments in legal entities’ unlisted shares</b> (stocks): 400% for short-term speculative investments and 250% for other investments (with a five-year transition period established).</li> <li>• For <b>loans invested by borrowers in other legal entities’ authorised capital</b>, the risk ratio has been increased from the current 150% to 200%, effective 1 January 2020.</li> <li>• Effective from 1 January 2021, 150% risk ratio set for the <b>unsecured part of default loans</b> (without collateral recognised to reduce credit risk) where estimated loan loss provision is below 20%.</li> <li>• The total insider risk ratio (N10.1) has been cancelled.</li> </ul>						
17 December 2019	The Bank of Russia considers introducing add-ons to risk weights for mortgage loans depending on both the PTI and LTV ratios effective from 1 July 2020. The suggested scale of add-ons is presented in the <a href="#">report</a> issued for public consultations.						
1 October 2019	Starting 1 October 2019, banks are required to calculate customers’ <b>PTI (payment-to-income) ratio</b> . Add-ons to the risk-weights applied to consumer loans are set by the Bank of Russia depending on both the PTI and the effective interest rate.						
	<p>Daily amount of <b>regular foreign currency purchases</b> in the domestic market under the fiscal rule is:</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%;"><b>RUB 11.3 bn</b> from 7 Feb until 5 Mar 2020</td> <td style="width: 50%;"><b>RUB 11.4 bn</b> from 8 Nov until 5 Dec 2019</td> </tr> <tr> <td><b>RUB 18.2 bn</b> from 15 Jan until 6 Feb 2020</td> <td><b>RUB 9.2 bn</b> from 7 Oct until 7 Nov 2019</td> </tr> <tr> <td><b>RUB 9.3 bn</b> from 6 Dec until 14 Jan 2020</td> <td><b>RUB 8.9 bn</b> from 6 Sep until 4 Oct 2019</td> </tr> </table>	<b>RUB 11.3 bn</b> from 7 Feb until 5 Mar 2020	<b>RUB 11.4 bn</b> from 8 Nov until 5 Dec 2019	<b>RUB 18.2 bn</b> from 15 Jan until 6 Feb 2020	<b>RUB 9.2 bn</b> from 7 Oct until 7 Nov 2019	<b>RUB 9.3 bn</b> from 6 Dec until 14 Jan 2020	<b>RUB 8.9 bn</b> from 6 Sep until 4 Oct 2019
<b>RUB 11.3 bn</b> from 7 Feb until 5 Mar 2020	<b>RUB 11.4 bn</b> from 8 Nov until 5 Dec 2019						
<b>RUB 18.2 bn</b> from 15 Jan until 6 Feb 2020	<b>RUB 9.2 bn</b> from 7 Oct until 7 Nov 2019						
<b>RUB 9.3 bn</b> from 6 Dec until 14 Jan 2020	<b>RUB 8.9 bn</b> from 6 Sep until 4 Oct 2019						
1 July 2019	The Bank of Russia raised required <b>reserve ratios on liabilities to individuals in foreign currency</b> for credit institutions by 1 percentage point to <b>8.0%</b> .						



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RUSSIAN MACRO UPDATE



# KEY INDICATORS

## Russian economy started to recover in 2016 and has moderated in 2019

Figure 1: Real GDP growth dynamics (YoY, %)

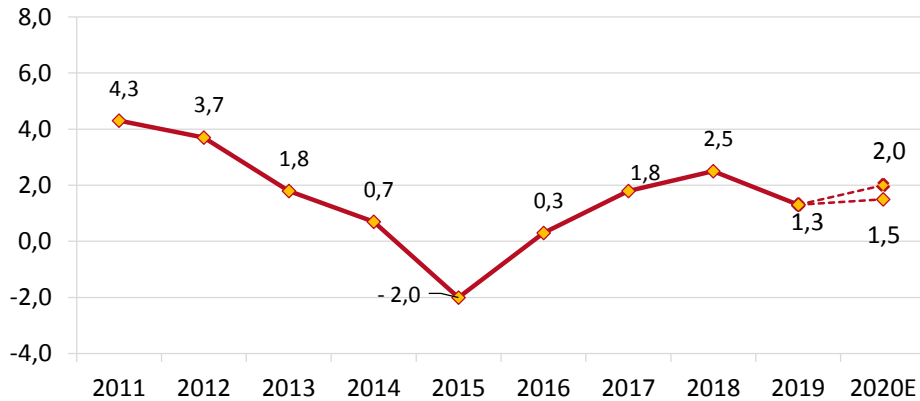


Figure 2: Private consumption and investment dynamics (YoY, %)

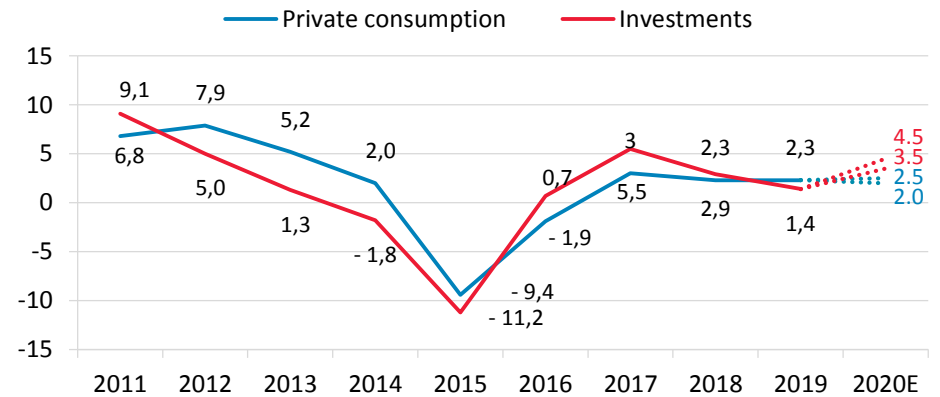
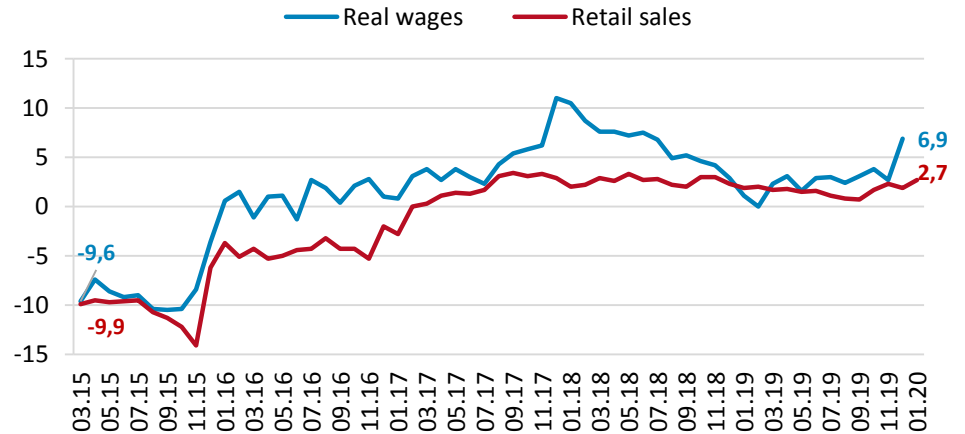


Figure 3: Russian Ruble volatility remains low while in free-floating



Figure 4: Retail sales and real wages dynamics (YoY, %)



# MACROFINANCE

## Solid fiscal and external positions

Figure 5: Current account surplus amounted to USD 71 bn in 2019

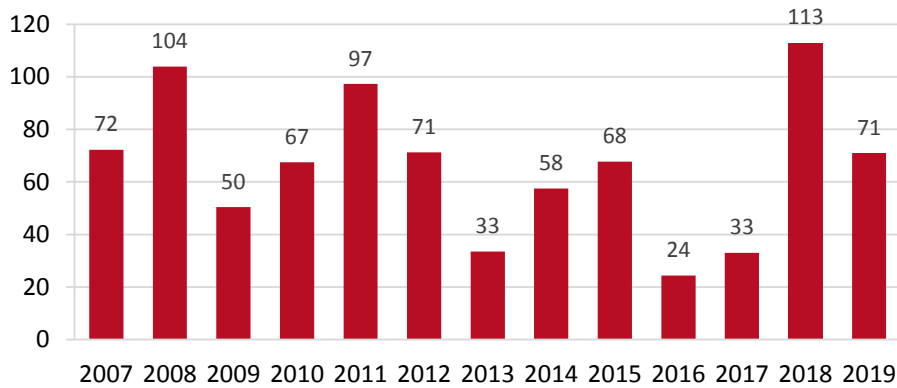


Figure 7: Significant international reserves assuring financial stability

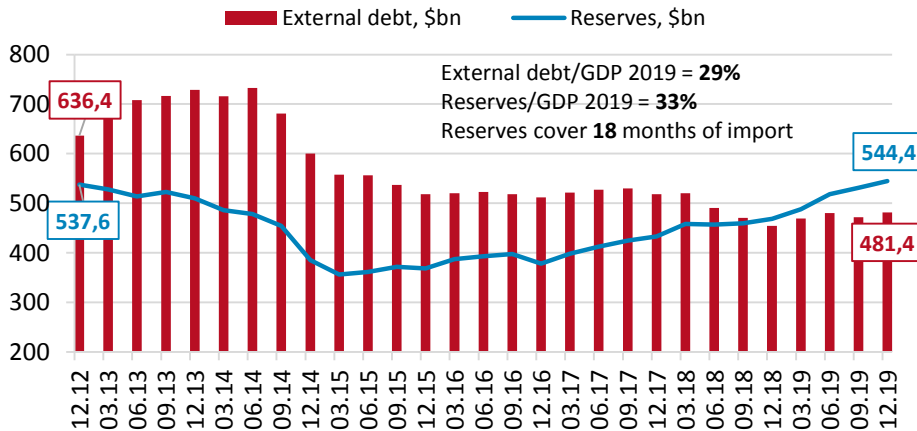


Figure 6: Strong fiscal position: budget consolidation and fiscal rule

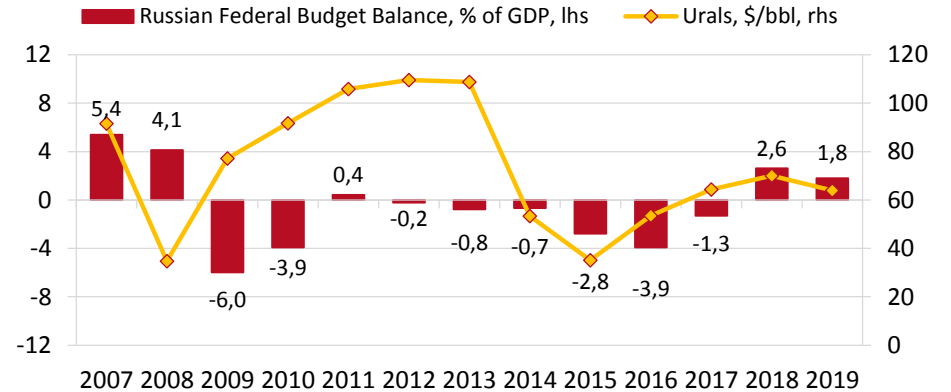
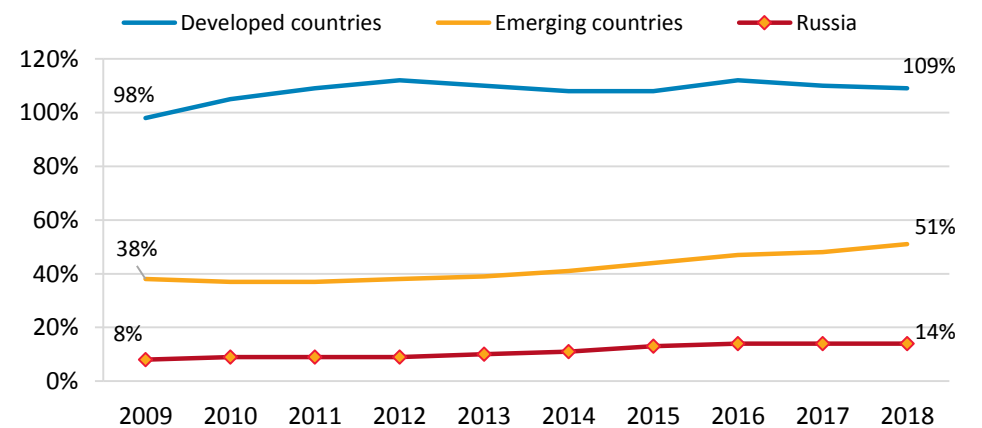


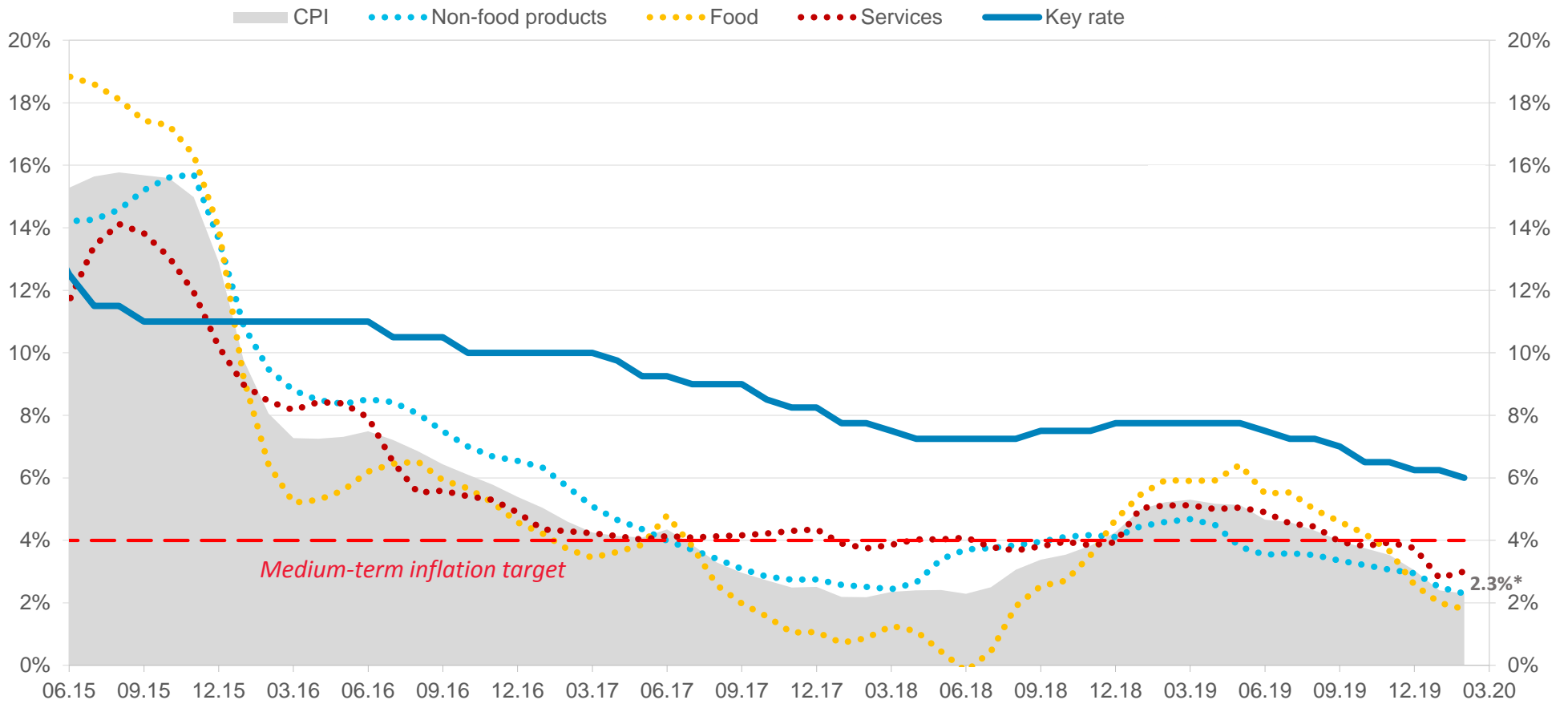
Figure 8: Sovereign debt to GDP lowest in both EM and DM spaces



# INFLATION

Medium-term inflation target is set at around 4%

Figure 9: Inflation (YoY, %)



Source: Bank of Russia, Rosstat

\*Inflation is 2.3% as of February 29, 2020

## INFLATION EXPECTATIONS

Households' inflation expectations and price expectations of businesses remain stable overall

		2017		2018				2019												2020
		III	IV	I	II	III	IV	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
<b>Inflation expectations (absolute numbers), %</b>																				
<b>Households</b>																				
FOM (median, expected inflation)	Next 12 months	9.6	8.7	8.5	9.8	10.1	10.2	10.4	10.1	9.1	9.4	9.3	9.4	9.4	9.1	8.9	8.6	8.3	9.0	8.3
FOM (subgroup with savings)	Next 12 months	9.4	8.3	8.0	9.0	9.2	9.1	8.5	9.1	8.0	8.6	8.6	8.3	8.6	8.9	8.4	7.6	7.3	8.3	7.6
FOM (subgroup without savings)	Next 12 months	9.8	9.0	8.8	10.3	10.5	10.8	11.2	10.8	9.8	9.9	9.9	10.0	9.7	9.3	9.2	9.5	8.9	9.4	8.5
FOM (median, observed inflation)	Past 12 months	11.2	10.0	9.2	10.6	10.2	10.2	10.1	10.6	10.0	10.5	10.4	10.2	9.9	10.0	9.9	9.4	8.7	9.4	8.6
FOM (subgroup with savings)	Past 12 months	10.3	9.8	8.4	9.7	10.0	9.2	9.1	9.4	9.2	9.9	9.7	9.0	9.5	9.2	9.4	8.2	7.6	8.7	8.0
FOM (subgroup without savings)	Past 12 months	11.7	10.2	9.6	11.2	10.4	10.8	10.6	11.4	10.8	10.9	10.8	11.1	10.2	10.3	10.4	10.2	9.2	9.6	8.9
<b>Professional analysts</b>																				
Bloomberg	2020							4.0	4.0	4.0	4.0	4.0	4.0	3.9	3.9	4.0	3.8	3.8	3.6	3.6
Bloomberg	2021									4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
<b>Financial markets</b>																				
OFZ IN (option not subtracted)	2023	4.2	3.9	3.9	4.7	5.5	5.1	4.9	4.7	4.6	4.6	4.3	3.9	3.7	3.5	3.2	3.0	2.8	2.8	2.7
OFZ IN (option not subtracted)	2028			4.7	5.5	5.2	5.0	4.9	4.9	4.8	4.5	4.1	3.9	3.8	3.5	3.2	3.2	3.4	3.2	
<b>Inflation expectations (balanced index**)</b>																				
<b>Households</b>																				
FOM	Next 12 months	-3.6	0.5	-3.2	9.1	9.8	20.6	18.6	11.5	8.0	5.6	6.5	5.4	11.2	8.4	5.9	8.3	6.9	7.7	5.4
FOM	Next month	-16.9	-16.9	-16.4	1.4	-4.6	-2.8	2.7	-8.8	-10.5	-7.9	-11.4	-13.6	-10.7	-15.6	-16.1	-12.9	-14.9	-19.9	-20.5
<b>Businesses</b>																				
Bank of Russia monitoring	Next 3 months	7.6	7.4	6.8	10.2	12.6	16.5	18.7	12.8	10.6	9.6	9.4	9.9	9.1	8.8	8.3	8.2	8.3	8.5	8.3
PMI manufacturing input prices	Current month	14.6	14.2	16.4	40.6	38.2	25.0	36.6	28.0	32.4	18.6	12.4	9.2	7.2	10.4	8.6	10.2	6.4	8.0	8.0
PMI manufacturing output prices	Current month	8.2	3.0	3.0	13.2	13.6	5.0	17.0	20.4	12.2	7.4	3.8	3.0	1.0	4.8	0.8	2.6	1.4	0.8	0.8

