



Bank of Russia

# RUSSIAN FINANCIAL SECTOR INVESTOR PRESENTATION

October 2019





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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**

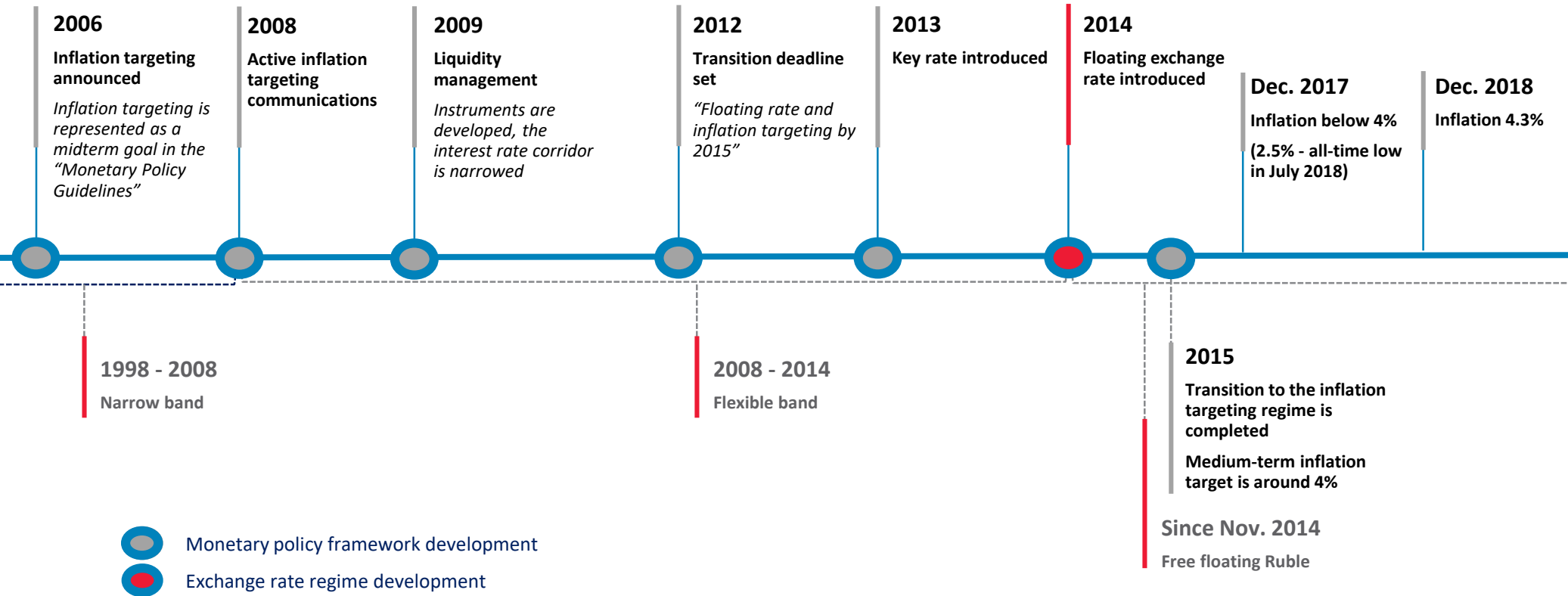
**2013  
CBR becomes the megaregulator of the Russian financial sector**

### 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



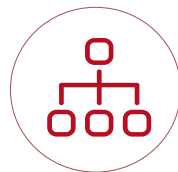
### Monetary policy

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
- Individual pension capital (IPC) accounts legislation is under development

## 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



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



## 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



## NEWSLETTER (1)

### Key news from the Russian financial market

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.						
3 July 2019	<p style="text-align: center;"><b>New standardised approach to credit risk assessment</b> in accordance with “Basel III: Finalising post-crisis reforms”:</p> <p>At the first stage in June 2019, <b>lower risk-weights for sovereign exposures in foreign currency and for lending with export guarantees</b> are implemented (from 100% to 50%).</p> <p>Effective from January 1, 2020:</p> <ul style="list-style-type: none"> <li>• <b>Corporate exposures</b> will receive a 100% risk weight, except: (1) “investment grade” corporates (65%); (2) small and medium entities (SMEs), i.e. corporate where the reported annual income of the consolidated group of the counterparty is less than or equal to €50 million (85%); and (3) “Specialised lending exposures” (80-130%).</li> <li>• All <b>bank exposures</b> will be classified into one of three buckets (Grades A (A*), B and C defined in the BCBS document) with assigning of risk-weights from 20% to 150% depending on the banks' solvency level and meeting of minimum regulatory requirements and buffers.</li> </ul>						
31 May 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> , effective from 1 July 2019.						
5 June 2019	<p>Daily amount of <b>regular foreign currency purchases</b> in the domestic market under the fiscal rule is:</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 50%;"><b>RUB 9.2 bn</b> from 7 Oct until 7 Nov 2019</td> <td style="width: 50%;"><b>RUB 10.0 bn</b> from 5 Jul until 6 Aug 2019</td> </tr> <tr> <td><b>RUB 8.9 bn</b> from 6 Sep until 4 Oct 2019</td> <td><b>RUB 16.3 bn</b> from 7 Jun until 4 Jul 2019</td> </tr> <tr> <td><b>RUB 11.2 bn</b> from 7 Aug until 5 Sep 2019</td> <td><b>RUB 16.7 bn</b> from 14 May until 6 Jun 2019</td> </tr> </table>	<b>RUB 9.2 bn</b> from 7 Oct until 7 Nov 2019	<b>RUB 10.0 bn</b> from 5 Jul until 6 Aug 2019	<b>RUB 8.9 bn</b> from 6 Sep until 4 Oct 2019	<b>RUB 16.3 bn</b> from 7 Jun until 4 Jul 2019	<b>RUB 11.2 bn</b> from 7 Aug until 5 Sep 2019	<b>RUB 16.7 bn</b> from 14 May until 6 Jun 2019
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<b>RUB 11.2 bn</b> from 7 Aug until 5 Sep 2019	<b>RUB 16.7 bn</b> from 14 May until 6 Jun 2019						
28 January 2019	<b>The Faster Payments System launched</b> and is set to enable individuals to make instant transfers to each other 24/7/365 using a mobile phone number – regardless of in which banks the sender and recipient have their accounts.						



## NEWSLETTER (2)

### Key news from the Russian financial market

25 January 2019	The Bank of Russia commenced from 1 February 2019 <b>deferred foreign currency purchases</b> in the domestic market under the fiscal rule to compensate for the regular purchases suspended in 2018. These purchases are carried out gradually in the 36 months since the launch date with the daily amount of <b>RUB 2.8 bn</b> .
1 January 2019	<ul style="list-style-type: none"> <li>• <b>Capital conservation buffer</b> raised in accordance with the schedule approved by the Bank of Russia – 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.</li> <li>• The <b>SIFI capital buffer</b> (applied to 11 systemically important Russian banks) remains at 0.65% throughout 2019.</li> <li>• The <b>minimum LCR requirements for SIFI raised from 90% to 100%</b> in accordance with the Basel III standards.</li> <li>• The <b>deposit insurance system covers small enterprises' funds up RUB to 1.4 mln</b> deposited with Russian banks that have joined the deposit insurance system.</li> <li>• Systemically important banks start to calculate the ratio of <b>maximum concentration of exposure per borrower or group of related borrowers</b> and report it to the Bank of Russia. Based on the results of monitoring this indicator, the Bank of Russia will make a decision on the terms and specifics for setting it as a required ratio.</li> </ul>
28 December 2018	The Bank of Russia has permitted <b>Raiffeisenbank to use internal ratings-based (IRB) approach</b> for the purpose of calculating regulatory capital (effective 1 Feb 2019).
14 December 2018	The Bank of Russia <b>resumed regular foreign currency purchases</b> in the domestic market under the fiscal rule that were suspended in 2018, starting <b>15 January 2019</b> .
1 October 2018	<ul style="list-style-type: none"> <li>• The Bank of Russia completed transition to the new macroprudential regulation mechanism by introducing <b>risk weight add-ons for capital adequacy calculation</b> by credit institutions while bringing standard risk weights on assets in line with Basel III requirements (effective 8 Oct).</li> <li>• <b>Risk weight add-ons for mortgage loans and loans for construction co-funding with LTV &gt; 80%</b> are set at 100%, i.e. 200% risk-weight will be applied to such loans extended after 1 January 2019. The add-on is only effective as long as the loan-to-value ratio exceeds 80%.</li> <li>• <b>The countercyclical capital buffer</b> for Russian credit institutions is retained at 0% of risk-weighted assets.</li> </ul>

# 2

## RUSSIAN MACRO UPDATE

## KEY INDICATORS

Russian economy started to recover in 2016 and has moderated in the beginning of 2019

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

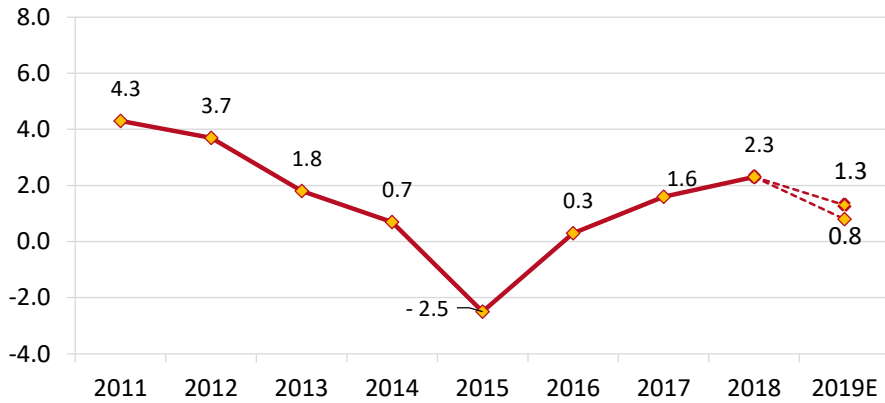


Figure 2: Private consumption and investment dynamics (YoY, %)

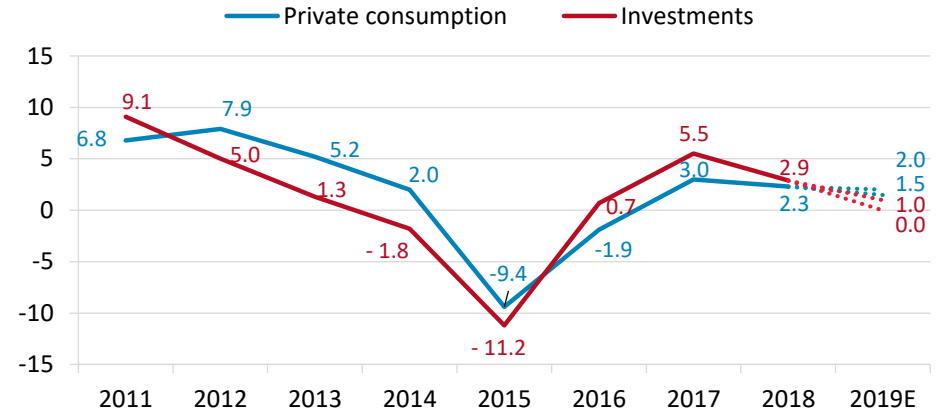
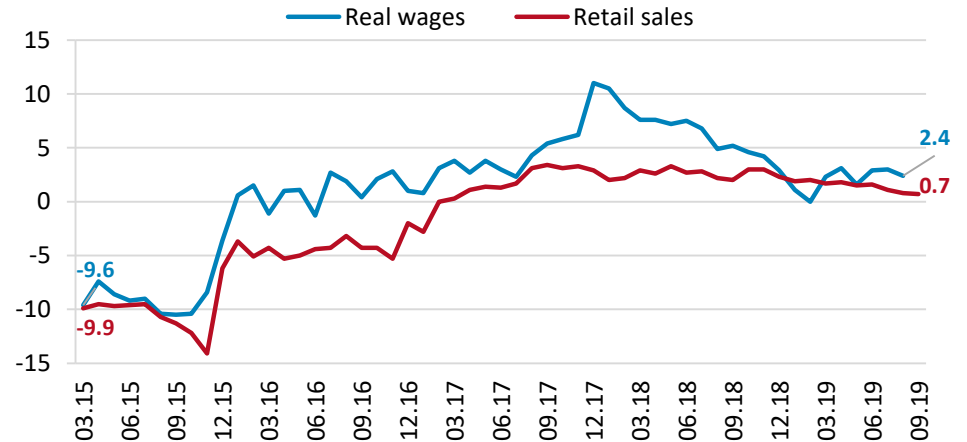


Figure 3: Russian Ruble volatility remains low while in free-floating



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



# MACROFINANCE

## Solid fiscal and external positions

Figure 5: Current account surplus amounted to USD 113 bn in 2018

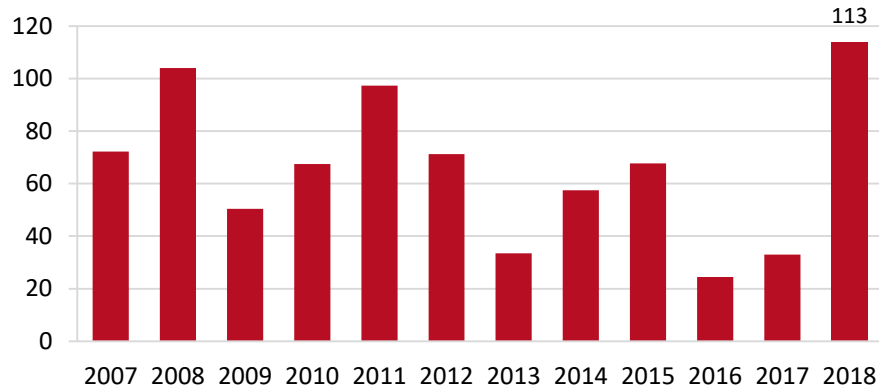


Figure 7: Significant international reserves assuring financial stability

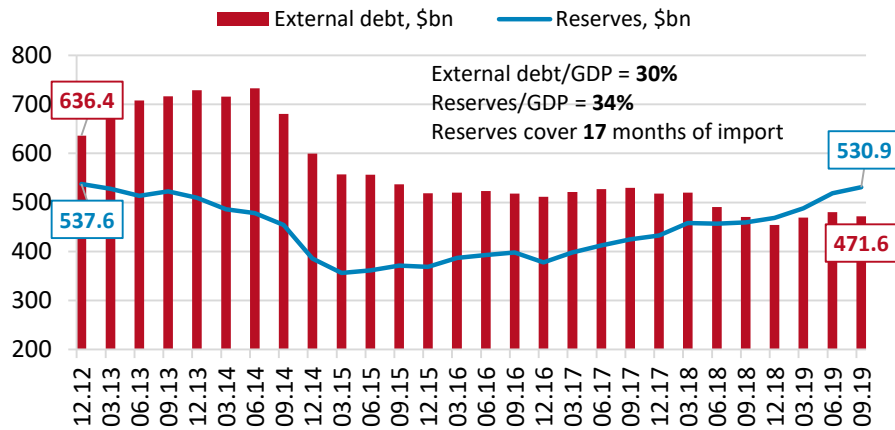


Figure 6: Strong fiscal position: budget consolidation and fiscal rule

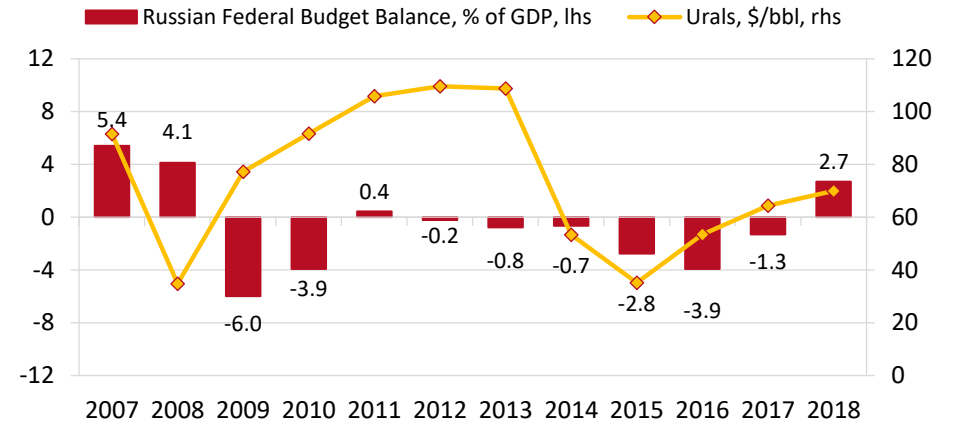
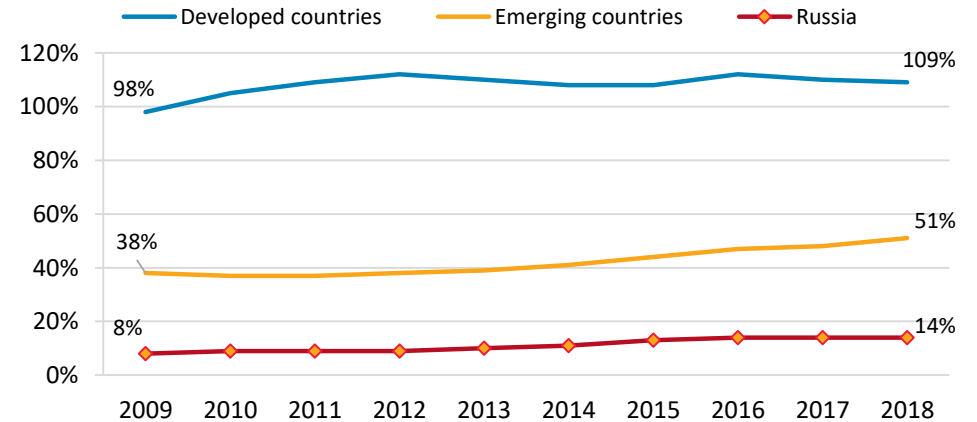


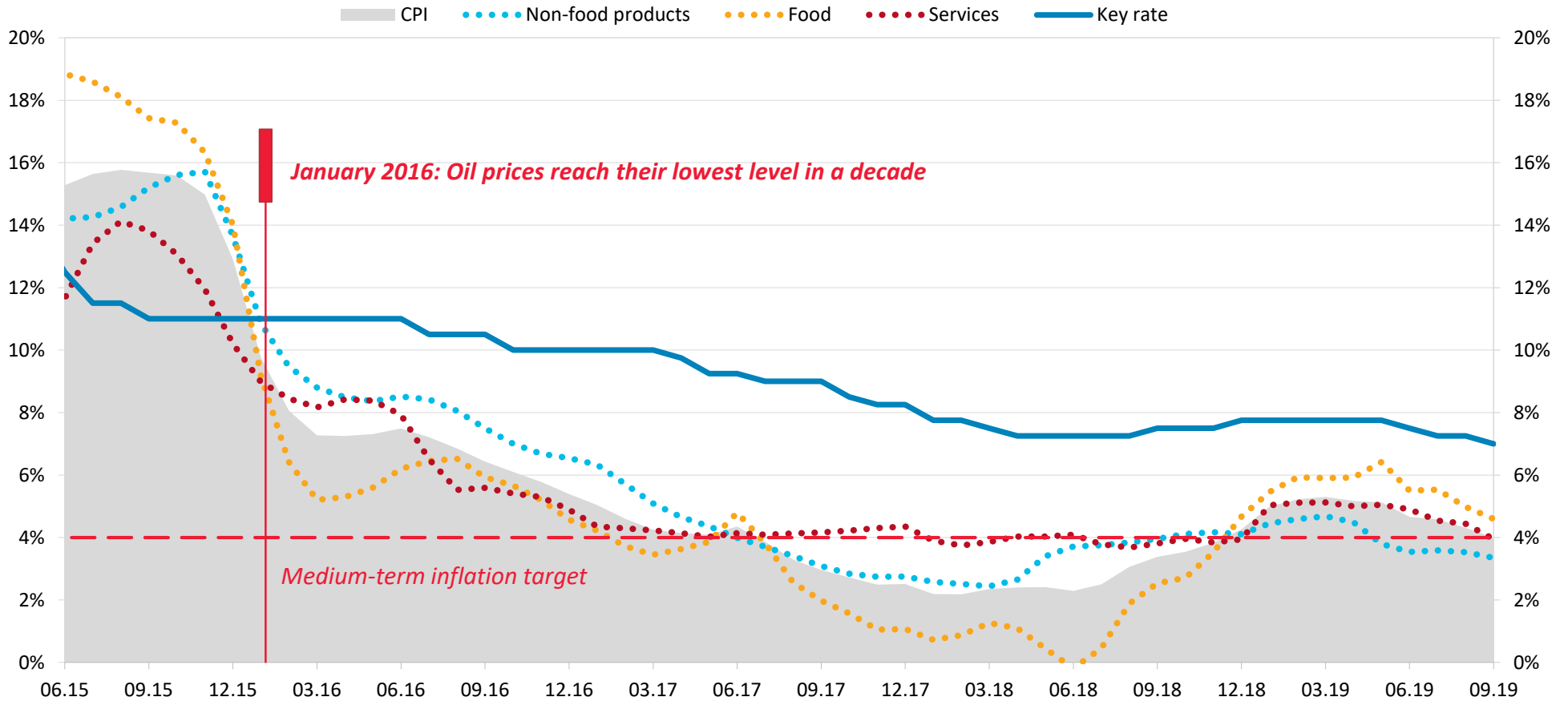
Figure 8: Sovereign debt to GDP lowest in both EM and DM spaces



# INFLATION

## Medium-term inflation target successfully met

Figure 9: Inflation (YoY, %)



Source: Bank of Russia, Rosstat

Inflation is 4.0% as of September 30, 2019



## INFLATION EXPECTATIONS

### Households and businesses inflation expectations remain elevated

Expect. horizon		2017		2018						2019										
		III	IV	I	II	III*	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	
<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	9.3	9.8	10.2	10.4	10.1	9.1	9.4	9.3	9.4	9.4	9.1	8.9	8.6	
FOM (subgroup with savings)	Next 12 months	9.4	8.3	8.0	9.0	9.2	8.7	9.1	9.1	8.5	9.1	8.0	8.6	8.6	8.3	8.6	8.9	8.4	7.6	
FOM (subgroup without savings)	Next 12 months	9.8	9.0	8.8	10.3	10.5	9.8	10.3	10.8	11.2	10.8	9.8	9.9	9.9	10.0	9.7	9.3	9.2	9.5	
FOM (median, observed inflation)	Past 12 months	11.2	10.0	9.2	10.6	10.2	10.1	10.1	10.2	10.1	10.6	10.0	10.5	10.4	10.2	9.9	10.0	9.9	9.4	
FOM (subgroup with savings)	Past 12 months	10.3	9.8	8.4	9.7	10.0	9.2	9.3	9.2	9.1	9.4	9.2	9.9	9.7	9.0	9.5	9.2	9.4	8.2	
FOM (subgroup without savings)	Past 12 months	11.7	10.2	9.6	11.2	10.4	10.6	10.6	10.8	10.6	11.4	10.8	10.9	10.8	11.1	10.2	10.3	10.4	10.2	
<b>Professional analysts</b>																				
Bloomberg	2019				4.0	4.7	4.5	4.6	4.5	4.7	4.6	4.7	4.5	4.5	4.5	4.2	4.2	3.8	3.8	
Bloomberg	2020				4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.9	4.0	4.0	3.8	
Bloomberg	2021															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	5.3	5.1	5.1	4.9	4.7	4.6	4.6	4.3	3.9	3.7	3.5	3.2	3.1	
OFZ IN (option not subtracted)	2028				4.7	5.5	5.3	5.3	5.2	5.0	4.9	4.9	4.8	4.5	4.1	3.9	3.8	3.5	3.4	
<b>Inflation expectations (balanced index**)</b>																				
<b>Households</b>																				
FOM	Next 12 months	-3.6	0.5	-3.2	9.1	9.8	7.9	14.3	20.6	18.6	11.5	8.0	5.6	6.5	5.4	11.2	8.4	5.9	8.3	
FOM	Next month	-16.0	-17.0	-16.0	-0.2	-3.7	-5.9	-6.8	-3.6	1.7	-8.3	-9.9	-8.2	-10.9	-14.8	-12.3	-15.0	-14.7	-11.8	
<b>Businesses</b>																				
Bank of Russia monitoring	Next 3 months	7.6	7.4	6.8	10.1	12.6	13.2	13.9	16.6	18.7	12.8	10.6	9.6	9.3	9.9	9.0	8.8	8.2	8.1	
PMI manufacturing input prices	Current month	14.6	14.2	16.4	40.6	38.2	25.6	26.2	25.0	36.6	28.0	32.4	18.6	12.4	9.2	7.2	10.4	8.6		
PMI manufacturing output prices	Current month	8.2	3.0	3.0	13.2	13.6	7.4	11.0	5.0	17.0	20.4	12.2	7.4	3.8	3.0	1.0	4.8	0.8		