\*\*Balanced index is the difference between the shares of those who expect prices to rise and to fall

Source: FOM, Rosstat, Bloomberg, Bank of Russia





## ECONOMIC FORECASTS (1)

### Medium-term outlook for the Russian economy

Key parameters of the Bank of Russia's forecast scenarios (growth as % of previous year, if not indicated otherwise)	2019 (actual)	BASELINE		
		2020	2021	2022
Urals price, average for the year, US dollars per barrel	64	55	50	50
<b>Inflation, as % in December year-on-year</b>	<b>3.0</b>	<b>3.5-4.0</b>	<b>4.0</b>	<b>4.0</b>
Inflation, average for the year, as % year-on-year	4.5	3.0-3.4	4.0	4.0
<b>Gross domestic product</b>	<b>1.3</b>	<b>1.5-2.0</b>	<b>1.5-2.5</b>	<b>2.0-3.0</b>
Final consumption expenditure	2.4	1.5-2.0	1.5-2.0	1.8-2.3
– households	2.3	2.0-2.5	2.0-2.5	2.0-2.5
Gross capital formation	2.7	3.5-4.5	3.5-4.5	2.5-3.5
– gross fixed capital formation	1.4	3.5-4.5	3.5-4.5	2.5-3.5
Exports	-2.1	2.0-2.5	2.0-2.5	2.5-3.0
Imports	2.2	3.0-3.5	3.5-4.0	2.5-3.0
Money supply in national definition	9.7	7-12	7-12	7-12
<b>Claims on organisations and households in rubles and foreign currency*</b>	<b>10.1</b>	<b>7-12</b>	<b>7-12</b>	<b>7-12</b>
– on organisations	7.1	6-10	6-10	6-10
– on households	19.0	10-15	10-15	10-15

\*Banking sector claims on organisations and households means all of the banking sector's claims on non-financial and financial institutions and households in rubles, foreign currency and precious metals, including loans issued (including overdue loans), overdue interest on loans, credit institutions' investment in debt and equity securities and promissory notes, as well as other forms of equity interest in non-financial and financial institutions, and other accounts receivable from settlement operations involving non-financial and financial institutions and households.

Claims' growth rates are given with the exclusion of foreign currency revaluation. In order to exclude the effect of foreign currency revaluation the growth of claims in foreign currency and precious metals is converted to rubles using the period average USDRUB exchange rate

Source: Bank of Russia



## ECONOMIC FORECASTS (2)

### Medium-term outlook for the Russian economy

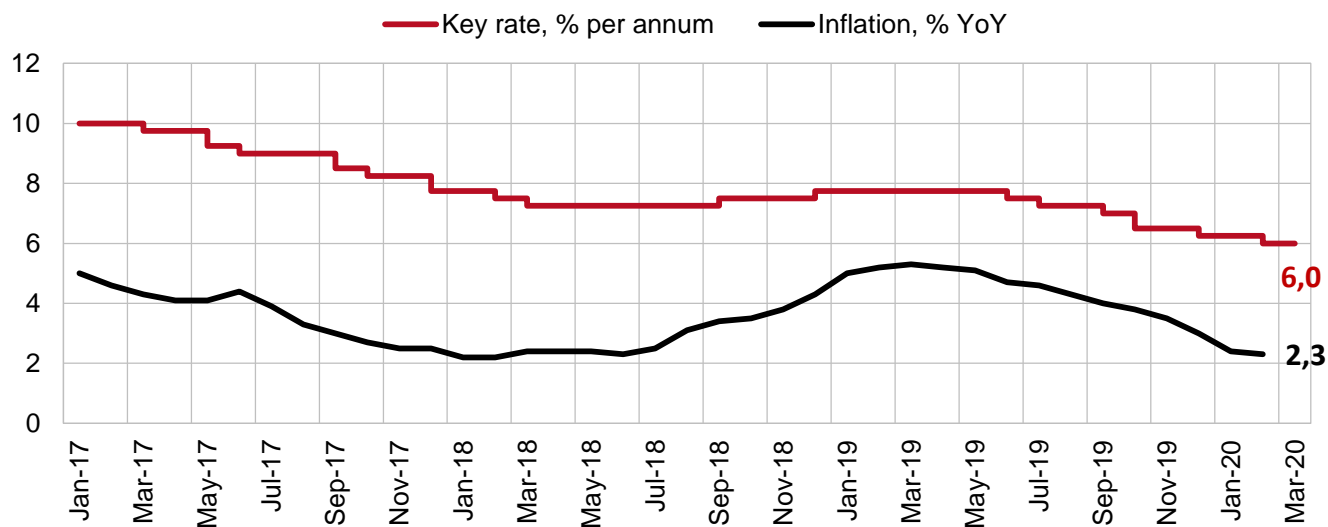
Russia's balance of payments indicators* (billions of US dollars)	2019 (est)	BASELINE		
		2020	2021	2022
<b>Current account</b>	<b>71</b>	<b>47</b>	<b>30</b>	<b>18</b>
Balance of trade	163	136	122	115
Exports	418	395	388	392
Imports	255	259	266	277
Balance of services	-35	-36	-38	-42
Exports	64	64	65	65
Imports	98	100	103	107
Balance of primary and secondary income	-58	-53	-54	-55
<b>Current and capital account balance</b>	<b>70</b>	<b>47</b>	<b>30</b>	<b>18</b>
<b>Financial account (excluding reserve assets)</b>	<b>-2</b>	<b>9</b>	<b>4</b>	<b>4</b>
Government and the central bank	-24	-6	-6	-6
Private sector	22	15	10	10
<b>Net errors and omissions</b>	<b>-5</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change in reserve assets ('+' – increase, '-' – decrease)</b>	<b>66</b>	<b>38</b>	<b>25</b>	<b>14</b>

\* Using the methodology of the 6th edition of "Balance of Payments and International Investment Position Manual" (BPM6). In the Financial account "+" stands for net lending, "-" – for net borrowing. Due to rounding total results may differ from the sum of respective values.



## MONETARY POLICY

- ❑ In February — March, the situation has been developing with a significant deviation from the Bank of Russia’s forecast under the baseline scenario. This is related to changes in external conditions: the spread of the coronavirus epidemic and a sharp drop in oil prices.
- ❑ The ruble’s depreciation is a temporary proinflationary factor. It might prompt annual inflation to exceed the target level this year.
- ❑ However, the dynamics of domestic and external demand will exert a meaningful constraining influence on inflation on the back of a pronounced slowdown of global economic growth and increased uncertainty.
- ❑ The package of measures adopted by the Government and the Bank of Russia ensures financial stability and will support the economy.
- ❑ Given the current monetary policy stance, annual inflation will return to 4% in 2021.



Source: Bank of Russia

**Decision**  
as of March 20, 2020

**The Bank of Russia  
keeps the key  
at 6.00% p.a.**

**Signal**

*“...In its key rate decision-making, the Bank of Russia will take into account actual and expected inflation dynamics relative to the target and economic developments over the forecast horizon, as well as risks posed by domestic and external conditions and the reaction of financial markets. ...”*

## INTERNATIONAL RESERVES

### Foreign exchange and gold assets by asset class

Assets	As of 30 June 2018		As of 30 June 2019		Change in July 2018 – June 2019, billions of US dollars
	billions of US dollars	share of assets, %	billions of US dollars	share of assets, %	
Government securities of foreign issuers*	187	40.8	206.2	39.9	19.2
Deposits and account balances with foreign counterparties	131.1	28.6	147.5	28.5	16.4
Gold	76.9	16.8	98.7	19.1	21.8
Non-government securities of foreign issuers**	32.1	7	36.4	7	4.3
International organisations securities	21.9	4.8	15.8	3.1	-6.1
Reverse repo operations with foreign counterparties	3.8	0.8	7.2	1.4	3.4
Claims in foreign currency on Russian counterparties and issuers***	3.6	0.8	2.7	0.5	-0.9
Net position with the IMF	1.9	0.4	2.6	0.5	0.6
Claims on foreign counterparties on foreign currency supply	0	0	-0.1	0	-0.1
<b>Total****</b>	<b>458.3</b>	<b>100</b>	<b>516.8</b>	<b>100</b>	<b>58.5</b>

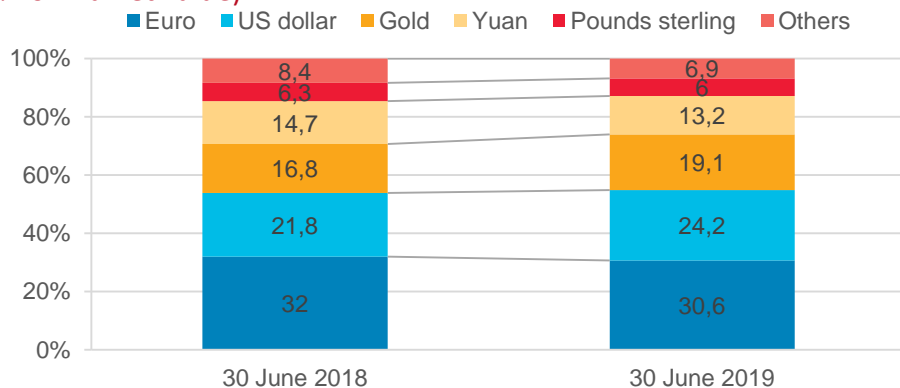
\* Securities issued by a foreign government or foreign issuers with explicit government guarantee.

\*\* Securities of foreign issuers that are expected to almost certainly receive government support due to the special role or importance of their organisations in the economy of the country or region (implied guarantee).

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

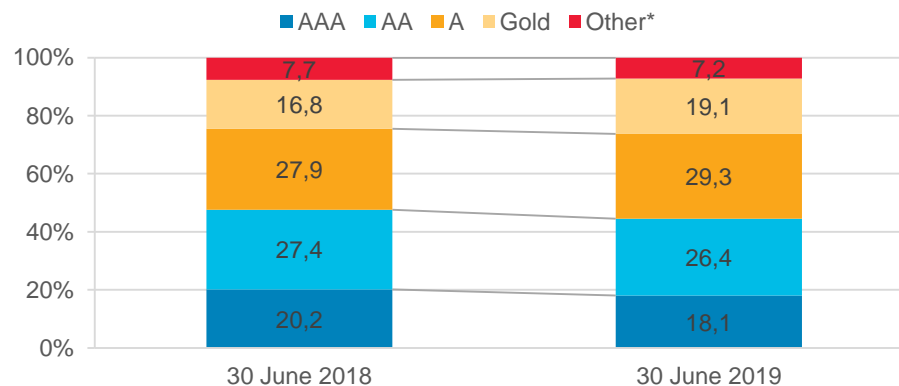
\*\*\*\* The total value may differ from the sum of asset classes values due to rounding.

Figure 10: Bank of Russia foreign exchange and gold assets by currency\* (% of market value)



\* The distribution takes into account unsettled conversion transactions as of 31 March 2018 and 31 March 2019.

Figure 11: Bank of Russia foreign exchange and gold assets by credit rating, %



\* Mainly claims on Russian counterparties and issuers and Russia's net position with the IMF.

# 3

## FINANCIAL SECTOR OVERVIEW



## FINANCIAL MARKET DEVELOPMENT STRATEGY

### Guidelines for the Development of the Russian Financial Market in 2019 - 2021

The Bank of Russia Guidelines for the Development of the Russian Financial Market in 2019 – 2021 cover the following key areas and activities:



#### Building reliable financial environment

- Involvement of financial consumer ombudsmen in disputes resolution
- Increase of personal responsibility of management
- Limited employment opportunities in financial sector for malicious (unscrupulous) people
- Development of qualified investor institute
- Increase of responsibility for substandard sale of financial products
- Unified financial transactions register



#### Improving financial inclusion and availability of capital

- Introduction of individual pension capital accounts
- Introduction of “green” bonds
- Crowdfunding
- Introduction of new rules for crediting private-public partnerships
- Development of concession projects
- Marketplace project launch
- Introduction of financial services access points map
- Development of remote identification and unified biometric system
- Development of electronic insurance services distribution channels
- Improving insurance services inclusion in Russian regions



#### Developing market competitiveness

- Implementation of integrated road map for developing competition in various sectors of Russian economy approved by the Government
- Building biometric database
- Credit history bureau reform
- Marketplace project launch
- Faster payment system in force
- Testing of digital identification platform
- “Regulatory sandbox” project development
- Bank of Russia’s withdrawal from the capital of banks undergoing resolution after their financial rehabilitation



#### Ensuring financial stability

- Control for the population indebtedness and prevention excessive risk accumulation in the segment
- Risk-based approach to insurance market participants
- Widening the list of financial non-credit institutions subject to stress testing
- Improving the toolkit for macroprudential stress testing



## BANKING SECTOR: CURRENT AGENDA

Shaping a favourable operating environment and supporting market competition

**Proportional banking regulation:** differentiating regulatory burden for banks based on their size and simplifying requirements for smaller banks focused on retail and SME lending

**New resolution mechanism:** reducing financial costs and execution period of the resolution procedure

**Introduction of PTI ratio** in order to regulate the consumer lending market more efficiently

**Development of banking supervision:** introduction of the Basel Committee on Banking Supervision (BCBS) standard on capital requirements for banks' equity investment in funds (since December 16, 2017)

**Risk-oriented supervision:** aiming to remedy problematic situations in banks at an early stage

**Development of macroprudential regulation:** streamlining the regulation, introducing countercyclical approach

**New regulations to the credit bureaus:** authorising several strategic credit bureaus with the function of aggregating information on debt payments

**Basel II and III in force:** Leverage ratio (except for banks with basic license), NSFR – for Domestic-SIBs

## BANKING SECTOR: PROPORTIONAL REGULATION

Differentiating regulatory burden for banks depending on their size

Regulatory burden depends on license type



- Minimum size of capital (own funds) – RUB 300 mln
- Only 5 mandatory requirements, including H1.0, H1.2, H3, H6, H25 ratios
- Limitations on international operations
- Simplified disclosure rules - not required to disclose information on accepted risks, their assessment or management procedures, or any information on financial instruments included in the calculation of their own funds (capital)
- Technically complicated international standards are non applicable

### BASIC LICENSE



- Minimum size of capital (own funds) – RUB 1 bln
- May carry out all banking operations set forth by the law
- All mandatory requirements set by the Bank of Russia must be met
- Must be compliant with all international standards
- Financial reporting fully compliant with RAS and IFRS

### UNIVERSAL LICENSE



**Systemically important financial institutions (SIFI) are subject to:**

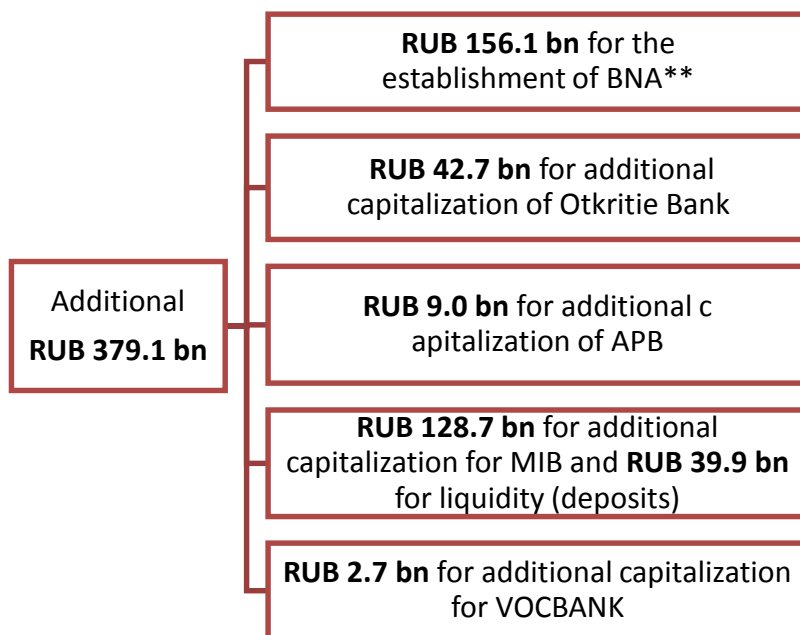
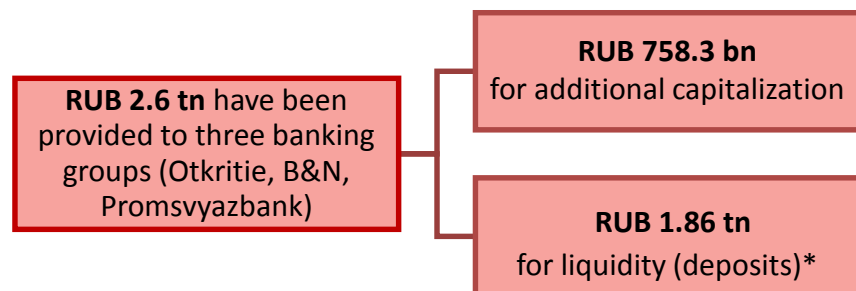
- Higher capital adequacy requirements
- Advanced risk management approach

*On 1 June 2017, Federal Law No. 92-FZ dated 1 May 2017 came into force. It envisages the introduction of proportional regulation designed to set up a regulatory balance for banks differing in scale and in the nature of operations. 138 banks hold basic license, as of 1 August 2019.*



## BANKING SECTOR: NEW RESOLUTION MECHANISM

Under new mechanism both costs of resolution and time required have been reduced significantly



### List of banks under financial rehabilitation procedure

1	Bank FC Otkritie (merged with B&N Bank)
2	Promsvyazbank
3	National Bank TRUST (with ROST Bank and AVB Bank)
4	Asian-Pacific Bank (APB)
5	Moscow Industrial Bank (merged with Volga-Oka Bank, VOCBANK in November 2019)

On July 2, 2019, the Bank of Russia's Board of Directors has decided to complete the implementation of bankruptcy prevention measures for **Bank FC Otkritie**. Currently, the Bank complies with all Bank of Russia's statutory requirements for financial resilience and creditworthiness.

**Promsvyazbank** complies with all capital adequacy and liquidity requirements and operates its business in its usual way. The bank fully repaid CBR deposits placed in the bank during resolution process.

As a result of the financial resolution measures and implementation of a new business model in the **Asian-Pacific Bank**, its financial standing has been stabilised, new capital has been formed, outflow of its clients' funds has been stopped, its solvency has been restored and the Bank's profitability has become stable. The Bank is supposed to be sold in 2020 after it discloses information about its 2019 performance to the public, including potential investors.

On 12 July 2019, the Bank of Russia approved amendments to the plan of its participation in bankruptcy prevention measures for the **Moscow Industrial bank (MIB)**. These amendments provide for the Bank of Russia to allocate 128.7 billion rubles for recapitalisation purposes.

\* Have been fully repaid by the end of 2018

\*\*BNA – Bank of non-core assets based on NB TRUST, ROST BANK and Bank AVB

## BANKING SECTOR: KEY FIGURES

Active supervision and tighter regulation allowed to strengthen the health of the banking sector

Figure 12: In 2013-2018 more than 450 licenses were revoked causing almost no impact on the banking sector's total assets

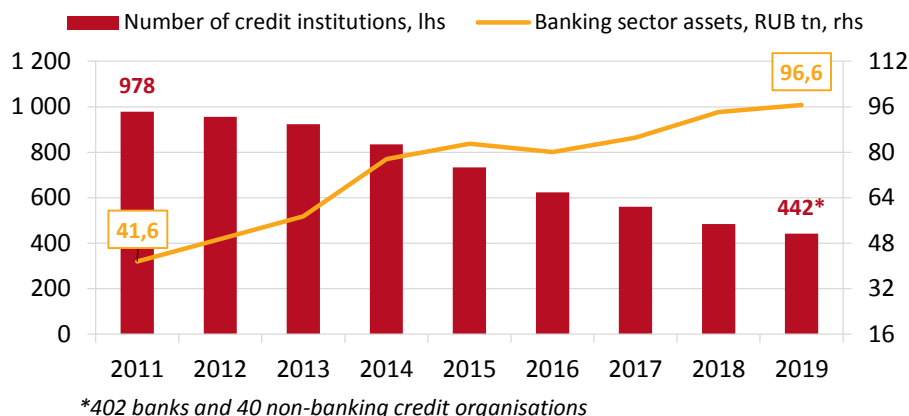
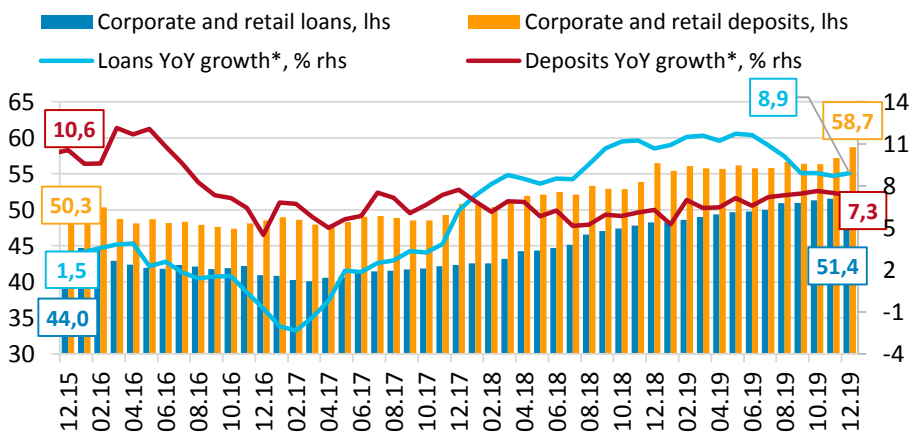


Figure 14: Loans and deposits volume (RUB tn) and growth rates



\*YoY, ccy adj. by credit institutions operating as of the reporting date

Figure 13: Banking sector profitability restored to record high levels

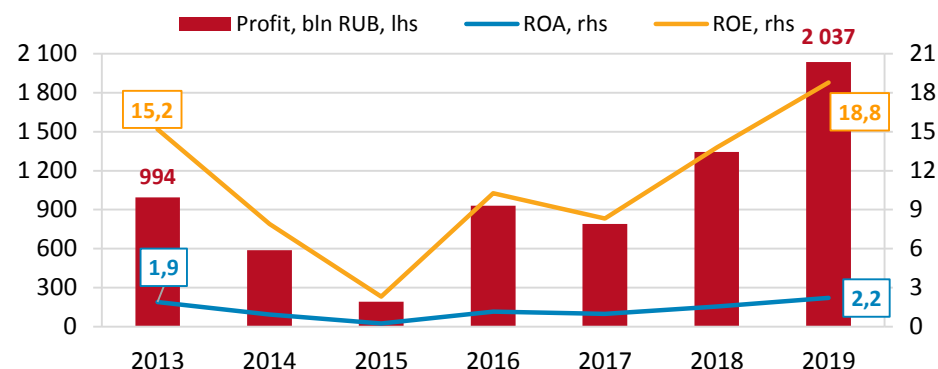
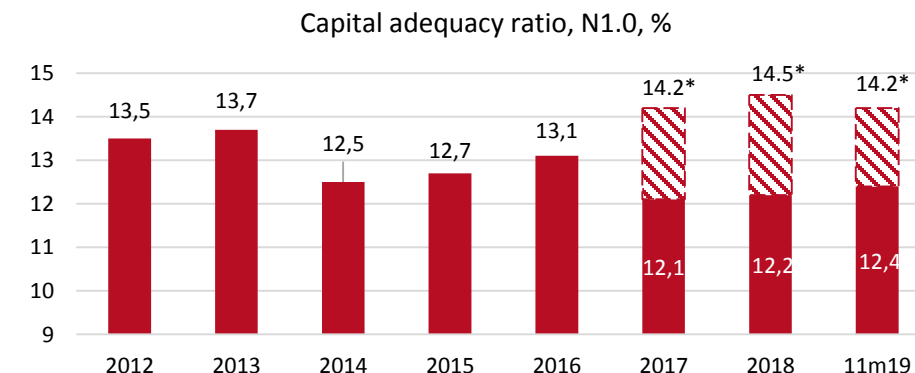


Figure 15: Banks hold an acceptable level of capital under Basel III



\*Excluding credit institutions under financial rehabilitation procedure

## BANKING SECTOR: FUNDING

The funding of the banking sector mostly comes from corporate and retail deposits

Figure 16: In December 2019 corporate deposits grew by 4.4% YoY to RUB 28.1 tn

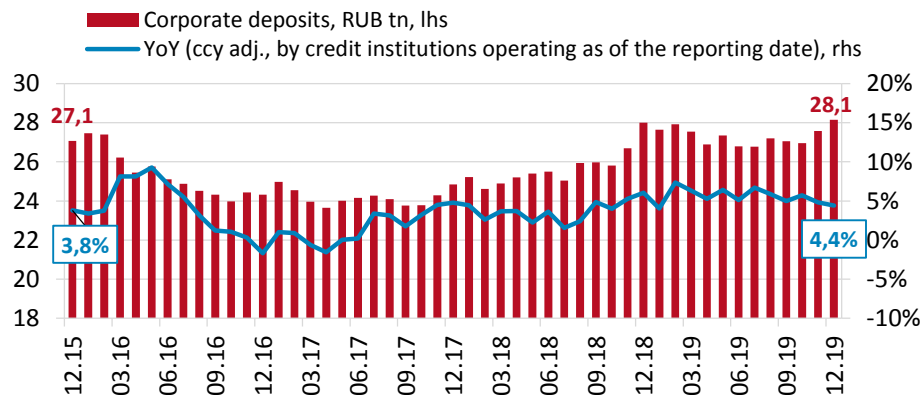


Figure 17: In December 2019 retail deposits demonstrated growth of 10.1% YoY, reaching RUB 30.5 tn

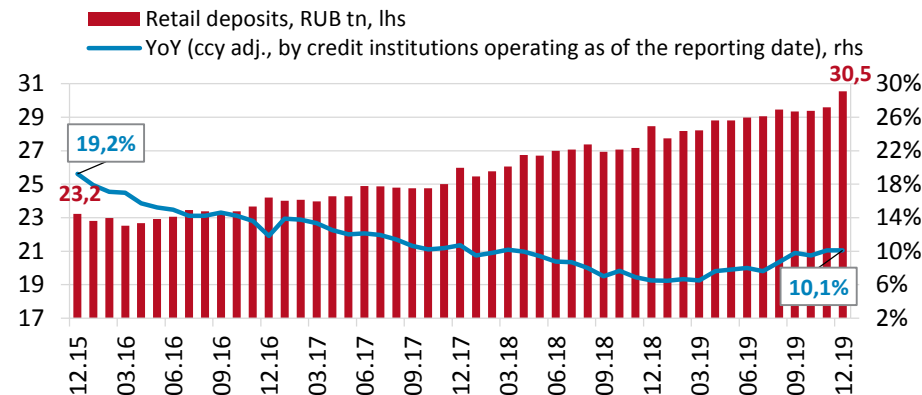


Figure 18: Operations with the Bank of Russia, tn RUB

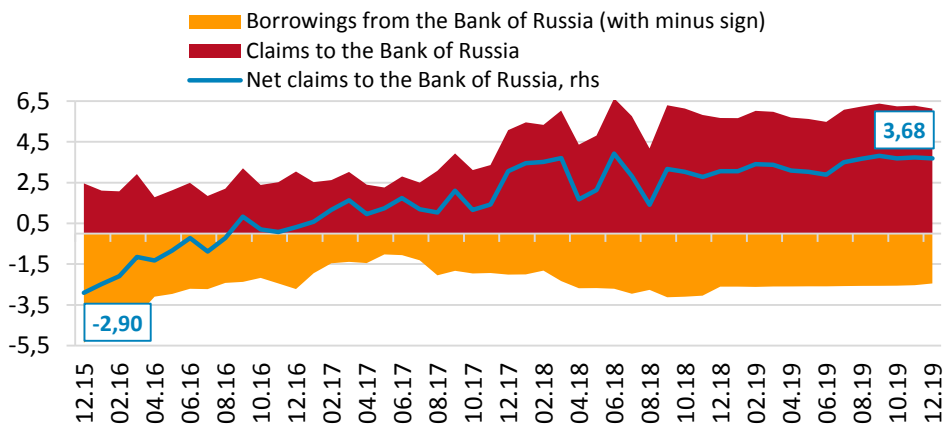
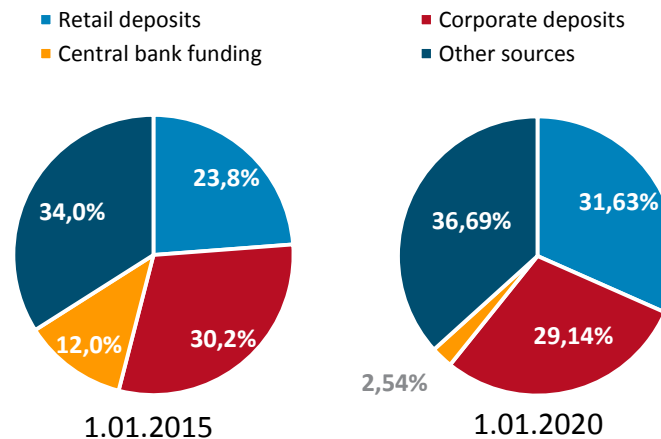


Figure 19: Sources of funding, % of total liabilities



# BANKING SECTOR: LENDING

Retail loans remain the key driver of credit expansion although the pace of growth has started to moderate

Figure 20: Corporate lending increased 4.5% YoY in December 2019

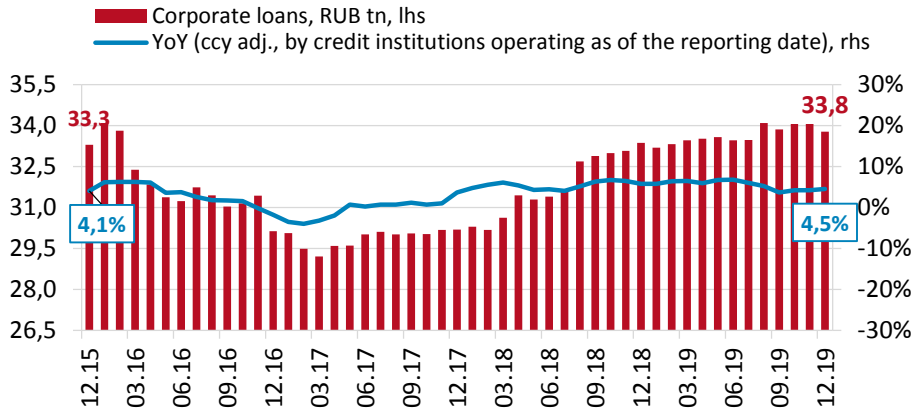


Figure 21: Retail lending increased 18.6% YoY in December 2019

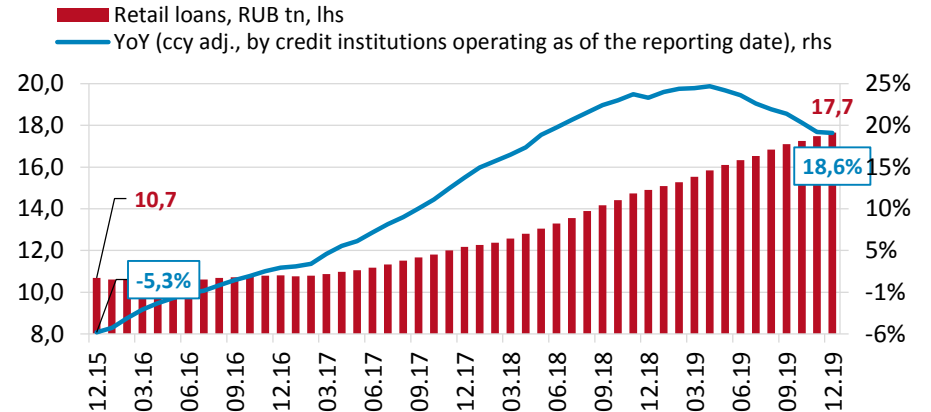


Figure 22: Share of bad corporate loans\* reached 11.3% in November 2019, while the bad loan loss reserves to bad loans ratio accounted for 71.4%

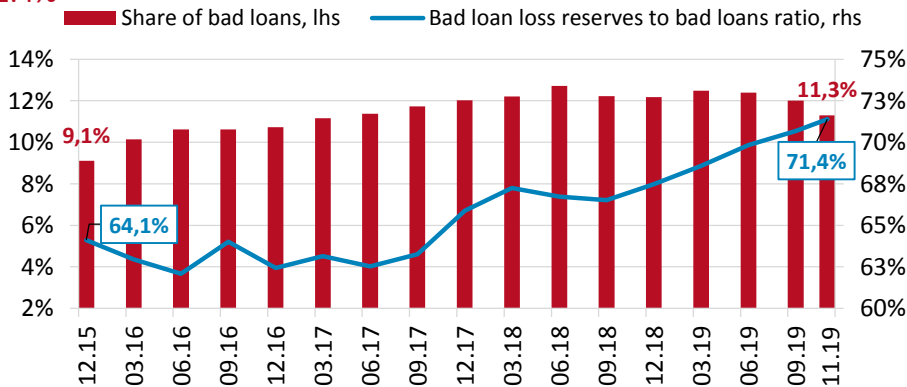
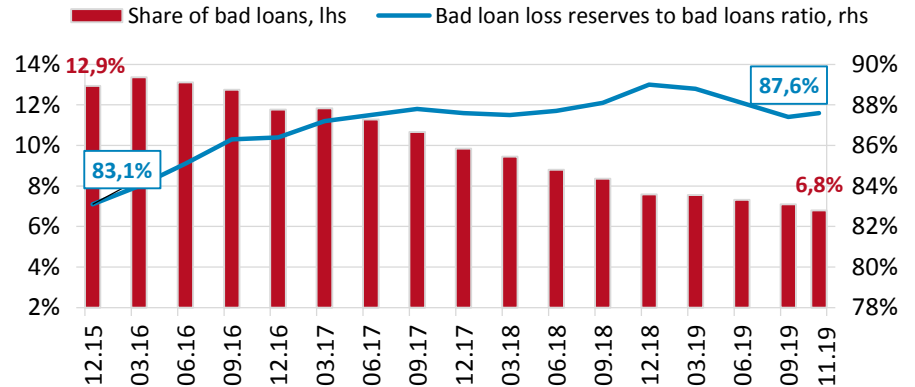


Figure 23: Retail loans portfolio demonstrates improved quality: the share of bad loans\* reached 6.8% in November 2019



\* Loans classified into quality category of IV and V according to the requirements of Regulation No.590-P2.

Quality category IV – high credit risk (probability of financial losses due to non-performance or improper performance of obligations by the borrower requires its depreciation by 51 to 100 per cent);

Quality category V – no possibility of loan repayment due to the borrower’s inability or refusal to meet loan commitments, which requires complete (100 per cent) depreciation of the loan.