\*As of the quarter end

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



## 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)	2018 (actual)	BASELINE			
		2019	2020	2021	2022
Urals price, average for the year, US dollars per barrel	69.8	63	55	50	50
<b>Inflation, as % in December year-on-year</b>	<b>4.3</b>	<b>3.2–3.7</b>	<b>3.5–4.0</b>	<b>4.0</b>	<b>4.0</b>
Inflation, average for the year, as % year-on-year	2.9	4.5–4.6	3.1–3.5	4.0	4.0
<b>Gross domestic product</b>	<b>2.3</b>	<b>0.8–1.3</b>	<b>1.5–2.0</b>	<b>1.5–2.5</b>	<b>2.0–3.0</b>
Final consumption expenditure	1.8	1.3–1.8	1.5–2.0	1.5–2.0	1.8–2.3
– households	2.3	1.5–2.0	2.0–2.5	2.0–2.5	2.0–2.5
Gross capital formation	0.8	0.5–1.5	3.5–4.5	3.5–4.5	2.5–3.5
– gross fixed capital formation	2.9	0.0–1.0	3.5–4.5	3.5–4.5	2.5–3.5
Exports	5.5	–(1.3–1.8)	2.0–2.5	2.0–2.5	2.5–3.0
Imports	2.7	0.0–0.5	3.0–3.5	3.5–4.0	2.5–3.0
Money supply in national definition	11.0	8–11	7–12	7–12	7–12
<b>Banking system claims on the economy in rubles and foreign currency*</b>	<b>11.5</b>	<b>8–11</b>	<b>7–12</b>	<b>7–12</b>	<b>7–12</b>
– claims on organisations in rubles and foreign currency; growth as % over year	8.4	5–8	6–10	6–10	6–10
– claims on households in rubles and foreign currency; growth as % over year	22.0	17–20	10–15	10–15	10–15

\* Banking sector claims on the economy mean all claims of the banking system on non-financial organisations and financial institutions and households in the currency of the Russian Federation, foreign currency, and precious metals, including loans extended (including overdue loans), overdue interest on loans, investments of credit institutions in debt and equity securities and promissory notes, other forms of stakeholding in the capital of non-financial organisations and financial institutions, and other receivables under settlement operations with non-financial organisations and financial institutions and households.



## ECONOMIC FORECASTS (2)

### Medium-term outlook for the Russian economy

Russia's balance of payments indicators* (billions of US dollars)	2018 (actual)	BASELINE			
		2019	2020	2021	2022
<b>Current account</b>	<b>113</b>	<b>75</b>	<b>52</b>	<b>34</b>	<b>23</b>
Balance of trade	194	162	138	122	116
Exports	443	412	392	385	392
Imports	249	250	254	263	277
Balance of services	-30	-33	-35	-37	-40
Exports	65	63	63	65	67
Imports	95	97	98	101	107
Balance of primary and secondary income	-51	-53	-51	-52	-53
<b>Current and capital account balance</b>	<b>112</b>	<b>75</b>	<b>52</b>	<b>34</b>	<b>23</b>
<b>Financial account (excluding reserve assets)</b>	<b>77</b>	<b>14</b>	<b>14</b>	<b>9</b>	<b>9</b>
Government and the central bank	9	-23	-6	-6	-6
Private sector	68	37	20	15	15
<b>Net errors and omissions</b>	<b>2</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change in reserve assets ('+' – increase, '-' – decrease)</b>	<b>38</b>	<b>63</b>	<b>38</b>	<b>25</b>	<b>14</b>

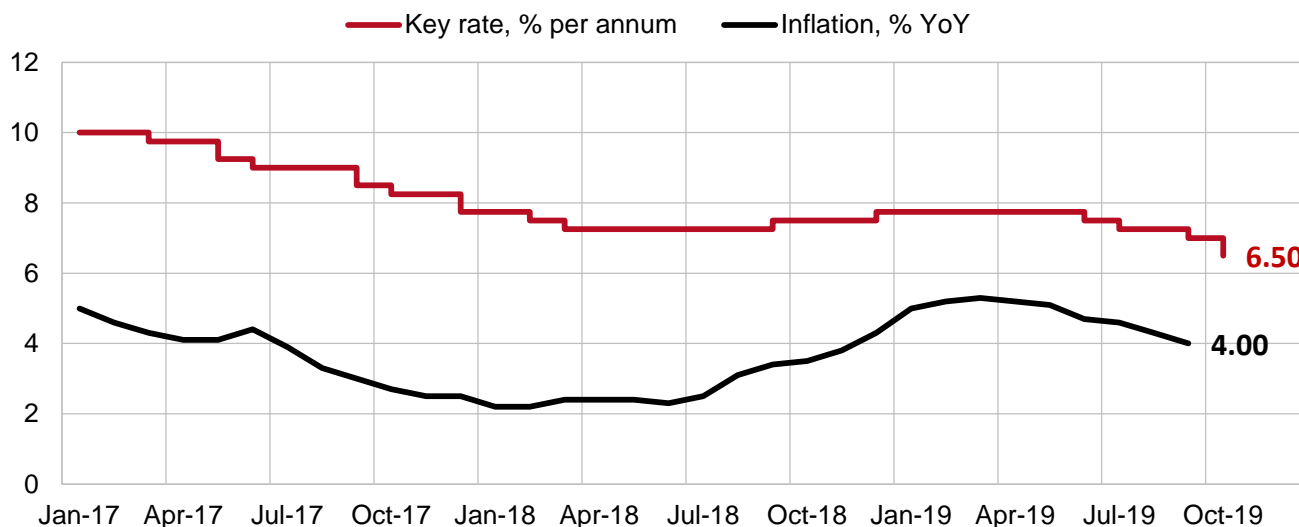
\* Using the methodology of the 6th edition of "Balance of Payments and International Investment Position Manual" (BPM6). In the Financial account "+" stands for net lending, "-" – for net borrowing. Due to rounding total results may differ from the sum of respective values.



# MONETARY POLICY

## Disinflationary risks exceed pro-inflationary risks over the short-term horizon

- ❑ Inflation slowdown is overshooting the forecast. Inflation expectations continue to decrease.
- ❑ The Russian economy’s growth rate still remains subdued.
- ❑ Risks of a substantial global economic slowdown persist.
- ❑ Disinflationary risks exceed pro-inflationary risks over the short-term horizon.
- ❑ In these circumstances, the Bank of Russia has **lowered its annual inflation forecast for 2019 from 4.0-4.5% to 3.2-3.7%.**
- ❑ Given the monetary policy stance, **annual inflation will come in at 3.5-4.0% in 2020 and will remain close to 4% further on.**



Source: Bank of Russia

### Decision as of October 25, 2019

**The Bank of Russia cuts the key rate by 50 bp to 6.50% p.a.**

### Signal

*“...If the situation develops in line with the baseline forecast, **the Bank of Russia will consider the necessity of further key rate reduction** at one of the upcoming Board of Directors’ meetings.*

*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.  
...”*

# 3

## FINANCIAL SECTOR OVERVIEW

## 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



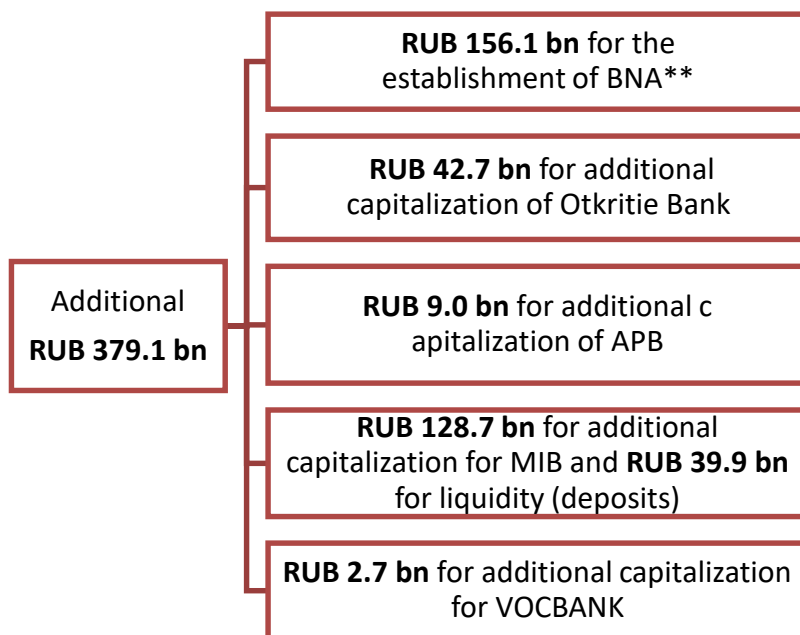
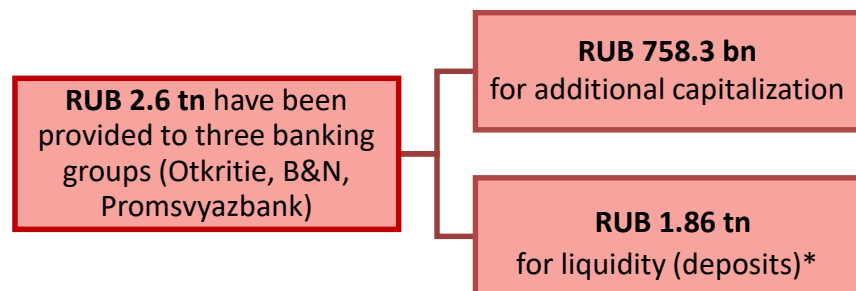
**Systemically important financial institutions (SIFI) are subject to:**

- 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 (MIB)
6	Volga-Oka Bank (VOCBANK)

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 10: In 2013-2018 more than 400 licenses were revoked causing almost no impact on the banking sector's total assets

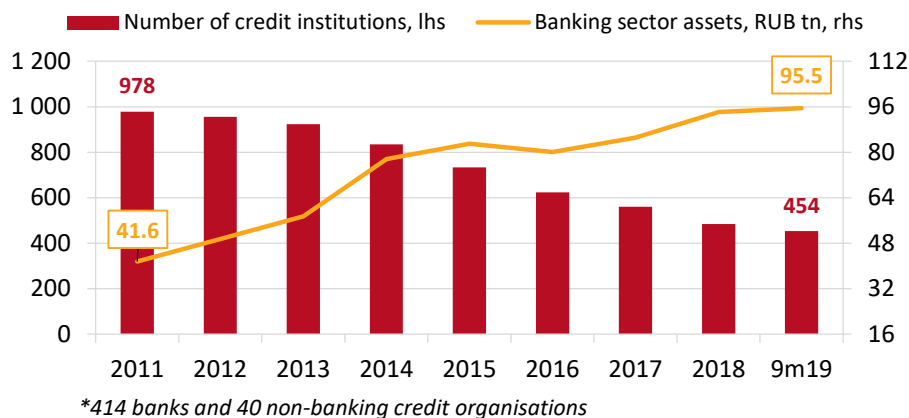
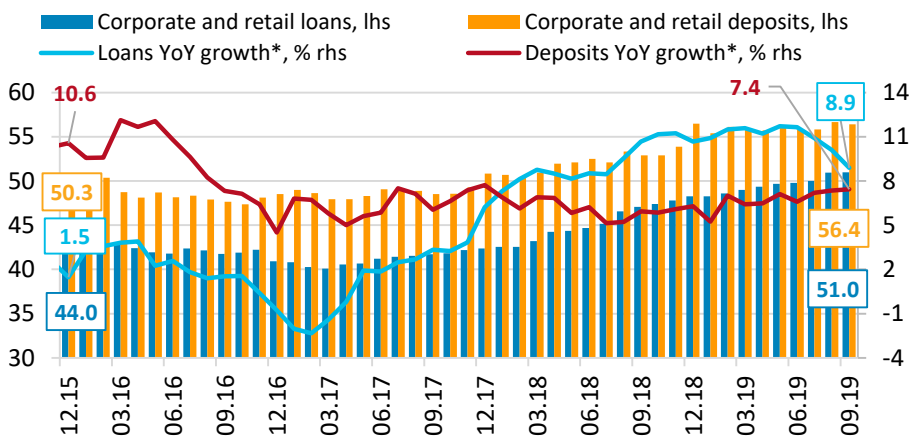


Figure 12: Loans and deposits volume (RUB tn) and growth rates



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

Figure 11: Banking sector profitability restored to record high levels

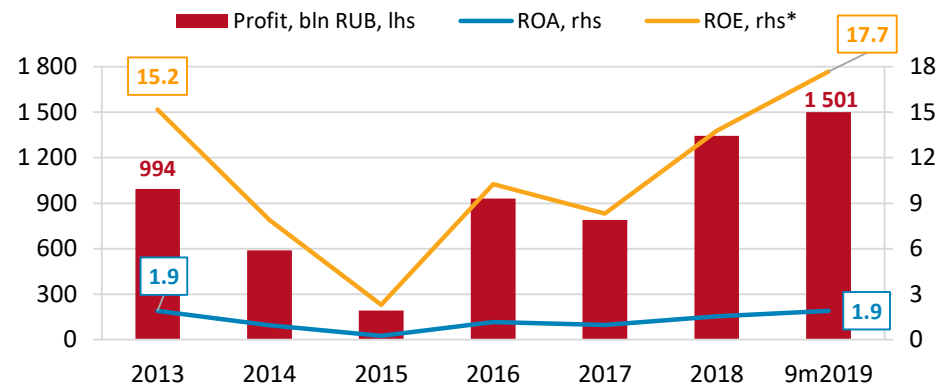
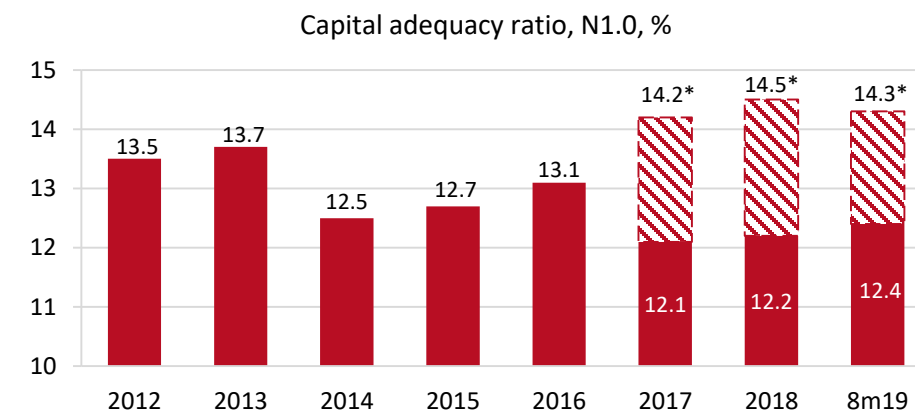


Figure 13: Banks hold an acceptable level of capital under Basel III



\*excluding credit institutions under financial rehabilitation procedure



# BANKING SECTOR: FUNDING

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

Figure 14: In September 2019 corporate deposits grew by 5.0% YoY to RUB 27.1 tn

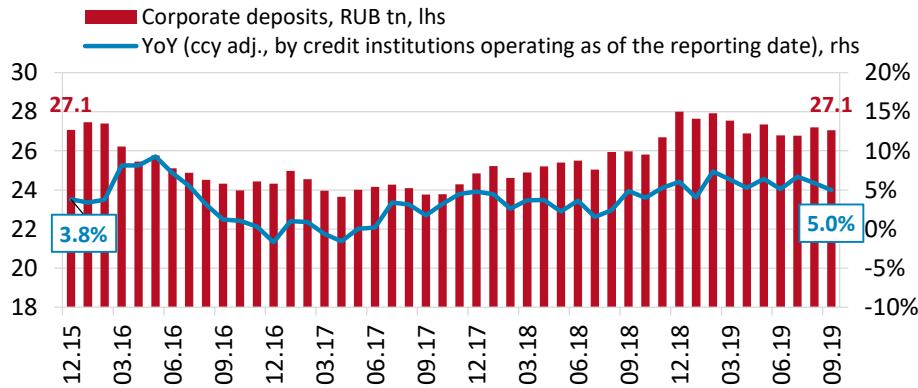


Figure 15: In September 2019 retail deposits demonstrated growth of 9.8% YoY, reaching RUB 29.4 tn

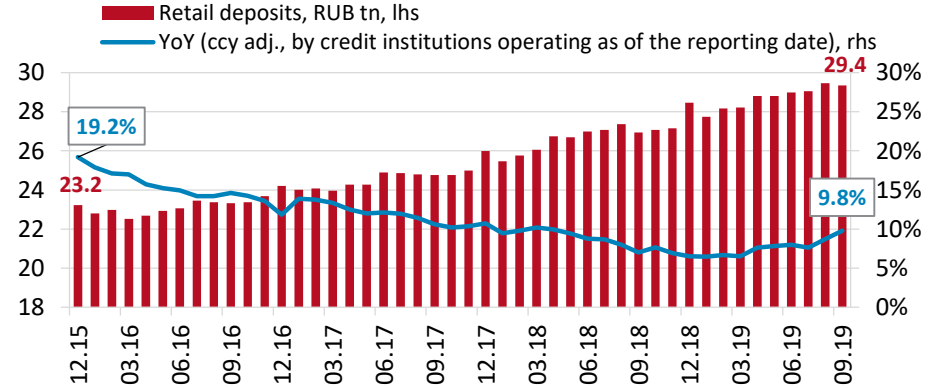


Figure 16: Operations with the Bank of Russia, tn RUB

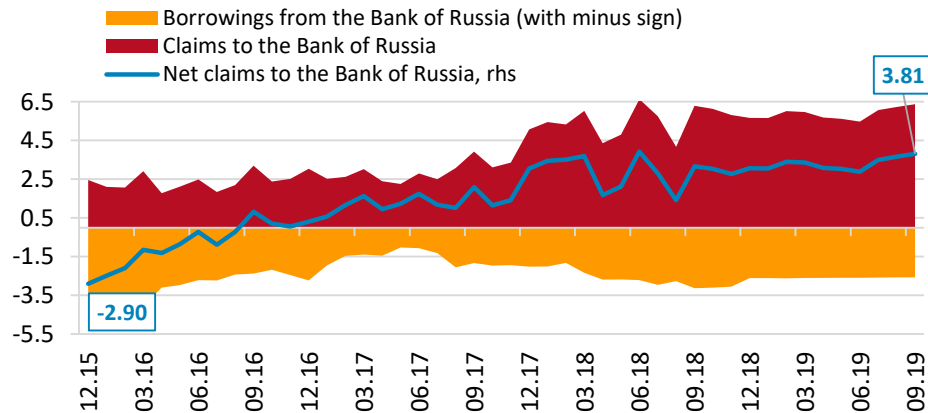
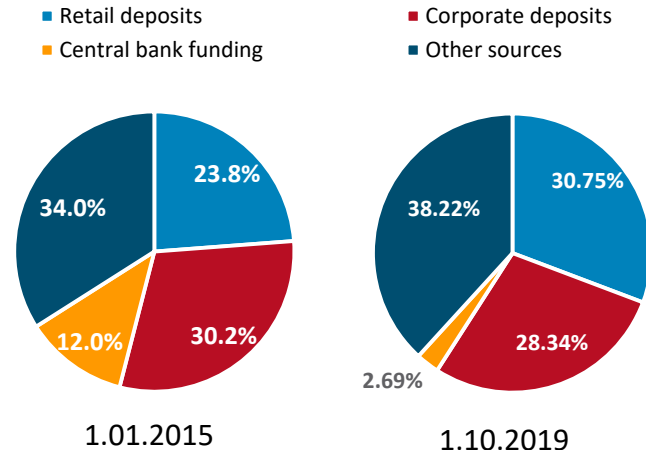