## BANKING SECTOR: MORTGAGE SEGMENT

Mortgage lending is characterised by high (although falling) growth rates and decent asset quality

Figure 24: Mortgage lending increased 16.5% YoY in November 2019

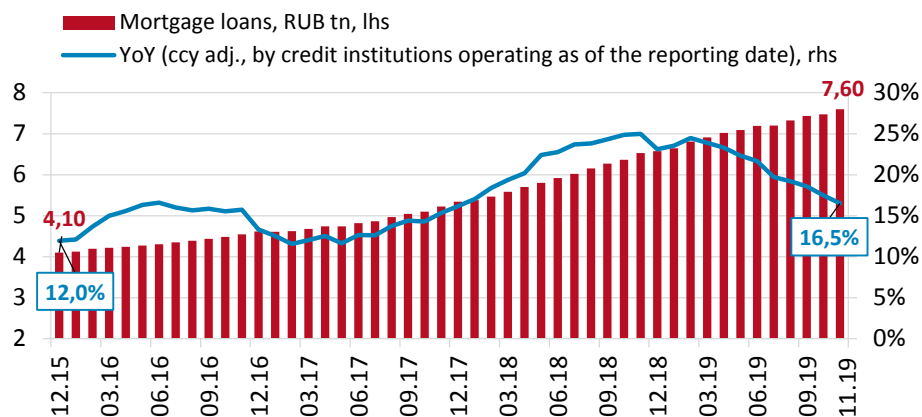


Figure 25: Share of NPLs remains at historically low levels

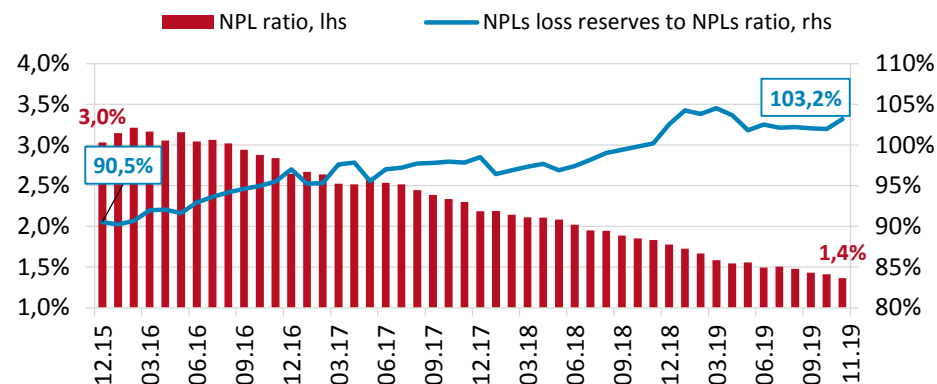


Figure 26: Distribution of mortgage borrowers by LTV

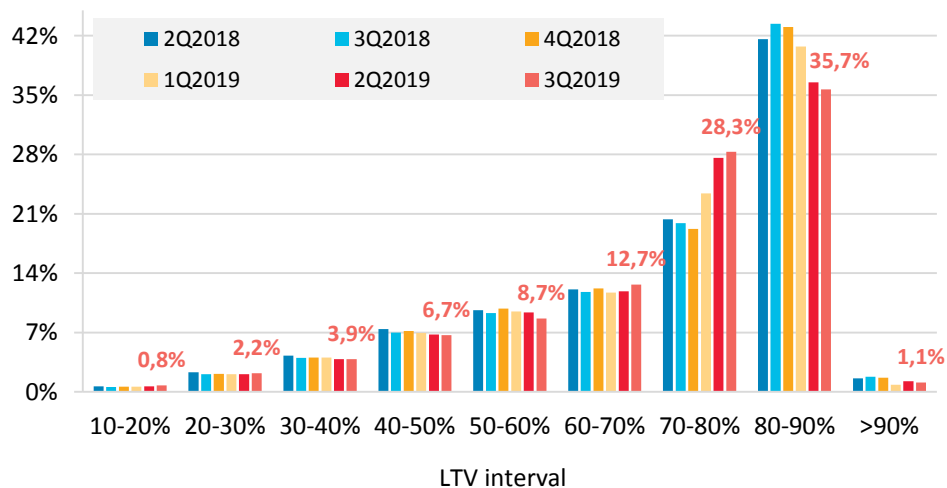
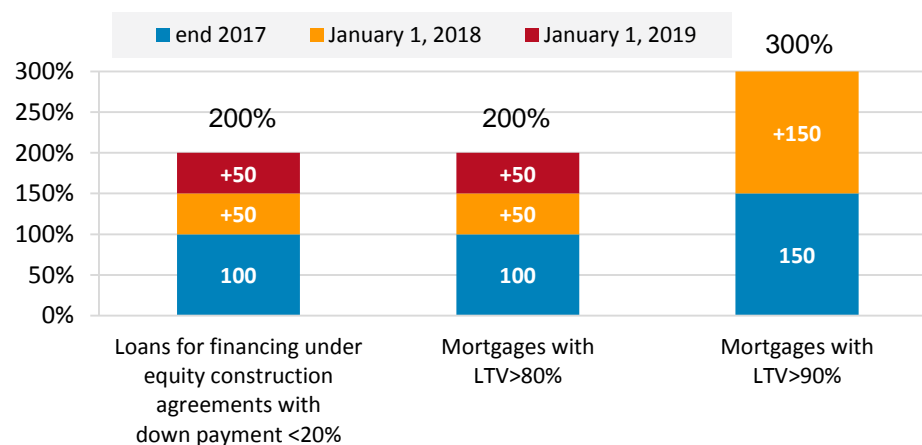


Figure 27: Risk weights applied to mortgage loans





# BANKING SECTOR: UNSECURED CONSUMER LENDING

## Unsecured lending market growth rate has somewhat moderated following new macroprudential regulations

Figure 28: Unsecured consumer lending increased 21.2% YoY in November 2019

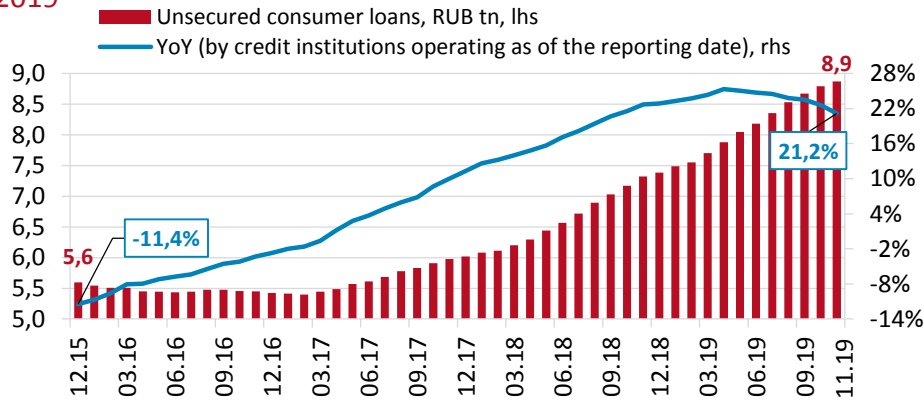


Figure 29: Risk weights applied to unsecured consumer loans, %

Against the background of advancing growth in unsecured consumer lending relative to households' income, **The Bank of Russia revised the scale of risk weights** for such loans in 2017-2018 in order to prevent excessive risk-taking in this segment

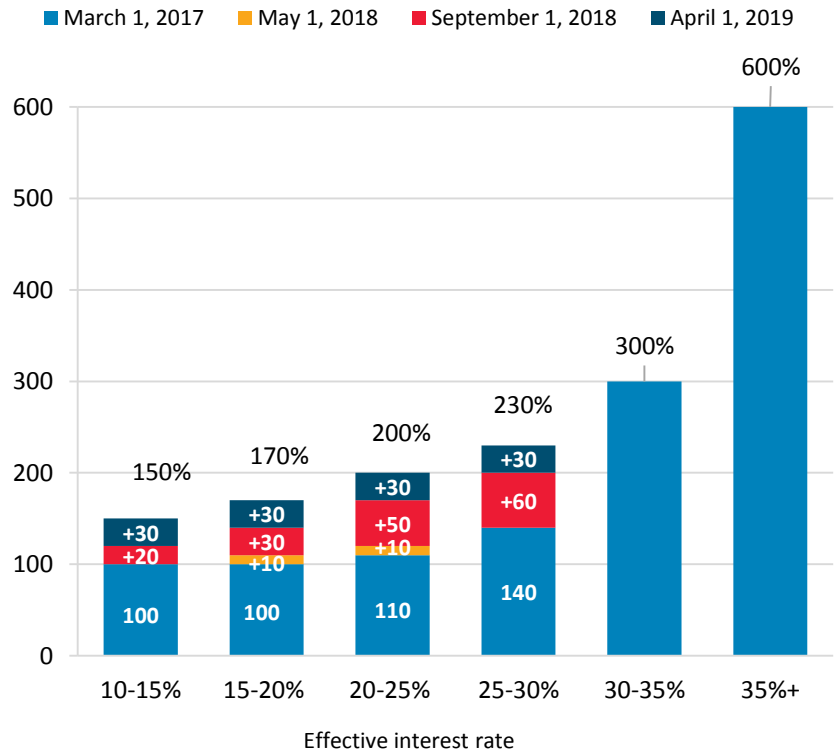
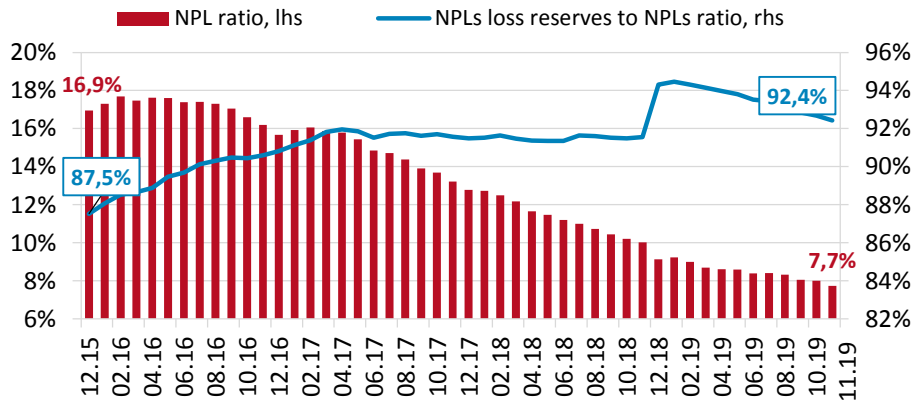


Figure 30: Share of NPLs decreased to 7.7% in December 2019





## BANKING SECTOR: INTRODUCTION OF PTI

The Bank of Russia introduces a payment to income ratio for regulatory purposes

Effective from 1 October 2019, the Bank of Russia set add-ons to the risk coefficients depending on the payment to income ratio (PTI) and the effective interest rate (EIR).

		PTI interval, %						
		0-30	30-40	40-50	50-60	60-70	70-80	80+
EIR interval, %	0-10	0.3	0.3	0.3	0.6	0.7	0.9	1.1
	10-15	0.5	0.5	0.5	0.7	0.8	1.0	1.2
	15-20	0.7	0.7	0.7	1.1	1.3	1.4	1.6
	20-25	1.0	1.0	1.0	1.5	1.7	1.8	2.0
	25-30	1.3	1.3	1.3	1.8	1.9	2.0	2.2
	30-35	2.0	2.0	2.0	2.1	2.2	2.3	2.5
	35+	5.0	5.0	5.0	5.0	5.0	5.0	5.0

Values of add-ons to the risk coefficients applied to unsecured consumer loans subject to calculation of PTI

Higher level of add-ons are applied to loans with PTI exceeding 50%.

Banks calculate PTI in accordance with Appendix 1 to Bank of Russia Ordinance No.4892 U when making a decision on granting a loan in the amount (total credit amount) of ₹10,000 or more or an increase in the total credit amount on a bank card.

EIR interval, %	0-10	10-15	15-20	20-25	25-30	30-35	35+
Value of add-ons	0.6	0.7	1.1	1.5	1.8	2.1	5.0

Values of add-ons to the risk coefficients applied to unsecured consumer loans for which PTI calculation is not obligatory



# BANKING SECTOR: INTEREST RATES

## Interest rates trending down again after a temporary pickup over 2019

Figure 31: Weighted average long-term interest rates on loans in rubles, %

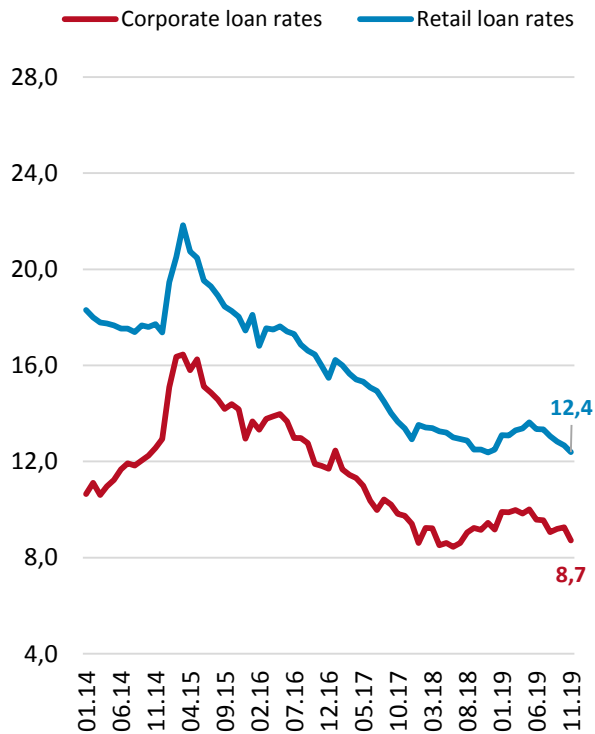


Figure 32: Weighted average long-term interest rates on deposits in rubles, %

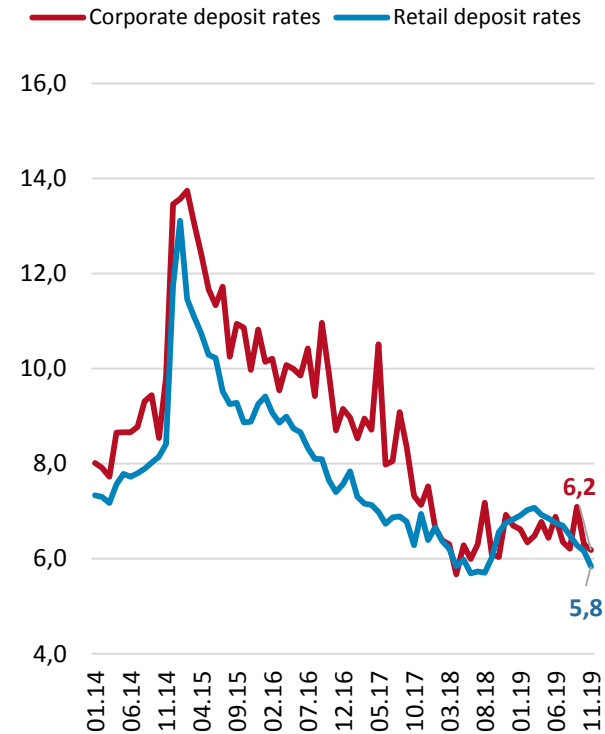
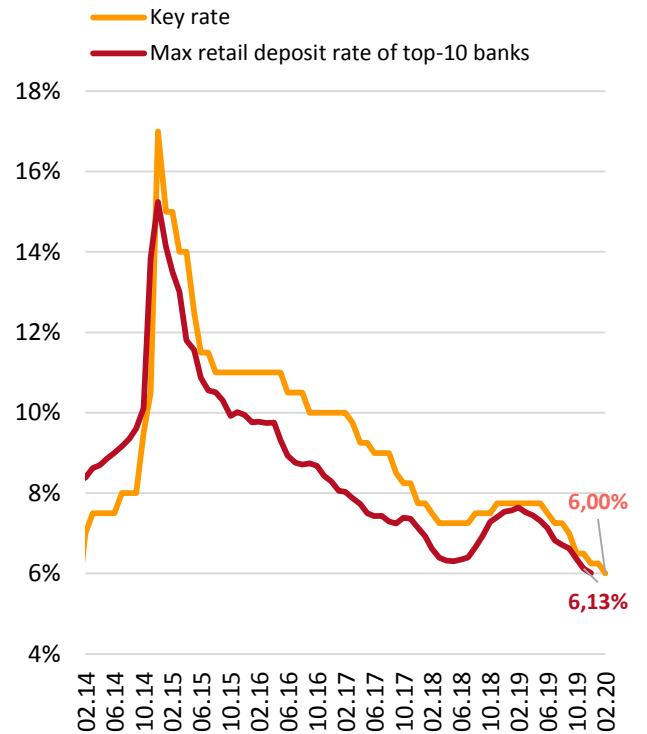


Figure 33: Max interest rate on retail deposits in rubles of top-10 banks and Bank of Russia's policy rate, %





## BANKING SECTOR: DEDOLLARISATION

Dollarization of the banking sector has notably reduced over the last years

Figure 34: Corporate FX lending declined significantly over the past few years

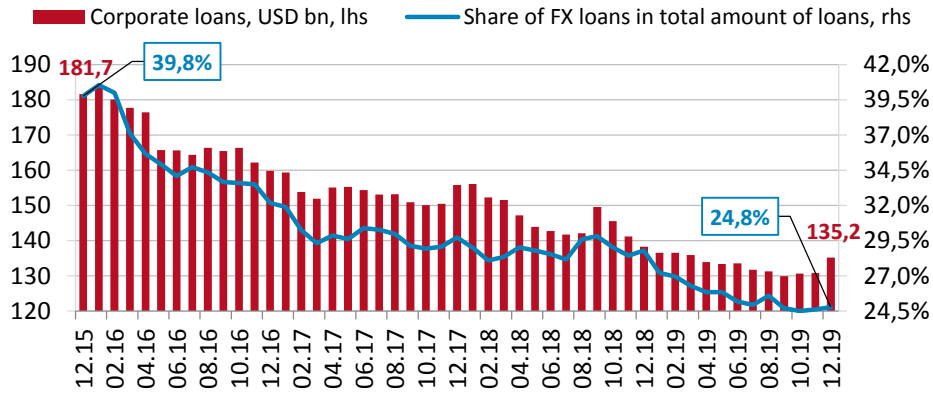


Figure 35: Retail FX loan portfolio is insignificant in size

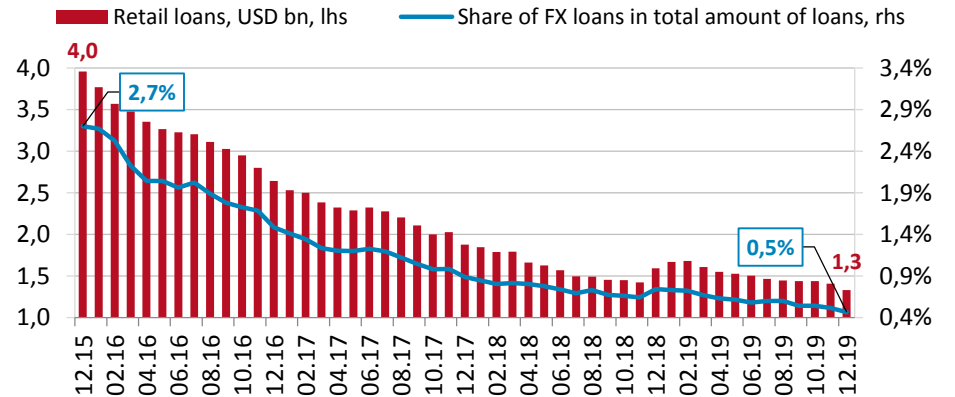


Figure 36: Share of corporate and retail FX deposits in total amount of deposits has fallen