Figure 17: Sources of funding, % of total liabilities





# BANKING SECTOR: INTEREST RATES

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

Figure 18: Weighted average interest rates on loans in rubles, %

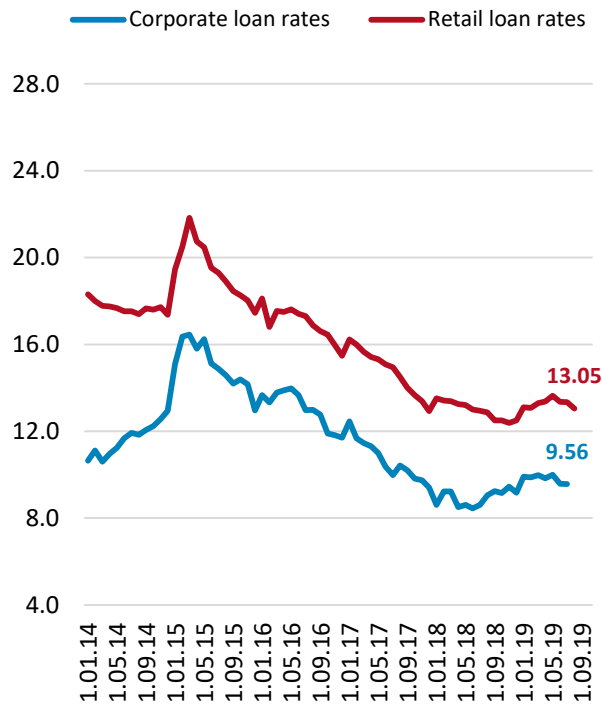


Figure 19: Weighted average interest rates on deposits in rubles, %

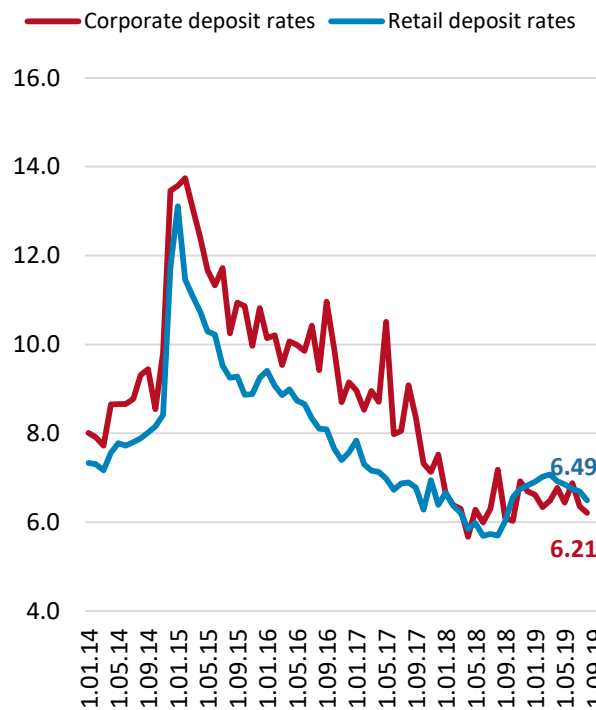
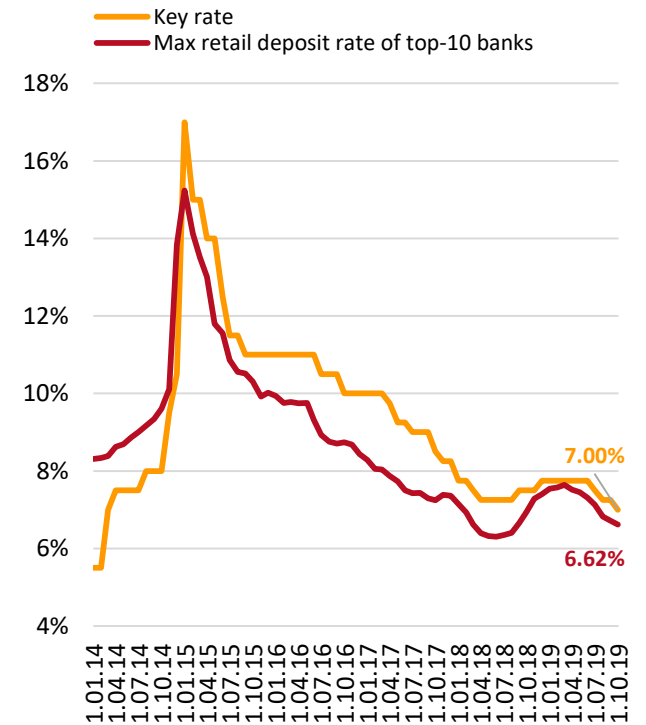


Figure 20: Max interest rate on retail deposits in rubles of top-10 banks and Bank of Russia's policy rate, %



## BANKING SECTOR: LENDING

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

Figure 21: Corporate lending increased 3.7% YoY in September 2019

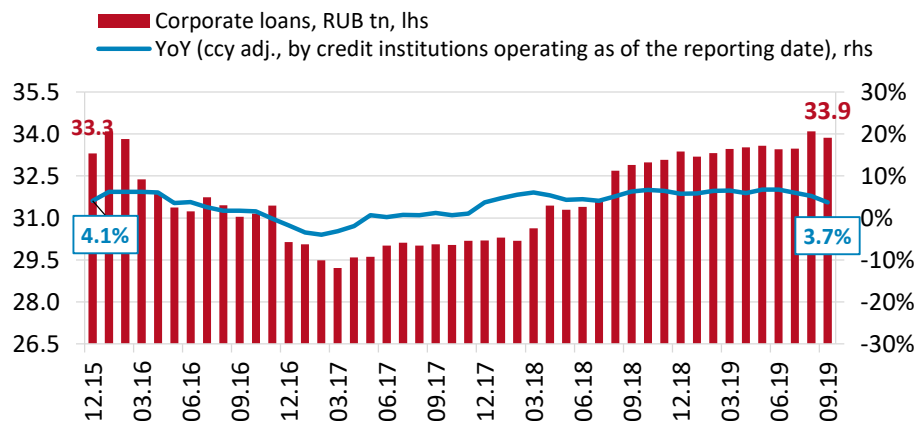


Figure 22: Retail lending increased 20.9% YoY in September 2019

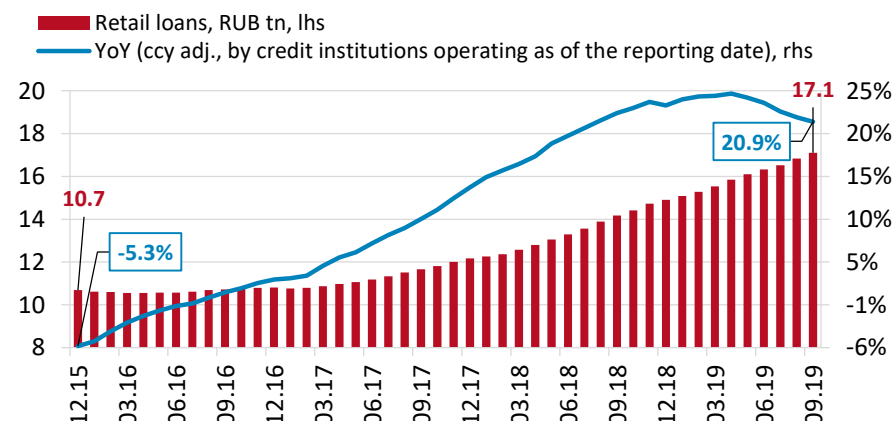


Figure 23: Share of bad corporate loans\* reached 12.1% in August 2019, while the loan loss reserves to bad loans ratio accounted for 85.1%

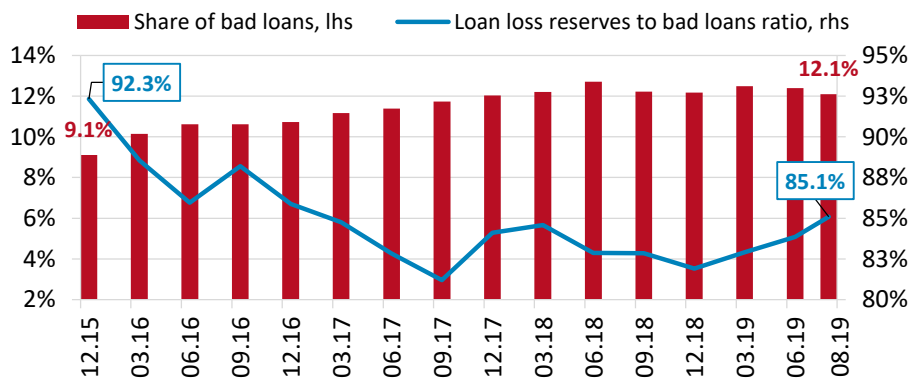
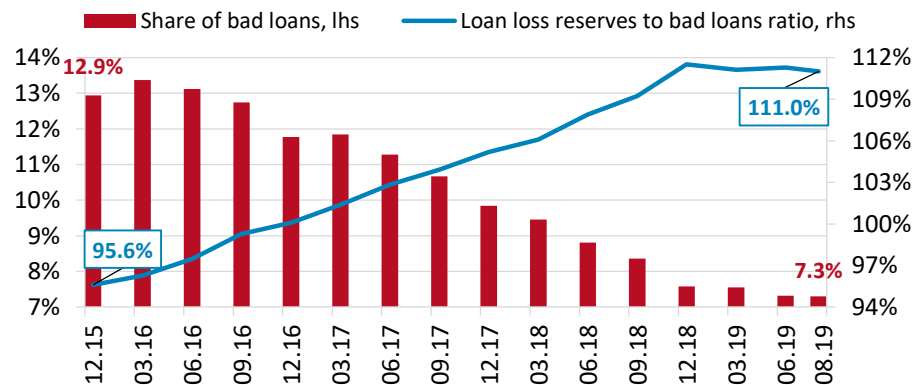


Figure 24: Retail loans portfolio demonstrates improved quality: the share of bad loans\* reached 7.3% in August 2019



\* 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 25: Mortgage lending increased 19.2% YoY in August 2019

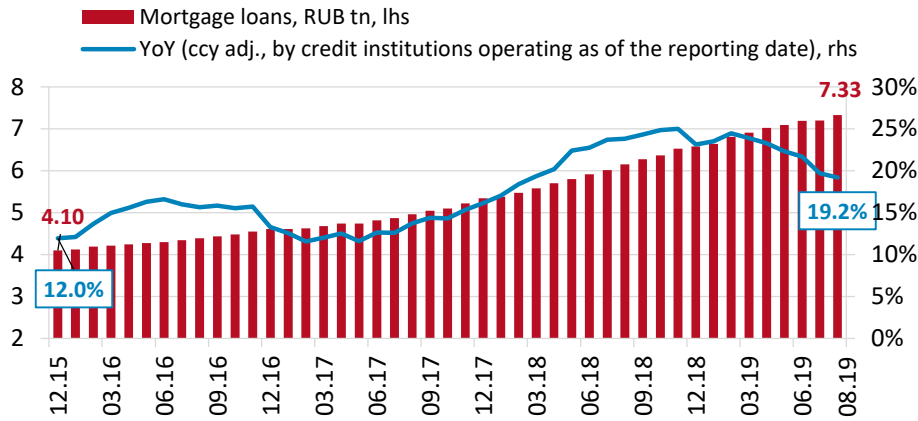


Figure 26: Share of NPLs remains at historically low levels

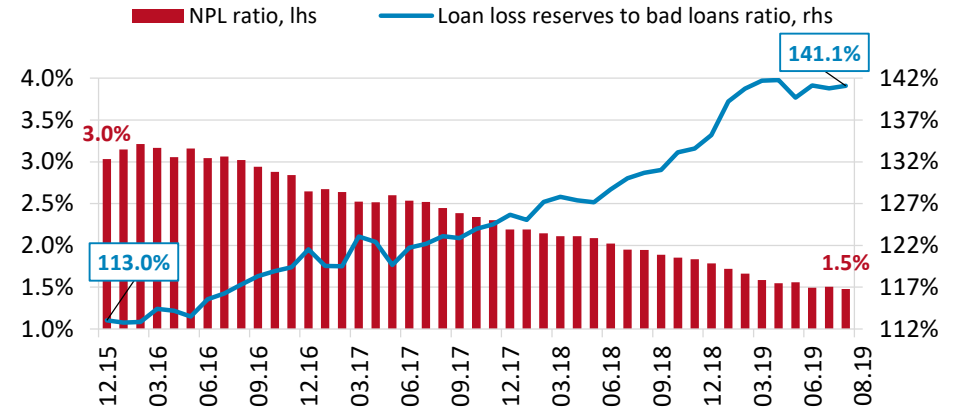


Figure 27: Distribution of mortgage borrowers by LTV

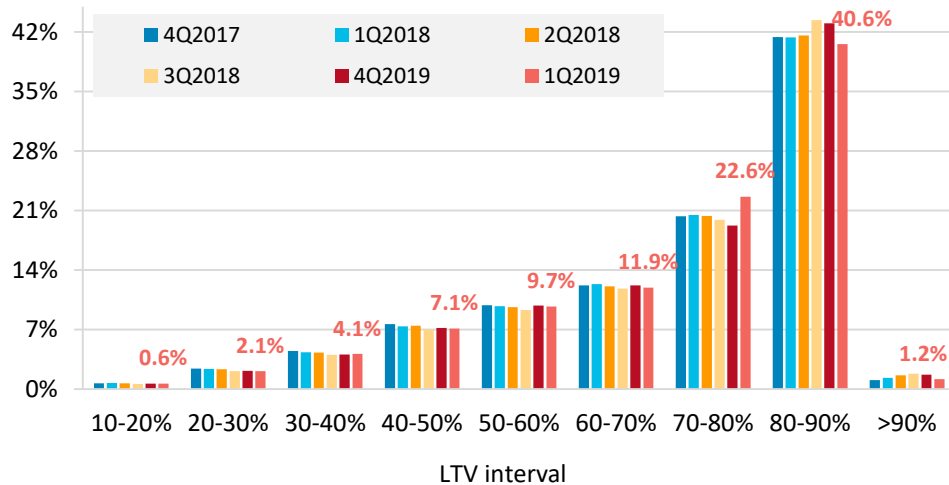
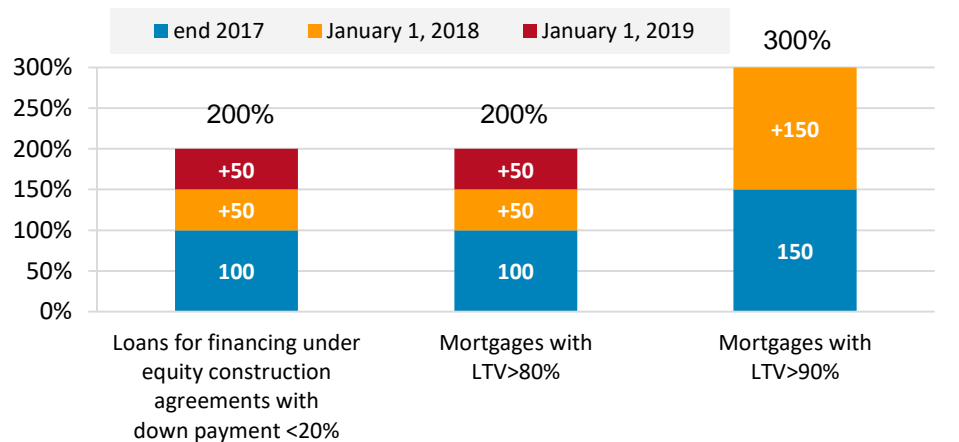


Figure 28: Risk weights applied to mortgage loans





# BANKING SECTOR: UNSECURED CONSUMER LENDING

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

Figure 29: Unsecured consumer lending increased 23.8% YoY in August 2019

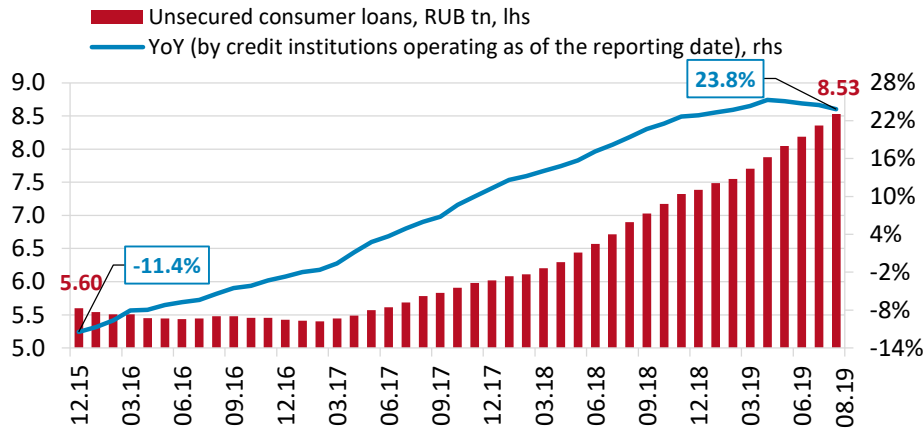


Figure 30: Share of NPLs decreased to 8.3% in August 2019

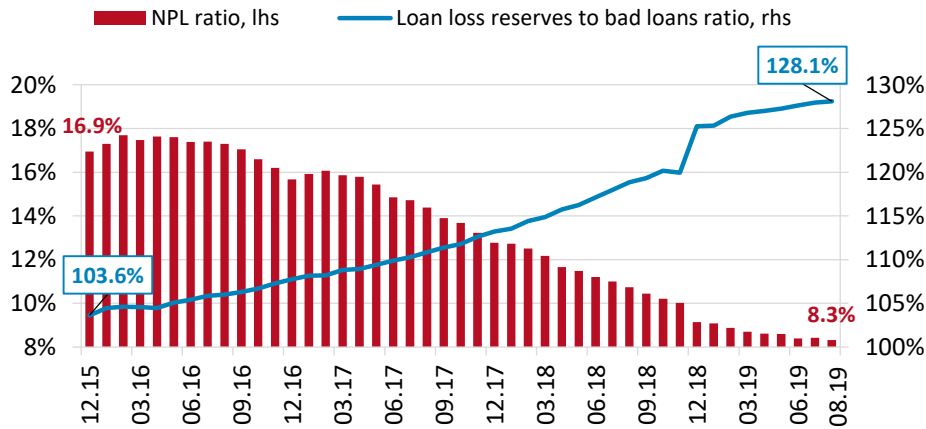
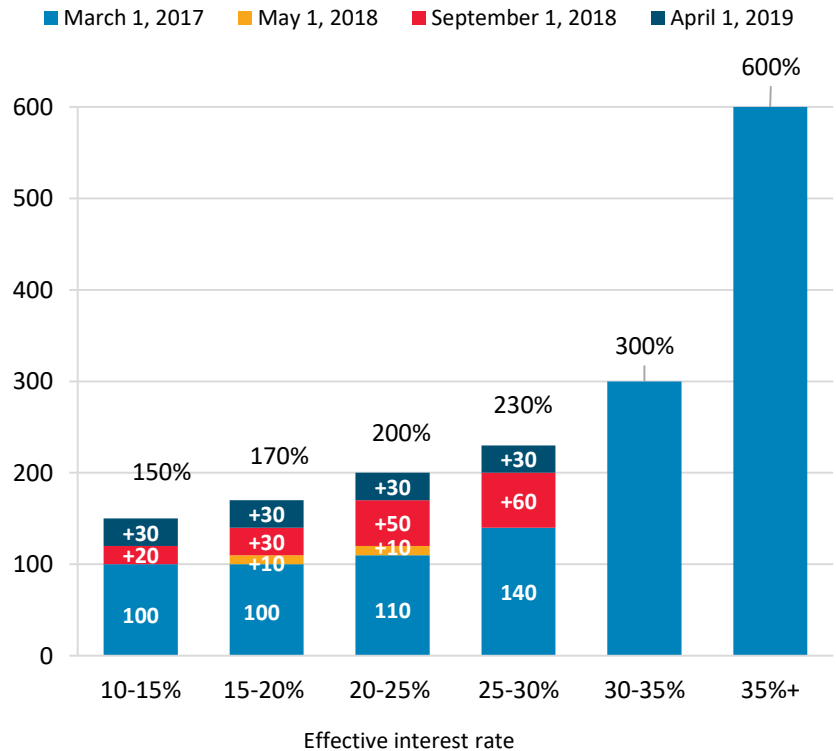


Figure 31: Risk weights applied to unsecured consumer loans, %

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





## 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: DEDOLLARISATION

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

Figure 32: Corporate FX lending declined significantly over the past few years

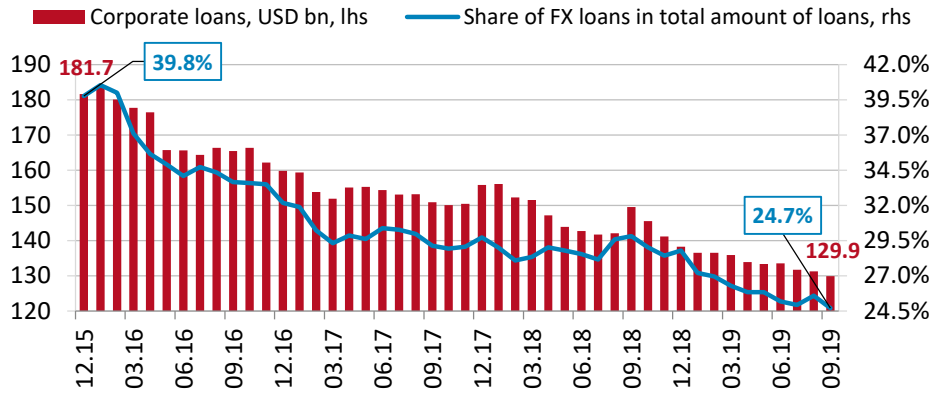


Figure 33: Retail FX loan portfolio is insignificant in size

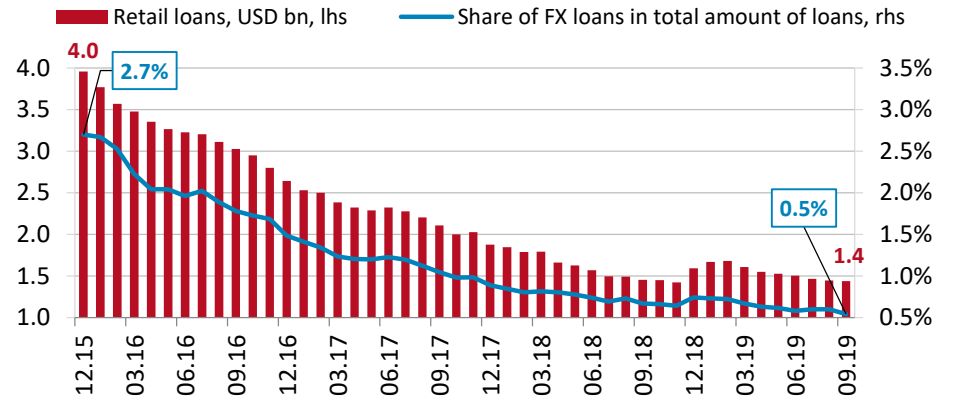


Figure 34: Share of corporate and retail FX deposits in total amount of deposits has fallen

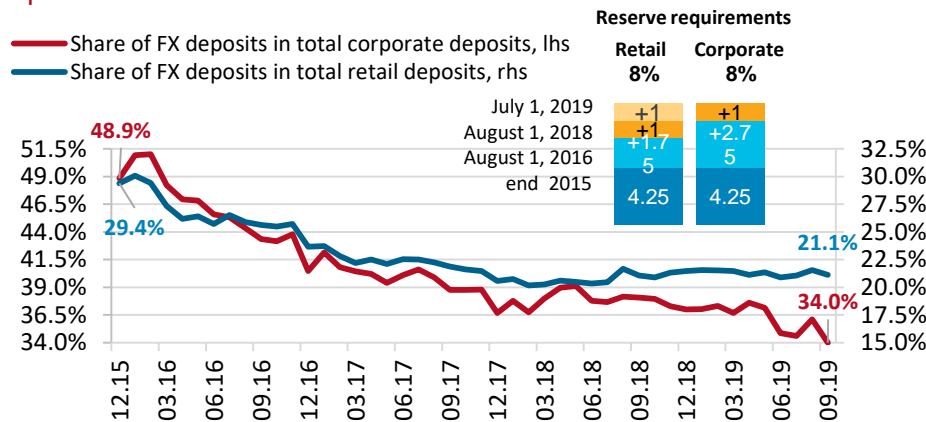
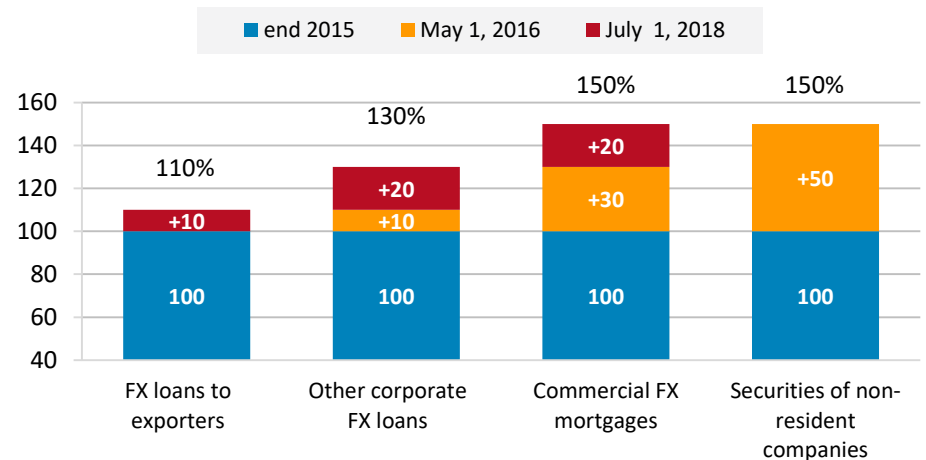