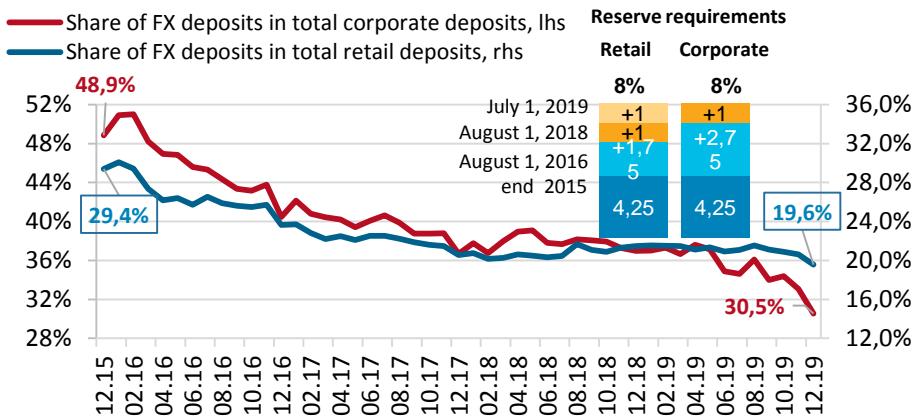
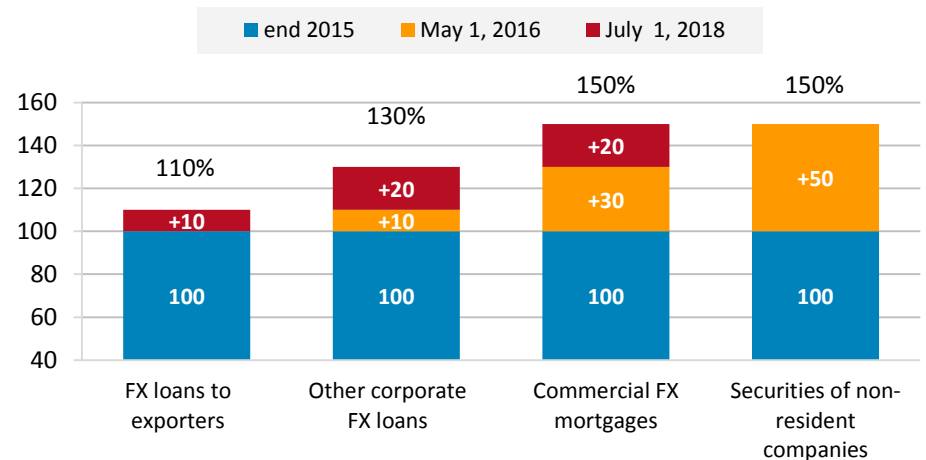


Figure 37: Risk weights applied to the FX assets, %



## BANKING SECTOR: CAPITAL ADEQUACY

High quality capital base and solid capital adequacy levels under Basel III standards

Figure 38: Capital adequacy ratio for the banking sector decreased over from 12.7% (1.01.16) to 12.4% (1.12.19) mostly due to the procedures of financial rehabilitation of the large credit institutions

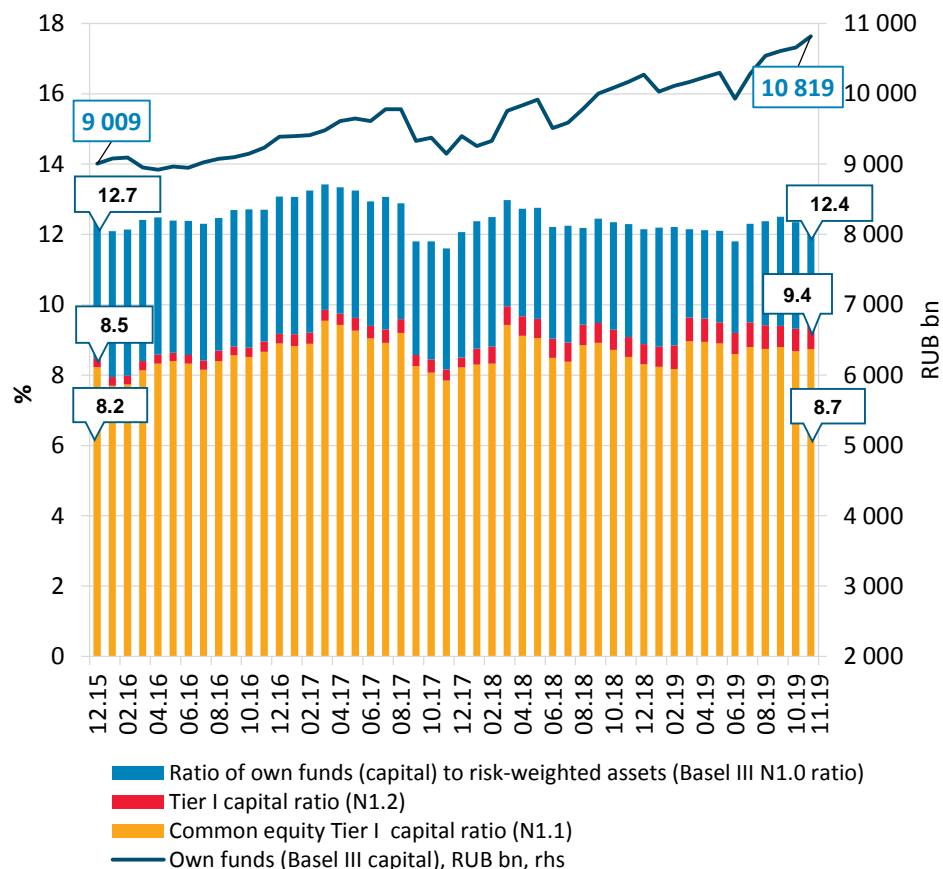
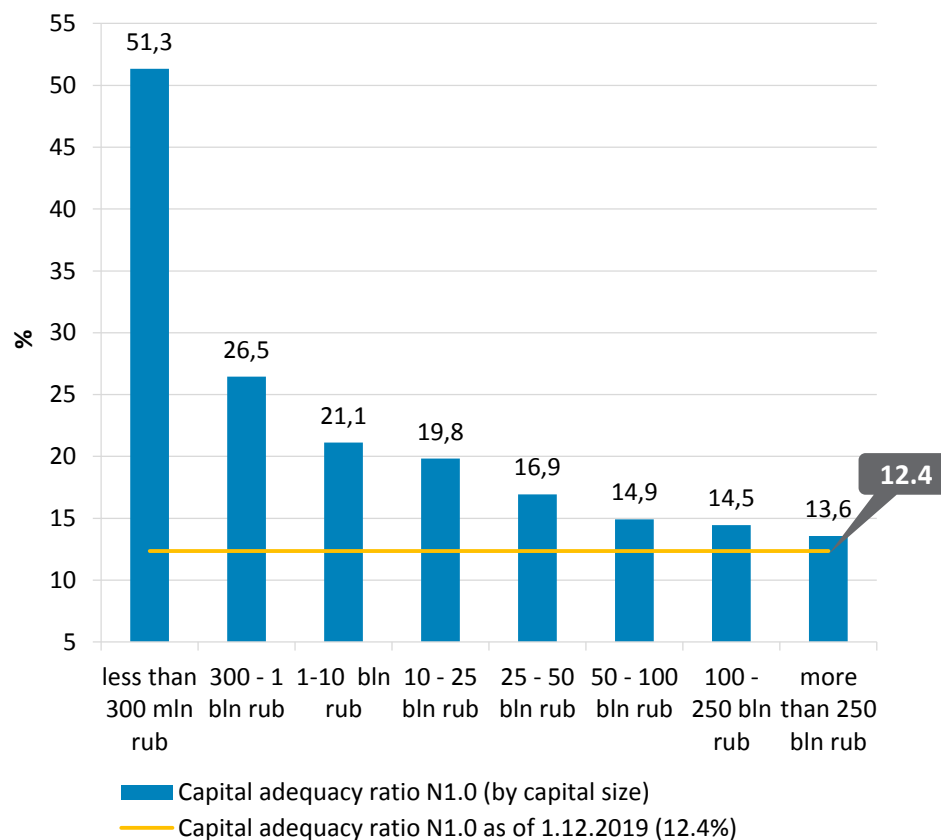


Figure 39: Credit organizations with capital exceeding RUB 25 bn have lower buffer vs N1.0 minimum requirement due to the economies of scale



## BANKING SECTOR: SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS

The Bank of Russia has approved the list of SIFI and buffers for capital adequacy ratios

### List of systemically important financial institutions

No	Company name	Assets, RUB tn
1	Sberbank	29.1
2	VTB Bank	14.5
3	Gazprombank	6.4
4	Alfa-Bank	3.6
5	Russian Agricultural Bank	3.4
6	Bank FC Otkritie	2.5
7	Credit Bank of Moscow	2.3
8	UniCredit Bank	1.4
9	Raiffeisenbank	1.3
10	Rosbank	1.2
11	Promsvyazbank	n/a

Assets as of November 2019

Systemically important financial institutions account for 69% of total assets of the Russian banking sector

### Capital adequacy requirements

#### Minimum Bank of Russia requirements for capital adequacy ratios

Common equity Tier 1 capital ratio (N1.1)	4.50%
Tier 1 capital (N1.2)	6.00%
Total capital adequacy ratio (N1.0)	8.00%

#### Values of capital buffers

	2017	2018	2019	2020
Capital conservation buffer	1.25%	1.875%	2.50%*	2.50%
SIFI buffer	0.35%	0.65%	0.65%	1.0%
Countercyclical buffer	0%	0%	0%	

#### Minimum capital adequacy ratios for SIFI

	2017	2018	2019	2020
N1.1	6.1%	7.0%	7.65%	8.0%
N1.2	7.6%	8.5%	9.15%	9.5%
N1.0	9.6%	10.5%	11.15%	11.5%

\*Capital conservation buffer will be raised in accordance with the schedule approved by the Bank of Russia throughout 2019 – it will stand at 1.875% from 1 January 2019, 2.0% from 1 April 2019, 2.125% from 1 July 2019, 2.25% from 1 October 2019, and 2.5% from 1 January 2020.

## MICROFINANCE

Microfinance is a vital part of financial system complementing banks to provide better financial inclusion

# MFIs

- ✓ **Microfinance organizations (MFOs)**
- ✓ **Consumer credit cooperatives**
- ✓ **Credit Housing communities**
- ✓ **Pawnbrokers**
- ✓ **Agricultural credit cooperatives**

Microfinance institutions (MFIs) provide financial services for customers with no access to banking products, service regions with an insufficient bank presence, offer financial products missing from bank product lines, boost financial awareness and help clients build their credit histories.

CBR keeps a state register of MFIs and supervises MFIs directly and via SROs. Currently there are about 15 600 MFI companies.

Roughly 25% of the entire MFO microloan portfolio are microloans to small to medium enterprises (bearing 8% interest rate thanks to state support via MFOs).

Payday Loans, i.e. small, short-term unsecured loans (up to RUB 30k for 30 days) at high rates, are not a development priority and account for some 20% of the entire MFO microloan portfolio.

Starting from 1 October 2019, microfinance organisations have to calculate the **PTI ratio** when taking a decision on extending loan of ₺10,000 or more.

For the loans with PTI of the borrower in excess of 50%, the level of add-on to the risk coefficients is set at 50% (65% starting from 1 January 2020).



## FINANCIAL STABILITY

### Macroprudential policy aimed at identifying and preventing potential systemic risks

#### Credit activity

The private sector's debt burden measured as the debt-to-GDP ratio remains relatively stable as, among other things, debts of non-financial organisations on external liabilities and internal FX loans remain stable. Non-financial organisations total debt on external liabilities, internal loans and debt securities increased by 2.9%<sup>1</sup> over the past 12 months as of 1 October 2019.

The household debt burden is rising<sup>2</sup>: during the first 9 months of the year, the debt service to income ratio increased from 9.9% to 10.6% driven, primarily, by unsecured consumer loans. The debt service to income ratio on retail loans grew from 8.3% to 8.9% over the same period and came close to the peak values of 2014 (9.3%). In order to limit procyclical risks associated with the increase of households' debt burden, the Bank of Russia applies risk ratio buffers.

#### Retail lending risks

The annual growth rates of **unsecured consumer lending** decreased to 22.6%<sup>3</sup> as of 1 November 2019 (from 25.3% as of 1 May 2019), but remains high. Increased risk ratio buffers to new unsecured consumer loans issued from 1 October 2019 are applied depending not only on the weighted average effective interest rate (EIR), but also on the debt burden ratio of an individual.

To mitigate systemic risks associated with **mortgage loans** with a 10-20% down payment, the Bank of Russia raised risk ratio buffers for newly issued mortgage loans effective from 1 January 2019. This measure resulted in the decrease in the share of loans with down payments ranging from 10 to 20% issued in 2019 Q3. Such loans accounted for 35.7%<sup>4</sup> of all mortgage loans (40.9% in 2019 Q1, and 43.2% in 2018 Q4).

#### Capital adequacy

The capital adequacy (Basel III N1.0 ratio) for the banking sector remains at an acceptable level of 14.2%<sup>5</sup> as of 1 November, 2019. The effective macroprudential measures form additional capital stock which accounts for 0.8 pp of the banking sector's capital adequacy<sup>6</sup>.

#### Decision

as of December 16, 2019

*"The Bank of Russia's Board of Directors has decided to keep the countercyclical capital buffer (CCB) rate for Russian credit institutions at 0% of risk weighted assets..."*

*"...In the context of moderately growing general credit to the economy and considering that increased risk ratios are applied in several lending segments, it has been deemed unreasonable to set the countercyclical capital buffer above zero..."*

<sup>1</sup> Adjusted for FX revaluation (exchange rate as of 1 October 2019).

<sup>2</sup> It is calculated as the ratio of regular household loan repayments to household disposable income. This indicator includes disposable income of all Russian households, including individuals without any loans. Therefore, this indicator is undervalued.

<sup>3</sup> Credit institutions' financial statements as per Form 0409115 (Section 3, Credit Exposure: Other Consumer Loans, Grouped into a Homogeneous Loan Portfolio). For credit institutions operating as of the last reporting date, including banks that underwent restructuring.

<sup>4</sup> According to the quarterly survey of banks (PJSC Sberbank, VTB Bank (PJSC), GAZPROMBANK (JSC), PJSC ROSBANK, JSC UniCredit Bank, JSC Raiffeisenbank).

<sup>5</sup> Except for banks undergoing resolution, including with the involvement of the Banking Sector Consolidation Fund.

<sup>6</sup> If the buffers to risk weights were reduced to zero, the capital adequacy of the banking sector would be higher by 0.7 pp.

## SECURITIES MARKET (1)

Russia's financial market has been aligned with best international practices



### Crisis-proven market infrastructure

- MICEX and RTS merged into the Moscow Exchange
- Establishment of a Central Securities Depository and unification of CCP across all asset classes
- T+2 settlement on equities, T+1 on OFZs, T+0 on corporate bonds



### Upgraded corporate governance

- Creation of a two-tier Quotation List within the stock exchange listing
- Strong criteria for inclusion in the top-tier Quotation list
- Streamlined dividend rules for SOEs
- Corporate standards aligned with best international practices
- Establishing of a Listing Committee at MOEX



### Regulatory changes to promote investments

- Capital gains on securities held for more than 3 years are tax-exempt
- Tax deductions for Individual Investment Accounts (IIA) type A – max RUB 52 000; for IIA type B – at the rate of investment income;
- Corporate bonds with yield of under the key rate + 5pp became tax-exempt on January 1, 2018



### Simplified market access

- Euroclear and Clearstream settlement for equities and bonds
- Unified collateral pool for equities, bonds and FX markets
- International clearing system membership; Direct access to FX trading for large corporates
- Local investor base development (individual investment account system, tax incentives, etc.)
- Unified license covering both depository and registrar operations.
- Retail investors allowed to open brokerage and management accounts online



### Increased transparency

- Mandatory audited IFRS for all public companies
- Strengthened regulation to prevent market manipulation and insider trading
- Improved disclosure practices
- Report on Corporate Governance Code compliance in the annual report
- Requirement to have a written description of dividend policy for the top-tier Quotation list
- Development of basic standards for professional market participants activities

## SECURITIES MARKET (2)

### Growing a deeper Russian bond market with strong potential

Figure 40 : Volume of the Russian local bond market, RUB tn

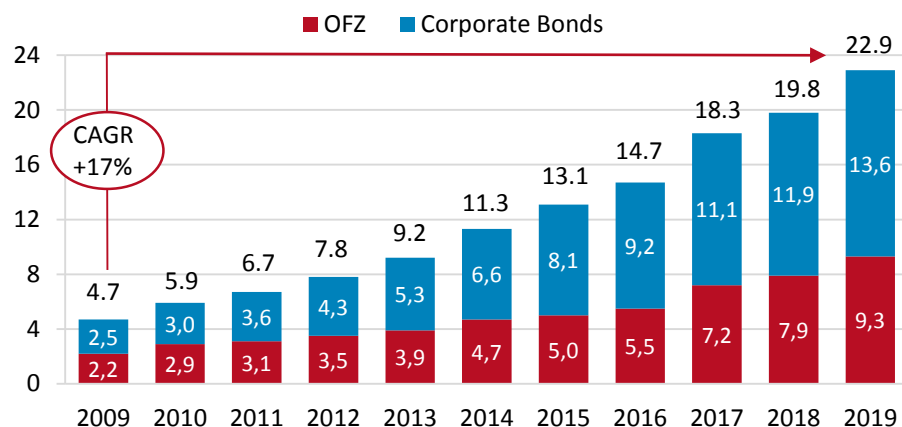


Figure 41: Volume of the Russian corporate bond market, RUB tn

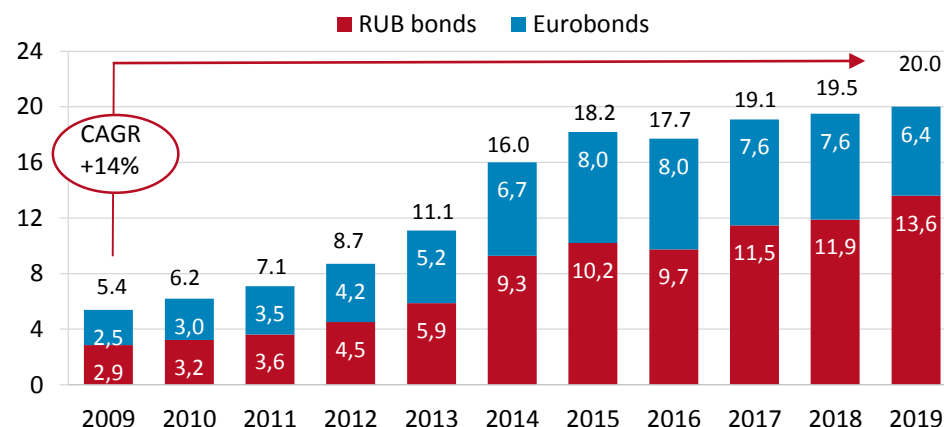
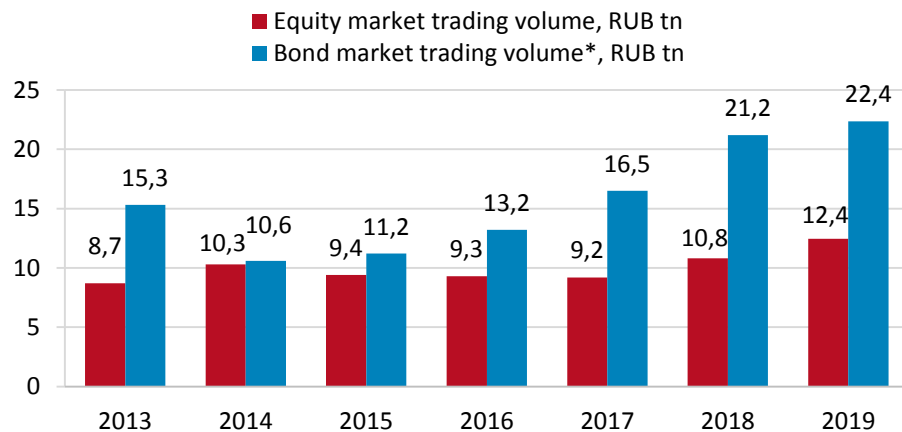