Figure 35: Risk weights applied to the FX assets, %





## BANKING SECTOR: CAPITAL ADEQUACY

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

Figure 36: Capital adequacy ratio for the banking sector decreased over from 12.7% (1.01.16) to 12.4% (1.09.19) mostly due to the procedures of financial rehabilitation of the large credit institutions

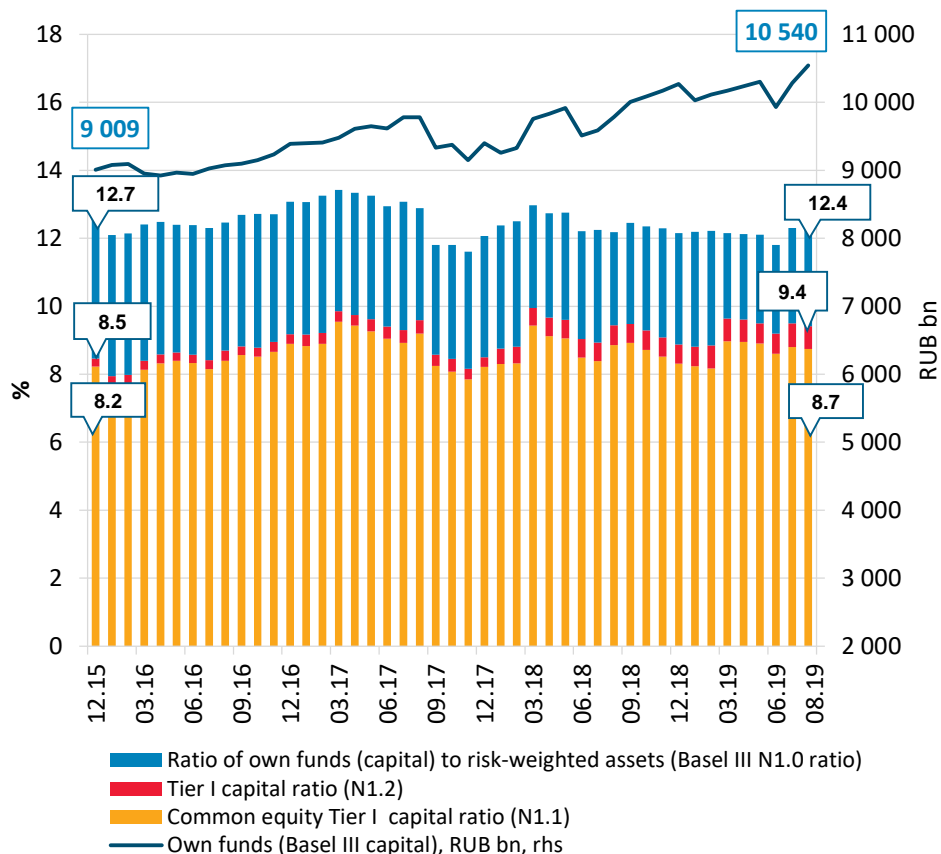
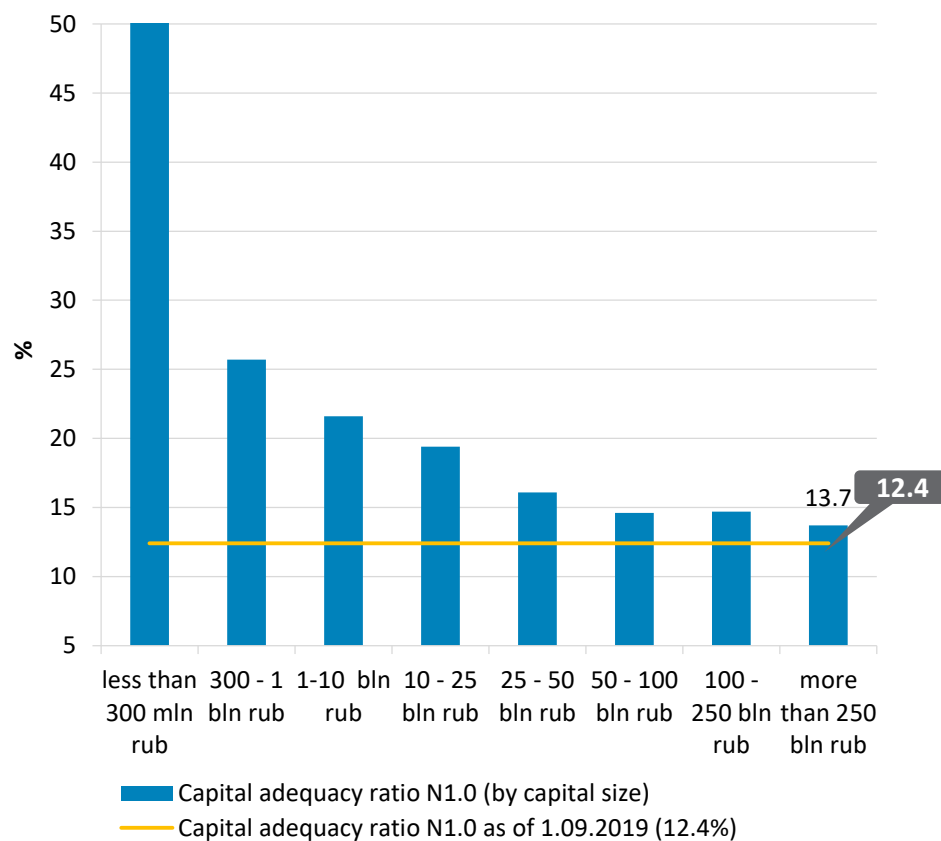


Figure 37: Credit organizations with capital exceeding RUB 25 bn have lower buffer vs N1.0 minimum requirement due to the economies of scale





## 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

№	Company name	Assets, RUB tn
1	Sberbank	28.8
2	VTB Bank	14.4
3	Gazprombank	6.3
4	Russian Agricultural Bank	3.4
5	Alfa-Bank	3.4
6	Bank FC Otkritie	2.3
7	Credit Bank of Moscow	2.2
8	Promsvyazbank	1.9
9	UniCredit Bank	1.4
10	Raiffeisenbank	1.3
11	Rosbank	1.2

Assets as of August 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
Capital conservation buffer	1.25%	1.875%	2.50%*
SIFI buffer	0.35%	0.65%	0.65%
Countercyclical buffer	0%	0%	0%

#### Minimum capital adequacy ratios for SIFI

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

\***Capital conservation buffer** will be raised in accordance with the schedule approved by the Bank of Russia – 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.

## 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 3.2%<sup>1</sup> over the past 12 months as of 1 July 2019.

The household debt burden is rising<sup>2</sup>: during the first half of the year, the debt service to income ratio increased from 9.9% to 10.4% driven, primarily, by unsecured consumer loans. The debt service to income ratio on retail loans grew from 8.3% to 8.8% over the first six months of 2019 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 24.5%<sup>3</sup> as of 1 August 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 will be 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 Q2. Such loans accounted for 36.7%<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 July, 2019. The effective macroprudential measures form additional capital stock which accounts for 0.7 pp of the banking sector's capital adequacy<sup>6</sup>.

<sup>1</sup> Adjusted for FX revaluation (exchange rate as of 1 July 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.

#### Decision

as of August 30, 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..."*

## 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



### 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.



### 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



### 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 38 : Volume of the Russian local bond market, RUB tn

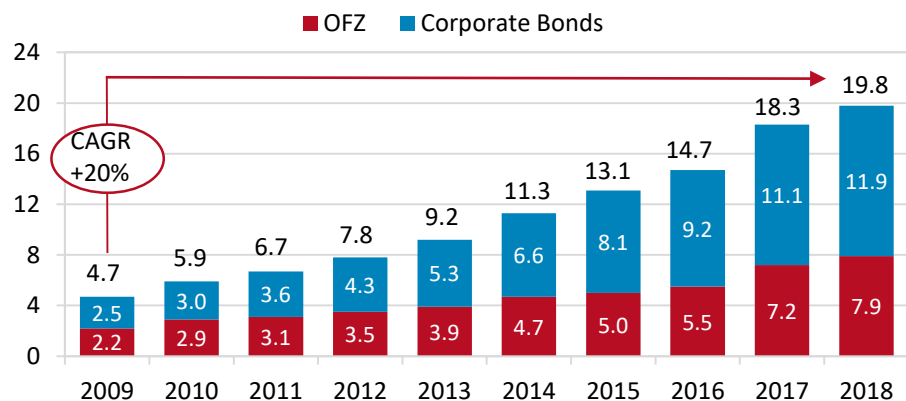


Figure 39: Volume of the Russian corporate bond market, RUB tn

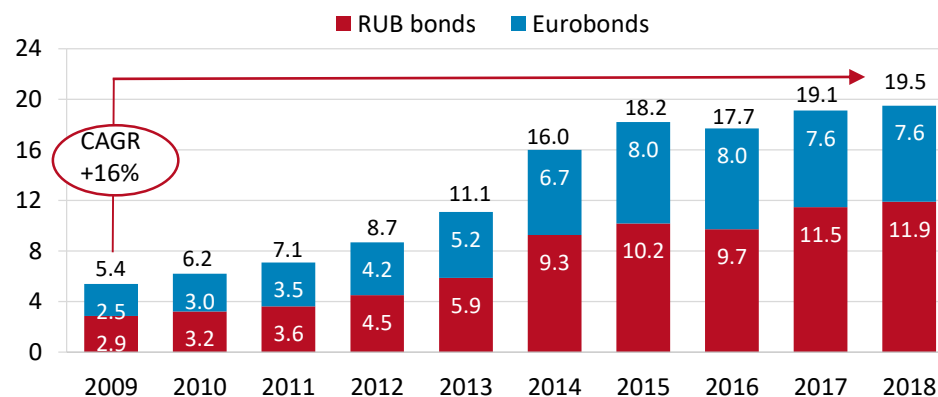


Figure 40: “Bondization” of the Russian financial market

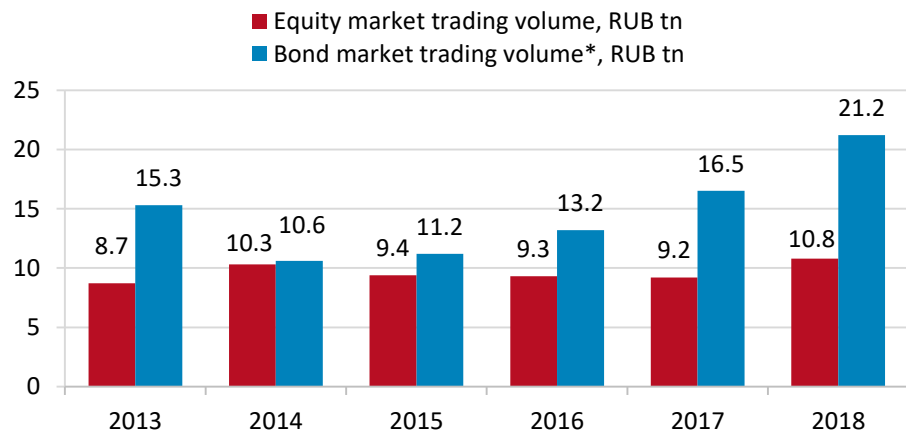
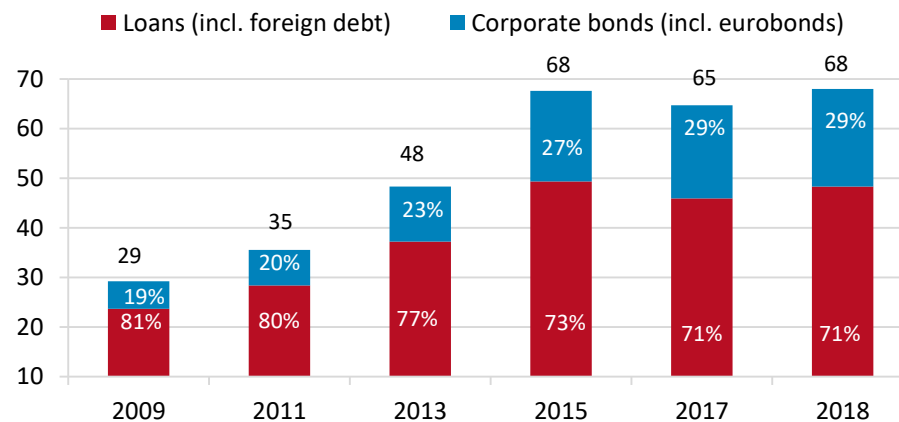