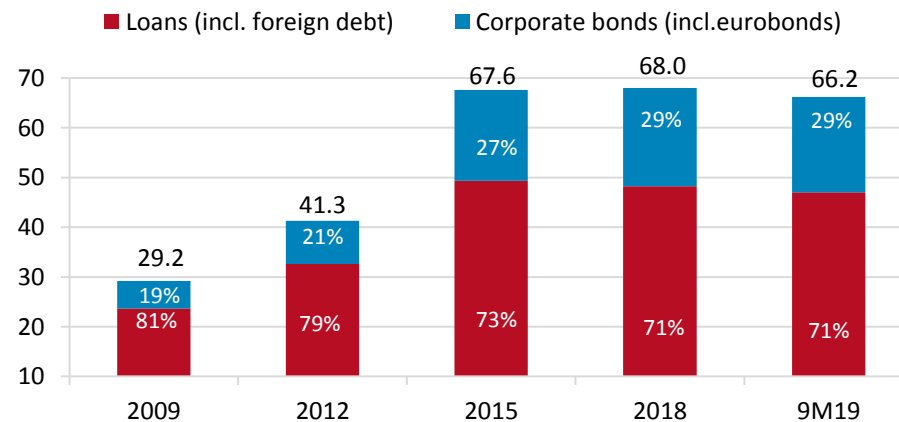
Figure 42: “Bondization” of the Russian financial market



\*excl. overnight bonds

Source: Moscow Exchange

Figure 43: Corporate loans vs corporate bonds in Russia, RUB tn



# SECURITIES MARKET (3)

Russian OFZ market provides relatively high yields amid investment grade reliability

Figure 44: Russian OFZ market volume keeps growing

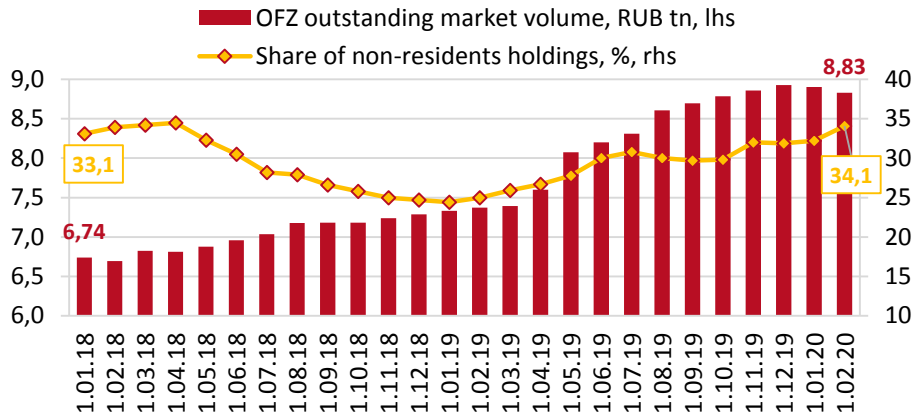


Figure 46: Bond market yields, key rate and RUONIA (% RUB)

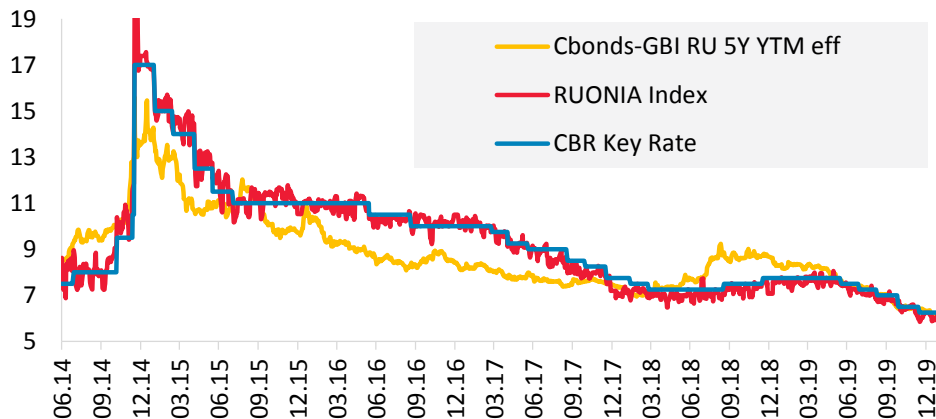


Figure 45: Zero-coupon OFZ yield curve, %

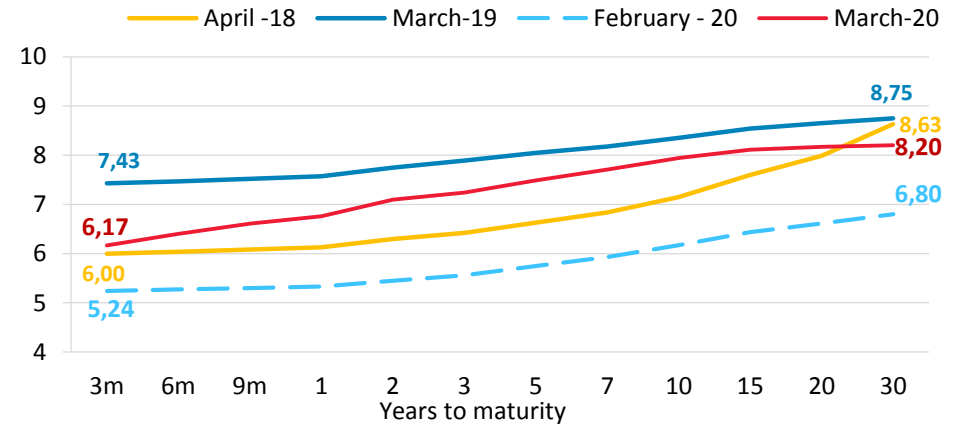
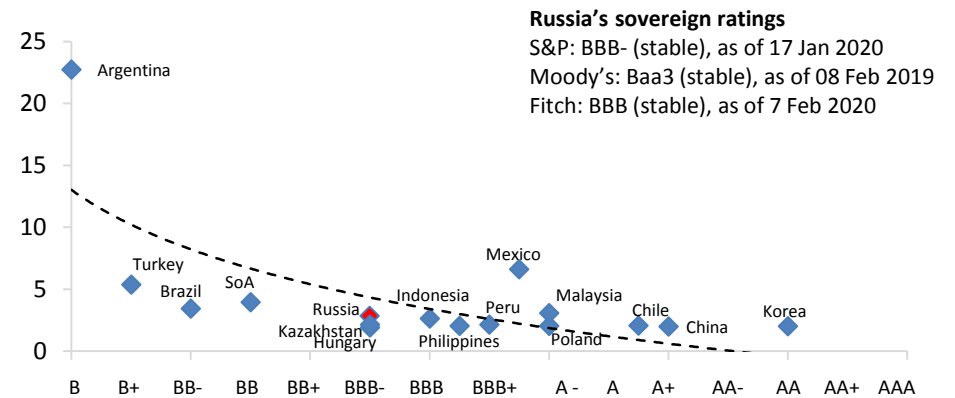


Figure 47: EM 10Y bond yields (% USD) on the background of credit ratings



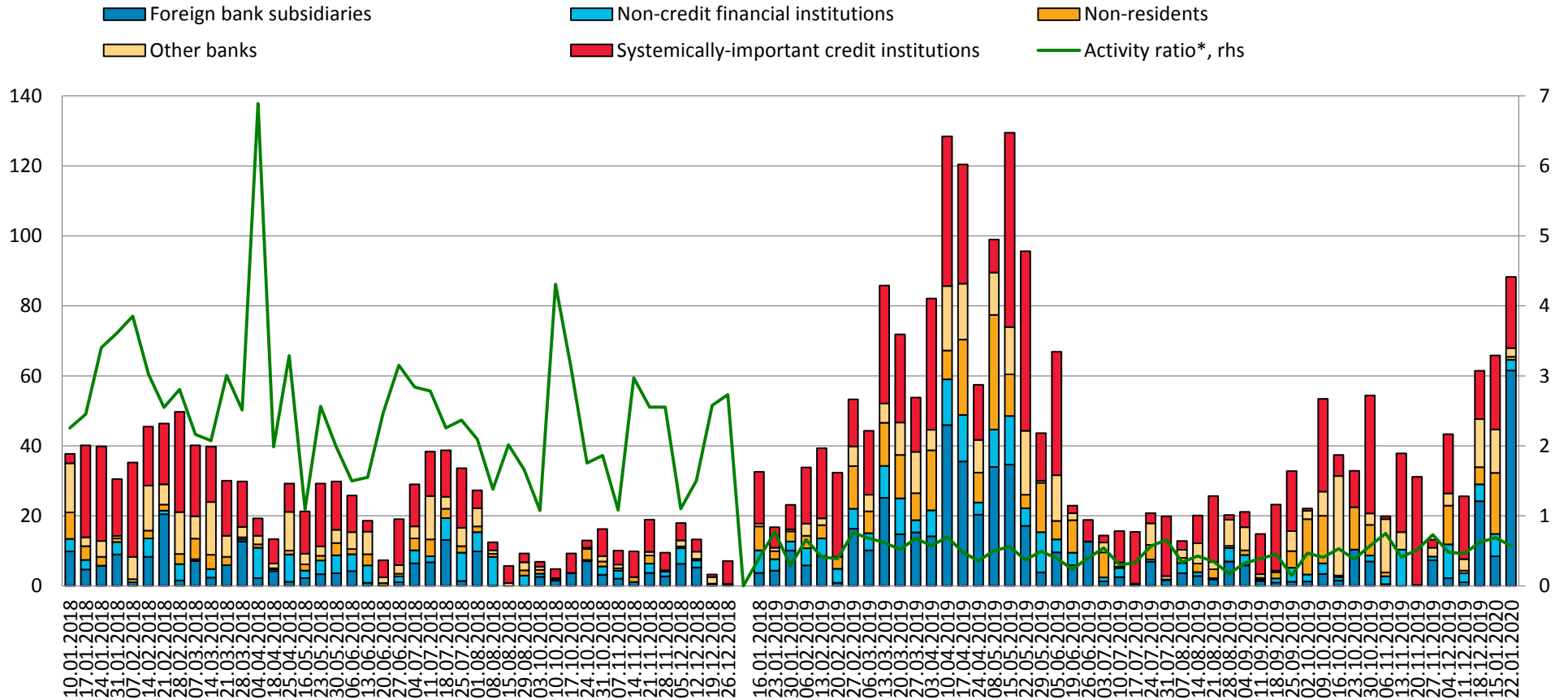




# SECURITIES MARKET (4)

## Demand for OFZs placements remains sustainably high

Figure 48: OFZ placement dynamics in 2018 and 2019 (RUB bn)



\*Starting January 1, 2019 the "activity ratio" calculated as the volume of demand for OFZ to the volume of OFZ supply announced by the Ministry of Finance was replaced by the "meet demand" ratio calculated as the volume of the placement to the volume of demand for OFZ

# SECURITIES MARKET (5)

## Russian equity market: key trends

Figure 49: Russian Equity market cap, bln RUB & bln USD

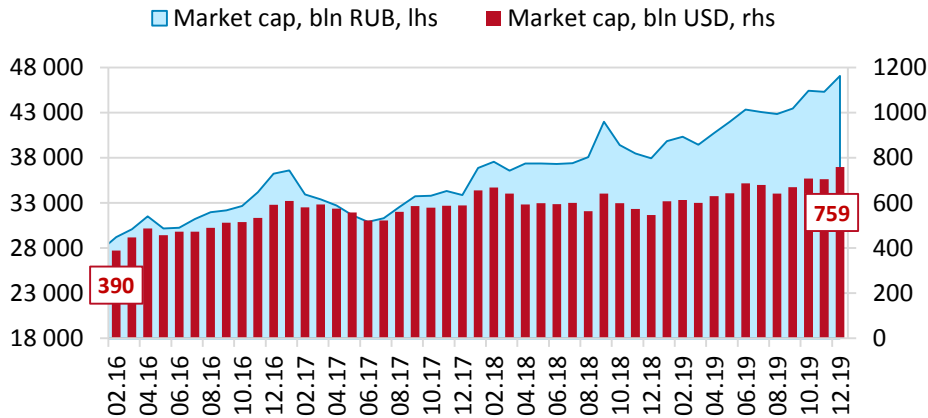


Figure 50: Market capitalization to GDP ratio, %

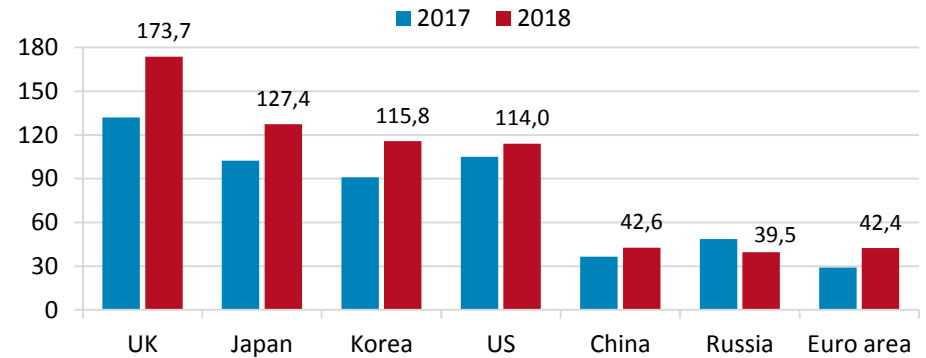


Figure 51: Russian equities market trading volumes proves stable

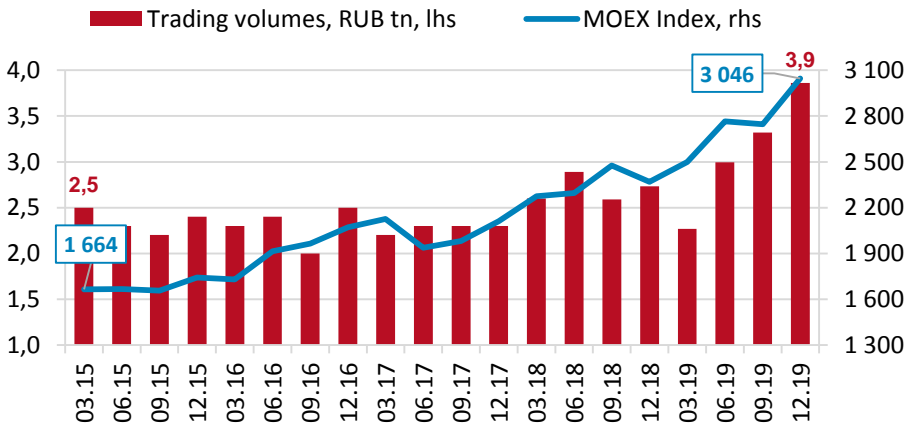
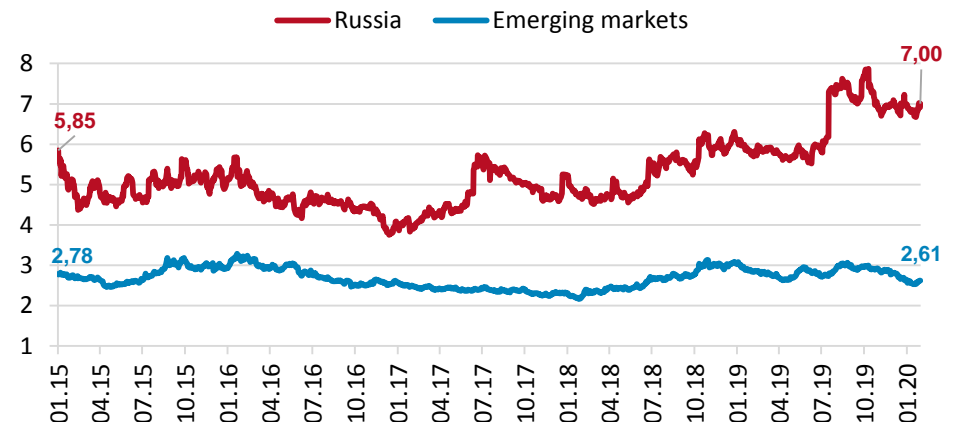


Figure 52: Dividend yield (12M): Russia vs. EM, %



# SECURITIES MARKET (6)

## Russian equity market performance vs EM peers

Figure 53: Russian MSCI index vs EM peers (01.01.15 = 100%)

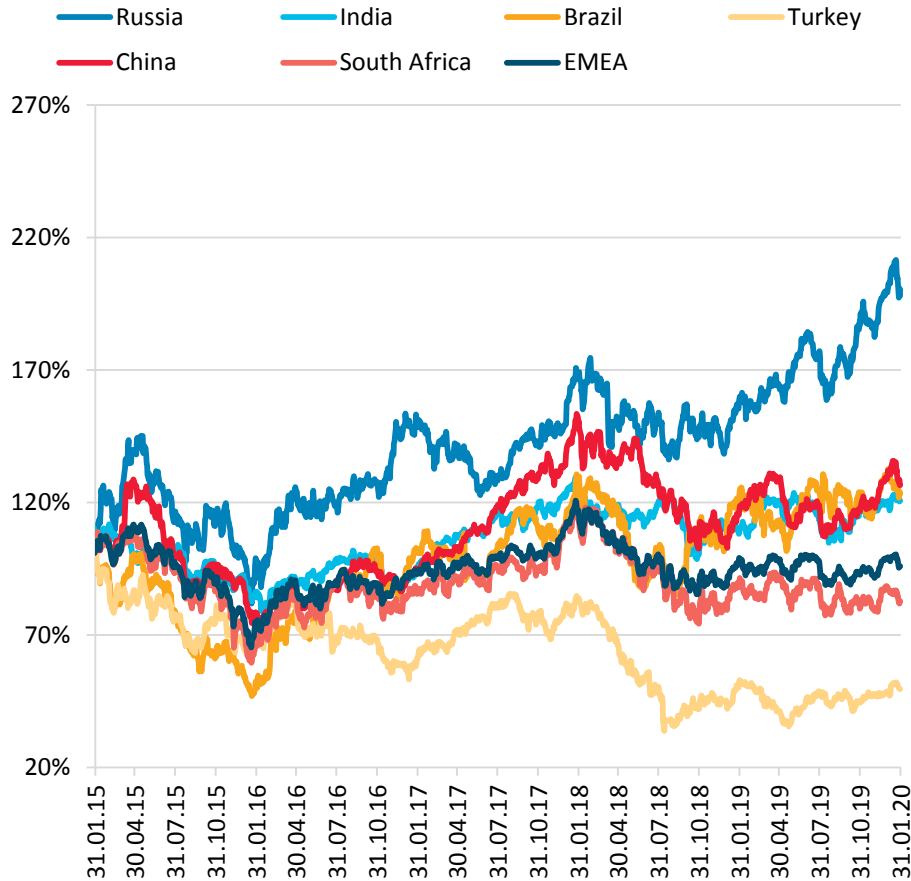
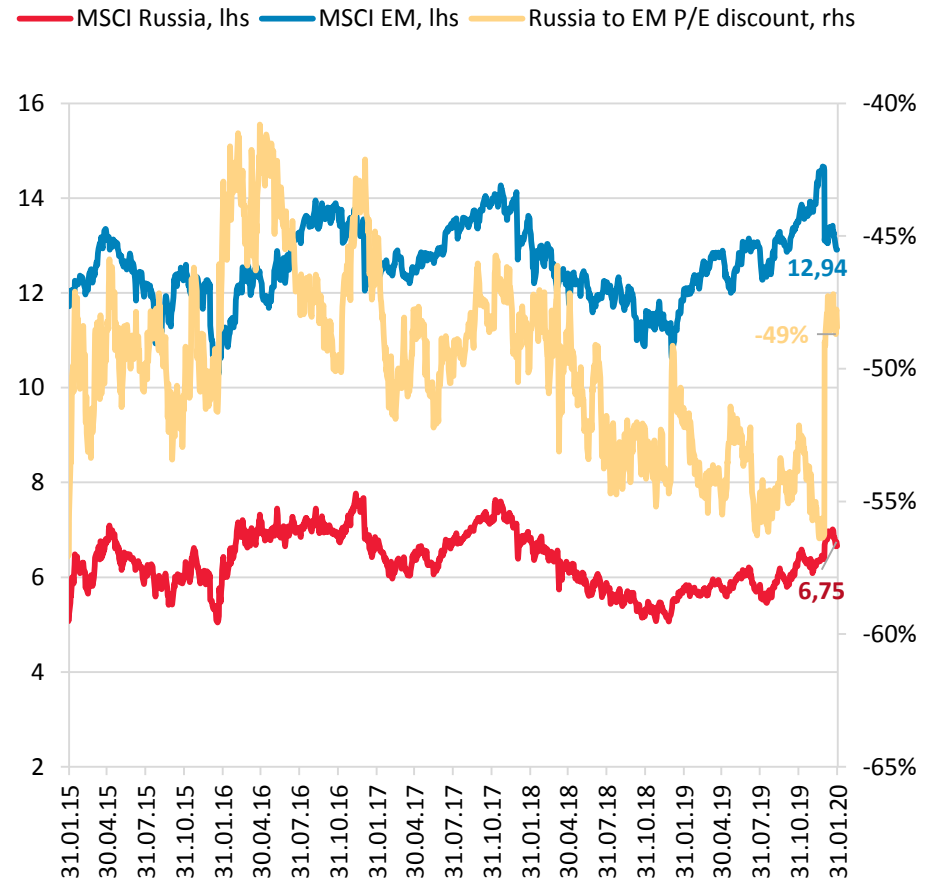


Figure 54: Forward P/E ratio (12m), MSCI Russia vs MSCI EM



Source: Bloomberg



## CORPORATE GOVERNANCE

New corporate governance standards reflect best international practices

### Corporate governance

JSC Law amended July 2018:

- ✓ Strengthening the role of the Board of Directors in JSC
- ✓ Mandatory risk-management, internal control in public companies
- ✓ Mandatory audit committees and internal audit functions in public companies (starting July 2020)
- ✓ Disclosure reform

### Listing reform on Moscow Exchange

- ✓ Simplified listing structure: 2 quotation lists and 1 non-quotation list instead of a 6-tier system
- ✓ Stricter corporate governance criteria for inclusion in the top-tier list
- ✓ Stricter requirements for Directors to be considered independent

### Next stage 2019

Only ratings by approved Russian rating agencies will be considered valid for listing requirements for Russian issuers' bonds

### Corporate actions reform

- ✓ Information on corporate actions cascaded to shareholders from issuer through CSD and nominees
- ✓ E-proxy voting and E-voting platform for shareholders has been developed
- ✓ A number of Russian companies have already implemented an online voting system in 2017
- ✓ E-voting for bondholders has been implemented and successfully tested

### Securities

New types of securities – structured bonds, perpetual bonds, priority dividends non-voting preferred shares

### Blockchain technology

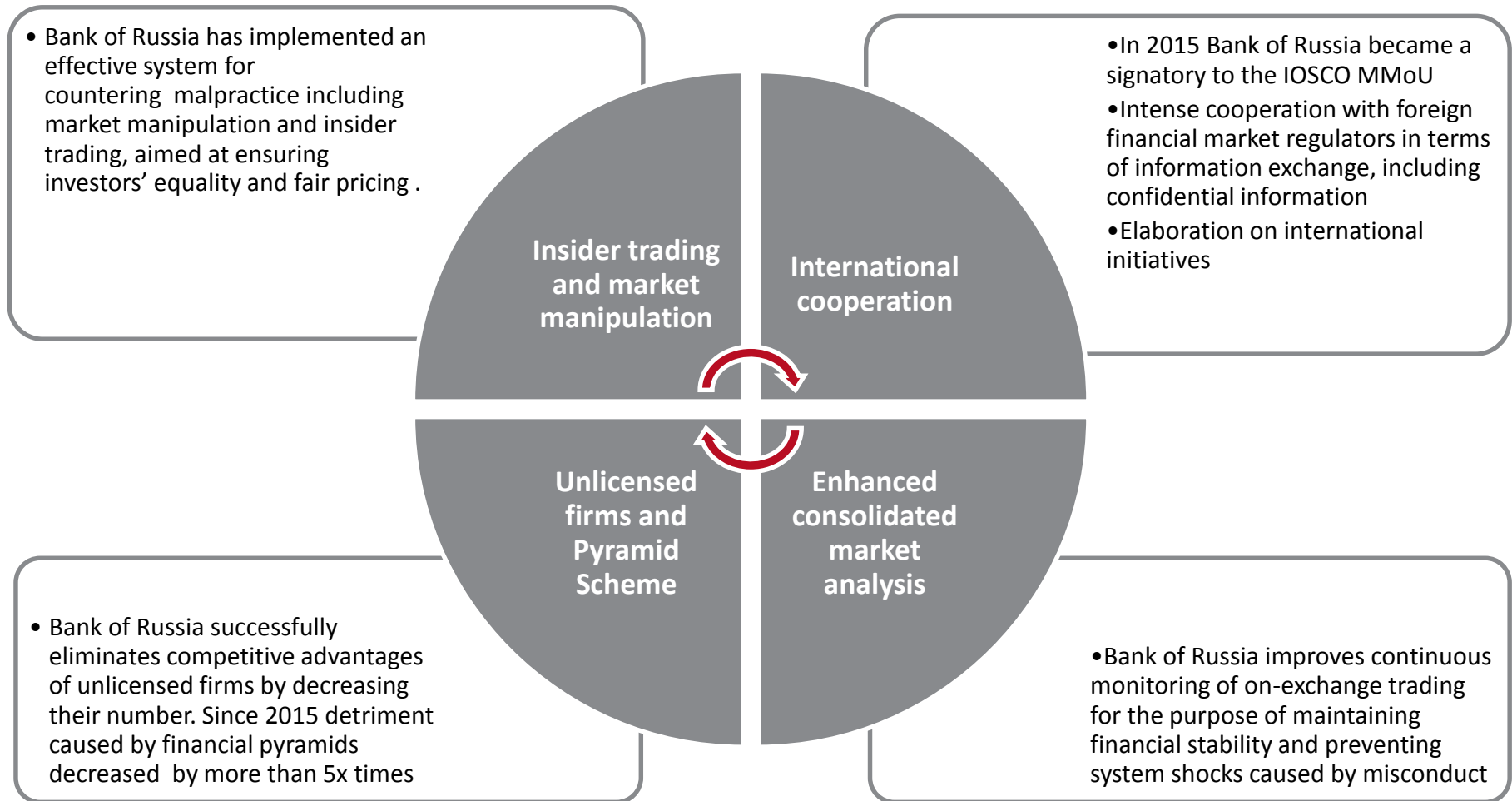
- ✓ NSD used a blockchain-based settlement platform to complete an inaugural placement of a RUB 500 mln bond issue in 2017
- ✓ In 2018 first Russian bonds via smart contracts were issued for a total sum of RUB 750 mln

**CBR corporate governance report:** annual monitoring of corporate governance practice and publication of the report on the CBR official site ([only in Russian](#))



## COUNTERING MALPRACTICE

Bank of Russia supervises conduct of financial market participants to promote fair competition



## INVESTMENT FUNDS

### Local institutional investor base: the potential of investment funds

Figure 55: Majority of savings in Russia is held on bank deposits and in cash\*

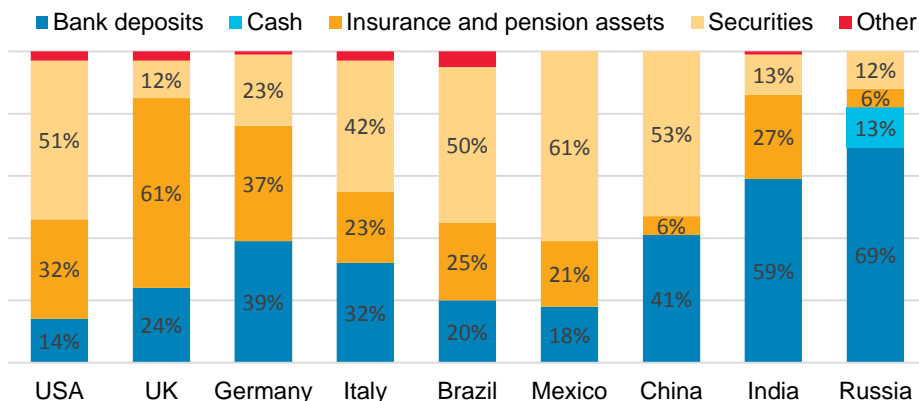
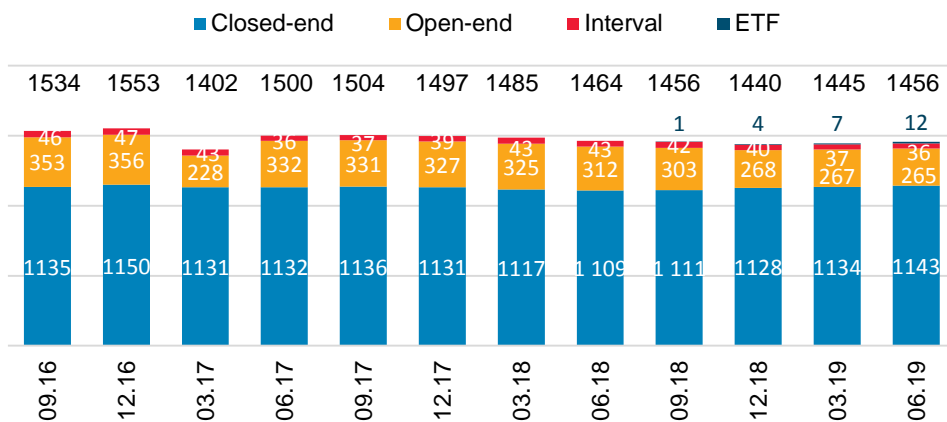


Figure 57: Number of investments funds in Russia by the type



\* As of the end of 2017

Source: World Bank, IMF, Bank of Russia, Moscow Exchange

Figure 56: Assets of investments funds in Russia (RUB tn)

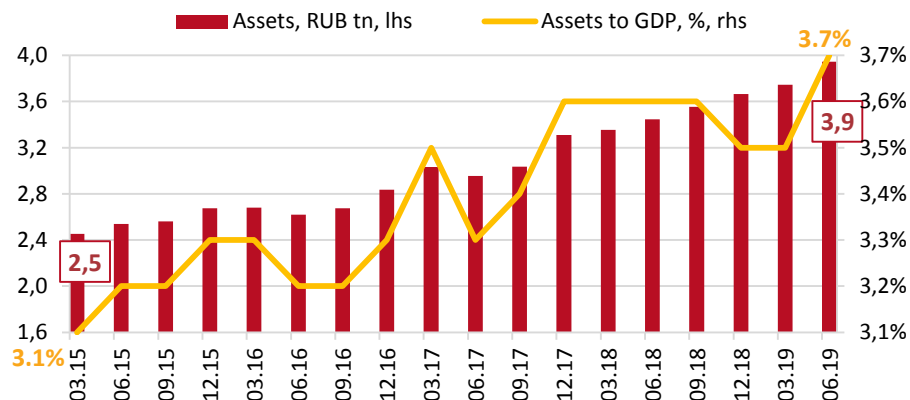
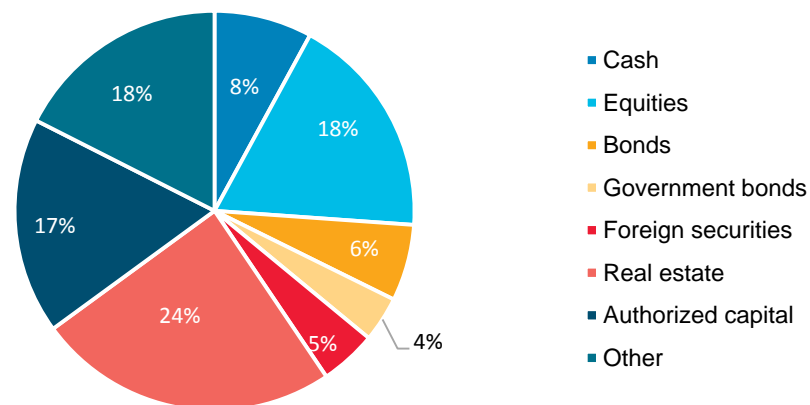


Figure 58: Breakdown of investment funds' assets by the type (as of June 30, 2019)



## NON-STATE PENSION FUNDS

### Local institutional investor base: the potential of non-state pension funds

Figure 59: Pension assets in Russia (RUB tn)

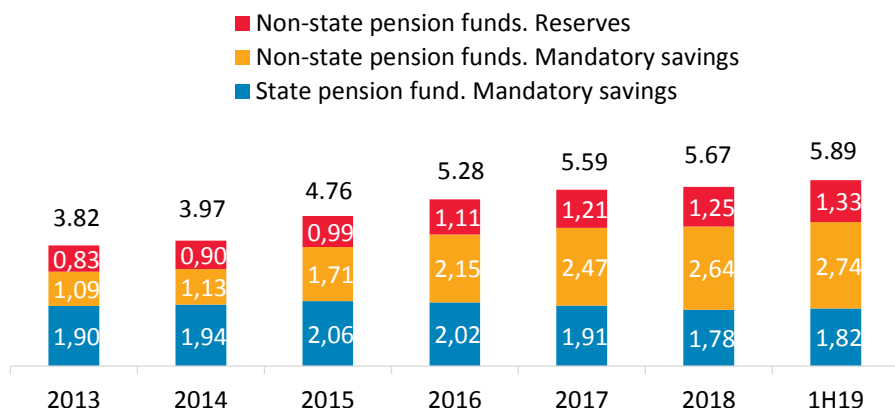
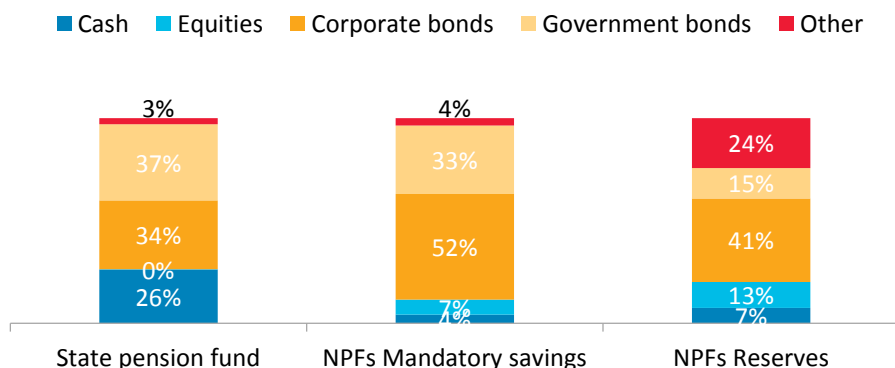


Figure 60: Pension system asset allocation (as of June 30, 2019, %)



Source: Bank of Russia

Bank of Russia became a regulator of the pension system in 2013. Since then a number of changes has been adopted to strengthen the non-state pension system:

- ✓ ‘one-year non-loss’ rule was extended to ‘five-year non-loss’ rule
- ✓ stress-testing mechanism introduced
- ✓ customers are now encouraged to stay with the same fund for not less than 5 years
- ✓ since 2014 the Deposit Insurance Agency (DIA) guarantees the nominal value of mandatory savings
- ✓ non-state pension funds are to bear fiduciary responsibility (since March 18, 2018)
- ✓ non-state pension funds are to disclose their investment portfolios
- ✓ corporatisation of non-governmental pension funds (NPFs) completed
- ✓ work on individual pension accounts reform is in progress

# INSURANCE

## Local institutional investor base: the potential of insurance market

Figure 61: Premium volume is gradually growing

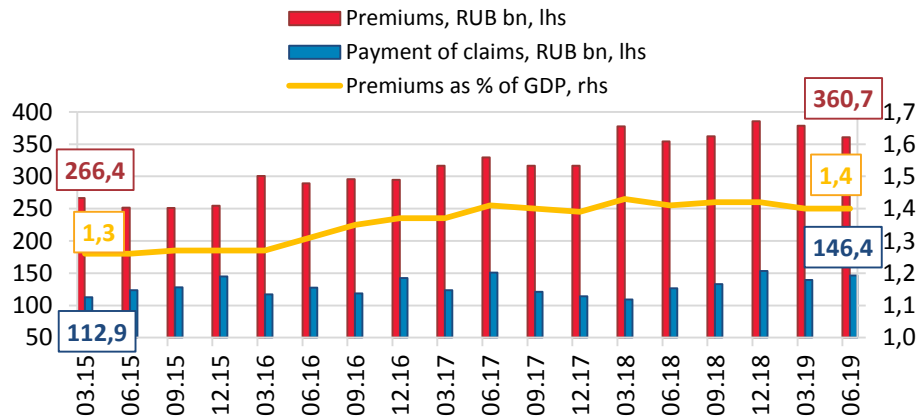


Figure 63: Premium structure in 1H19 shows high level of market diversification

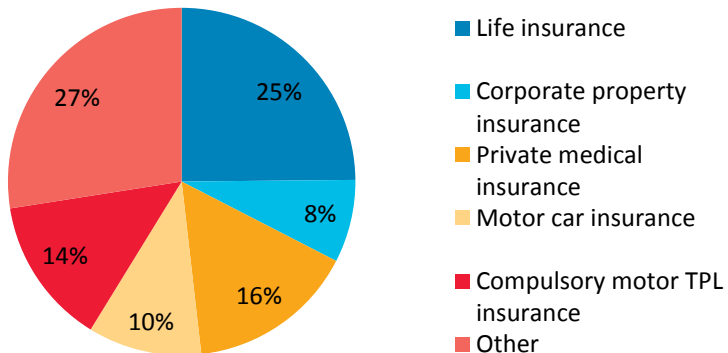


Figure 62: Assets hit 2.9% of GDP

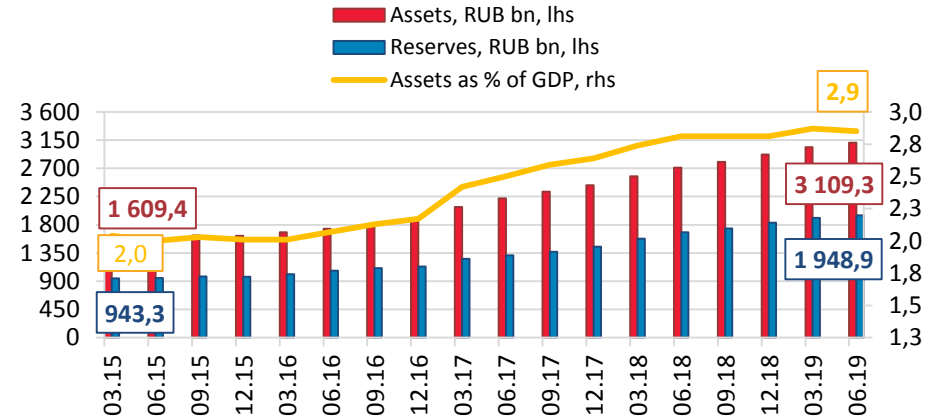
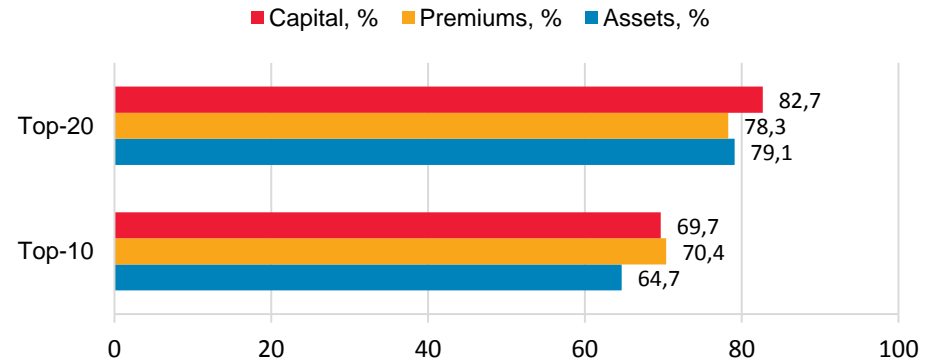


Figure 64: In 1H19 market remained highly competitive with the Herfindahl-Hirschman Index equal to 643.3







## PAYMENT INFRASTRUCTURE (1)

### Bank of Russia Payment System

- ✓ Money transfer services are provided to:
  - ✓ all credit institutions (financial market infrastructure included)
  - ✓ Russia's Federal Treasury and its agencies
  - ✓ other Bank of Russia clients
- ✓ Average daily figures: **6.4 mln payments, RUB 6.9 tn**
- ✓ **84% of funds** are transferred via the real-time service
- ✓ New **liquidity management tools**, future value date settlement functionality, cash-pooling services for Federal Treasury and multibranch banks introduced
- ✓ Transfer timeframe is adapted to Russia's **11 time zones** - system operates from 1 a.m. to 9 p.m., Moscow time.
- ✓ The **Faster Payments System (FPS)**, launched on 28 January 2019, is set to enable instant C2C interbank transfers 24/7/365 using mobile phone number. At the next stage – C2B (customer-to-business) and C2G (customer-to-government) payments to be included



## PAYMENT INFRASTRUCTURE (2)

Advancing supervision and oversight to ensure stable development of the payment infrastructure

- ✓ Supervision of the payment infrastructure: monitoring organisations' compliance with the Russian law. Applies both to banking and non-banking institutions providing payment infrastructure and payment services
- ✓ Oversight of the payment infrastructure: improving institutions' operations following the Bank of Russia recommendations based upon international best practices
- ✓ Bank of Russia international cooperation in supervision and oversight of the payment infrastructure

Figures for early 2019 :

**36 payment systems** and **more than 400 institutions** supervised within the National Payment System (NPS)

NPS supervision is risk-oriented. Proportionate remote supervision approach is being introduced to the NPS

Objects supervised for compliance with CPMI/IOSCO Principles for Financial Market Infrastructure (PFMI): **2** systemically important payment systems, **4** socially important payment systems

High PFMI compliance ratings. NPS operators implement approved action plans based on the Bank of Russia recommendations

## NATIONAL PAYMENT CARDS SYSTEM

Setting the standards for the payment industry to provide convenient and stable services



- ✓ **Russian national payment system “Mir”** was created on 23 July 2014
- ✓ Operator of Mir Card Payment System is **National Card Payment System Joint-Stock Company**, 100% of its shares belong to the Bank of Russia
- ✓ More than **53 mln** “Mir” payment cards were issued by year end 2018 in Russia
- ✓ Co-badging projects with international payment systems: Maestro, JCB, AmEx and UnionPay
- ✓ Support of mobile payment service Samsung Pay
- ✓ Mobile payments service MirPay is launched
- ✓ PayPass system has been successfully implemented
- ✓ Payment system “Mir” launched a loyalty program which allows card holders to receive cashback
- ✓ “Mir” payment cards are accepted in the Republic of Armenia, Kyrgyz Republic, as well as in the infrastructure of VTB Bank in the Republic of Kazakhstan and the Republic of Belarus

## FINTECH (1)

Russia provides a favorable environment for FinTech development

### Goals of the Bank of Russia as a high-tech regulator

- ✓ Facilitate the **competition** in the financial market
- ✓ Enhance **accessibility, quality** and **range** of financial services
- ✓ Lower **risks and costs** in the financial market
- ✓ Advance the level of **competitiveness** of Russian technologies

### Key areas of development

1. **Legal regulation** of FinTech, including protection of consumer rights and security of personal data
2. **Development of digital technologies** in the financial market and development of digital infrastructure
3. Transition to **electronic interaction** between the Bank of Russia, government, market participants and their clients
4. **“Regulatory Sandbox”** for experimentation with innovative financial technologies, products and services
5. Cooperation within the **Eurasian Economic Union** and development of single payment area for member states
6. Ensuring **technological safety and sustainability** in FinTech implementation
7. **Development of human resources** in the financial market

## FINTECH (2)

Russia provides a favorable environment for FinTech development



Established on 28 December 2016 by  
the Bank of Russia  
with participation of the largest  
financial institutions

### Main goals

- ☑ **Implementation** of new technological solutions for the development of the Russian financial market
- ☑ **Promotion** of digitalization of the Russian economy

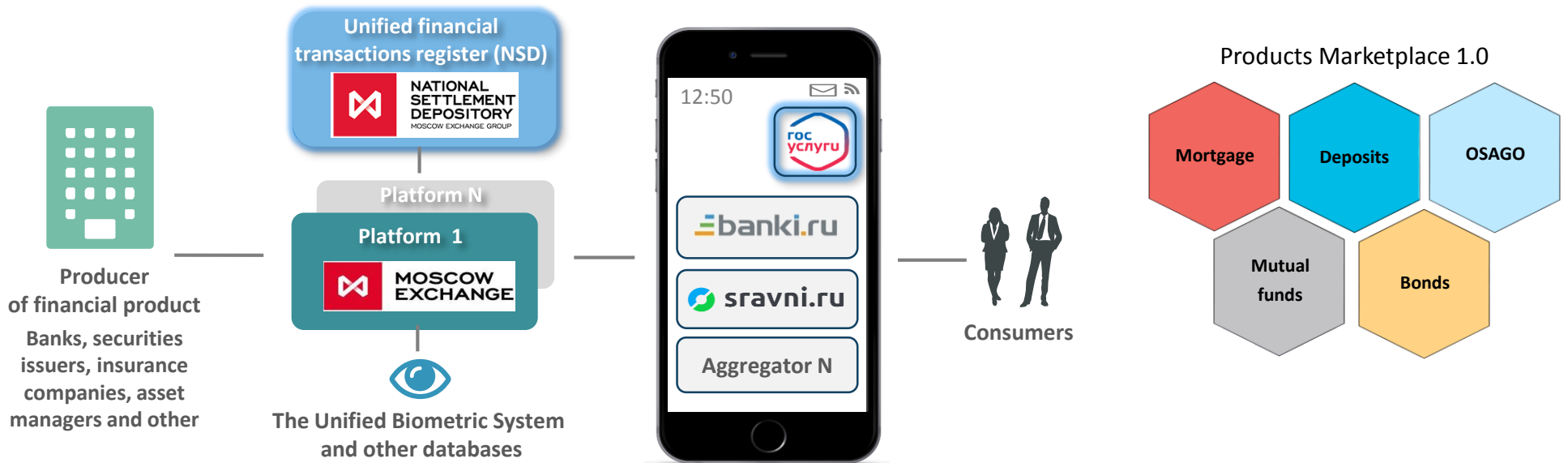
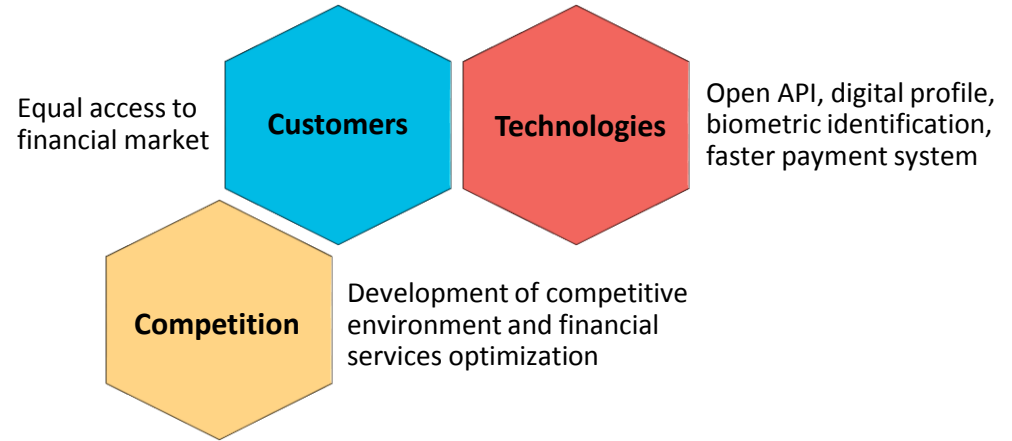
### Main activities (2017-2018)

- ☑ Digital identification
- ☑ Distributed ledger technology
- ☑ Faster payment system
- ☑ Open API
- ☑ Big Data

# MARKETPLACE

## Shaping future of financial services experience in Russia

- ✓ New system for online sales of financial products
- ✓ Aimed to complement traditional sales channels with websites and smartphone apps which will enable customers to compare multiple financial product offers
- ✓ CBR creates the regulatory environment necessary for the project



## CONSUMER PROTECTION

Financial consumer and investor protection as one of priorities for further financial market development

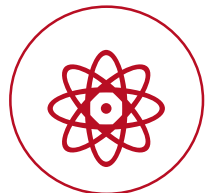
### KEY FINANCIAL CONSUMER PROTECTION WORKSTREAMS



Consumer and investor  
complaints handling



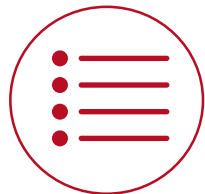
Differentiation of  
consumer protection  
requirements



Conduct supervision  
model



Financial awareness  
improvement



Setting requirements for  
financial organizations in order  
to improve consumer and  
investor protection



Disclosure requirements  
for consumers and  
investors



Dispute resolution  
(ombudsman)



Disclosure requirements  
for information on risks



## FINANCIAL INCLUSION

### Strong international background helps to promote financial inclusion

#### **G20 GLOBAL PARTNERSHIP FOR FINANCIAL INCLUSION (GPFI)**

- Acts as an inclusive platform for G20 countries, non-members and other parties for knowledge and experience sharing, policy advocacy and coordination in promoting financial inclusion
- Russia is an original GPFI member since November 2010
- Endorsed the ‘original’ FIAP in 2010 and the ‘updated’ FIAP in 2014 and 2017
- G20 – World Bank – OECD conference on empowering consumers of financial products and services was hosted in Moscow in June 2013
- The third annual GPFI Forum was held in St. Petersburg in 2013

#### **Financial Inclusion Promotion by the Bank of Russia**

- Improving financial inclusion for people and SMEs is one of financial market development priorities for 2016-2018
- The Bank of Russia annually publishes financial inclusion indicators and the Report on Financial Inclusion in Russia (with supply-side and demand-side data starting from 2015)
- The technical note on financial inclusion was prepared in the context of a joint WB / IMF FSAP mission in Russia during February-March 2016; the note was published in May 2016
- Early in 2018 the Bank of Russia launched the Financial Inclusion Strategy in Russia for the period of 2018-2020

#### **ALLIANCE FOR FINANCIAL INCLUSION (AFI)**

- The global knowledge exchange network empowering policymakers to increase access to quality financial services for the less well-off communities and households
- The Bank of Russia became a member of AFI in February 2014
- In September 2014 the Bank of Russia joined the Maya Declaration setting up the priorities for AFI members on financial inclusion
- In September 2015 the Bank of Russia joined the Maputo Accord to improve funding accessibility for SMEs
- The Bank of Russia and AFI co-hosted the ‘Financial inclusion and shadow banking: innovation and proportional regulation for balanced growth’ conference in November 2015
- In June 2016 the Bank of Russia hosted the AFI GSPWG meeting.
- CBR hosted the 2018 AFI Global Policy Forum

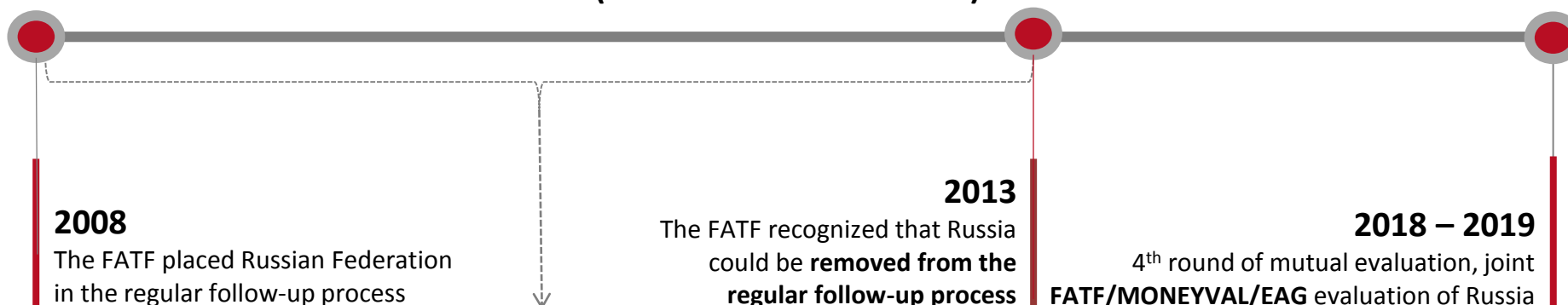




## AML/CFT

Bank of Russia maintains AML/CFT supervision of credit and non-credit financial institutions

### Russian AML/CFT law is based on International Standards on Combating Money Laundering (FATF Recommendations)



#### Key measures taken in 2008-2013:

- ✓ **Enhancing corporate transparency** by introducing beneficial ownership requirements to the AML/CFT Law
- ✓ **Prohibiting credit institutions** from opening and maintaining anonymous accounts or accounts in fictitious names
- ✓ **Addressing certain shortcomings** in the criminalization of terrorist financing
- ✓ **Amending legislation** to prevent criminals from becoming major shareholders in financial institutions
- ✓ **Strengthening instruments** to freeze terrorist assets domestically or on request of other countries
- ✓ **Abolishing the threshold** which decriminalized self-laundering of amounts lower than RUB 6 mln and which was not in compliance with the FATF Recommendations

## CYBERSECURITY

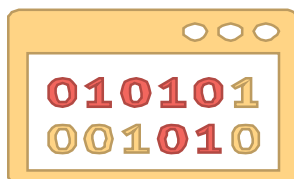
### Key initiatives in information security and cybersecurity



Countering international and cross-border crime



Addressing the rise in money withdrawals via illegal cross-border transactions



Compiling a general register of most typical cyber threats and computer attack methods



Combatting fraud in financial e-services provided via websites registered in foreign DNS zones

### Key avenues of cooperation in the sphere of information security

- ✓ Establishing institutional and technical framework for dynamic cooperation between the common financial market regulators and participants, building upon the Financial Sector Computer Emergency Response Team (FinCERT) of the Bank of Russia
- ✓ Enabling trusted electronic operations in the increasingly digitalised common financial market
- ✓ Formulating unified standardised approaches to information security, cyber resilience and supervising related risks
- ✓ Policy coordination and unifying the mechanisms of strong customer authentication for financial transactions and money transfers

## INVESTOR CONTACTS AND REGULAR MEETINGS SCHEDULE FOR 2020

<b>January 31 – February 7</b>	Quiet period	<b>July 17-24</b>	Quiet period
<b>February 7</b>	Board of Directors meeting on monetary policy	<b>July 24</b>	Board of Directors meeting on monetary policy
<b>February 11</b>	Conference call with institutional investors	<b>July 29</b>	Conference call with institutional investors
<b>March 13-20</b>	Quiet period	<b>September 11-18</b>	Quiet period
<b>March 20</b>	Board of Directors meeting on monetary policy	<b>September 18</b>	Board of Directors meeting on monetary policy
<b>April 17-19*</b>	Ad-hoc meetings with investors on the sidelines of the IMF/WB meetings	<b>October 16-18*</b>	Ad-hoc meetings with investors on the sidelines of the IMF/WB meetings
<b>April 17-24</b>	Quiet period	<b>October 16-23</b>	Quiet period
<b>April 24</b>	Board of Directors meeting on monetary policy	<b>October 23</b>	Board of Directors meeting on monetary policy
<b>April 29</b>	Conference call with institutional investors	<b>October 28</b>	Conference call with institutional investors
<b>June 3-6</b>	Saint Petersburg International Economic Forum	<b>December 11-18</b>	Quiet period
<b>June 12-19</b>	Quiet period	<b>December 18</b>	Board of Directors meeting on monetary policy
<b>June 19</b>	Board of Directors meeting on monetary policy		

### International Cooperation Department

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