Figure 41: Corporate loans vs corporate bonds in Russia, RUB tn



# SECURITIES MARKET (3)

Russian OFZ market provides relatively high yields amid investment grade reliability

Figure 42: Russian OFZ market volume keeps growing

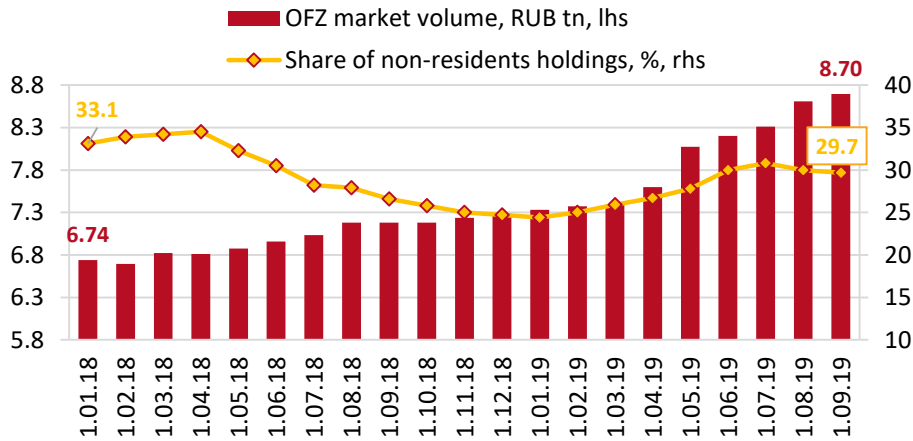


Figure 44: Bond market yields, key rate and RUONIA (% RUB)

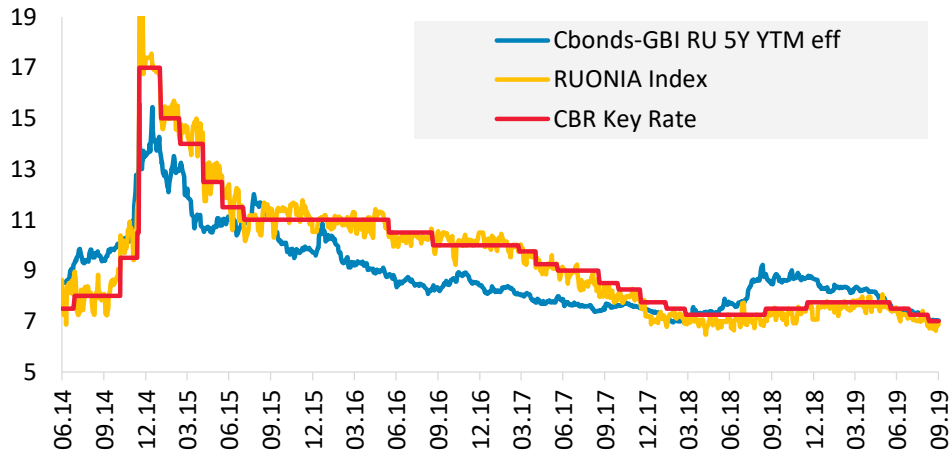


Figure 43: Zero-coupon OFZ yield curve, %

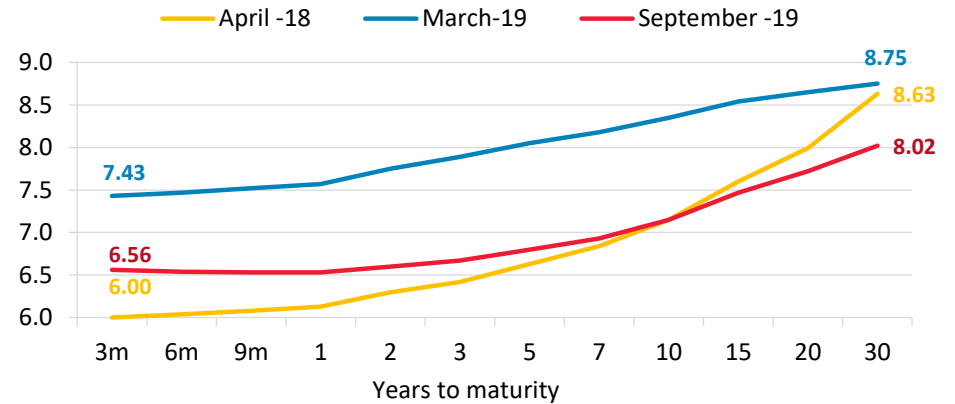
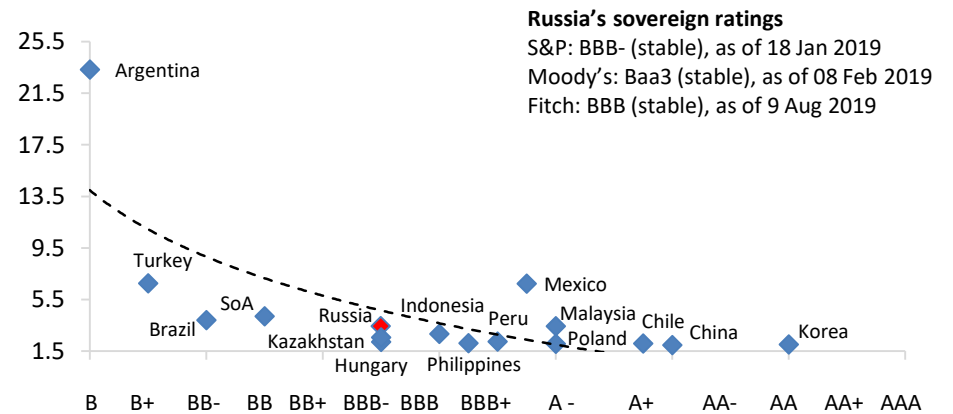


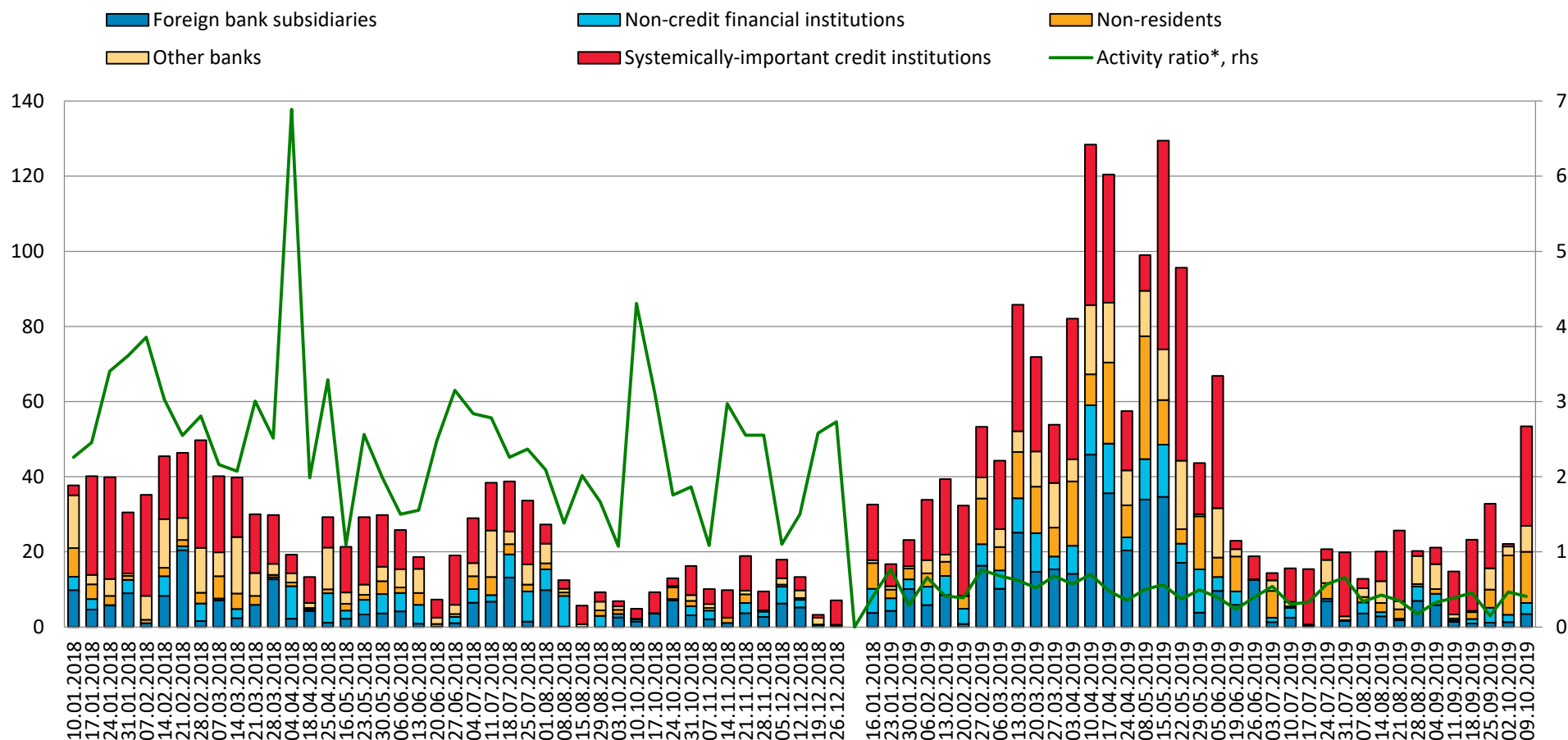
Figure 45: EM 10Y bond yields (% USD) on the background of credit ratings



# SECURITIES MARKET (4)

## Demand for OFZs placements remains sustainably high

Figure 46: 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 provides growth potential and attractive dividend yields

Figure 47: Russian Equity market cap, bln RUB & bln USD

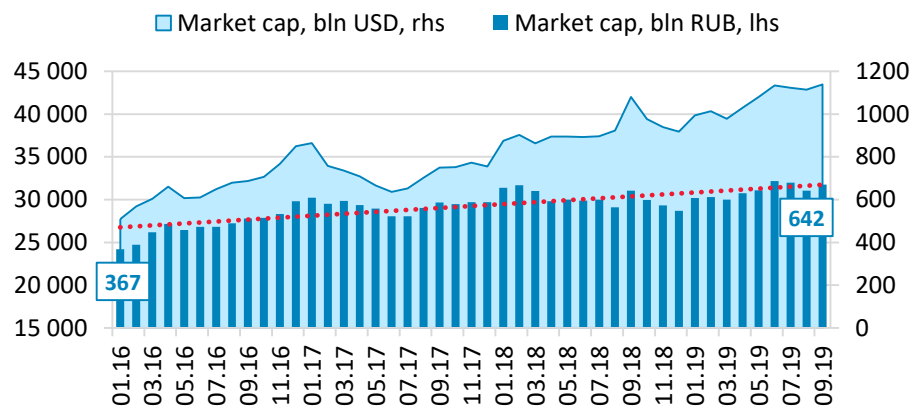


Figure 48: Domestic market capitalization to GDP ratio reflects undervalued Russian financial market (of GDP, %)

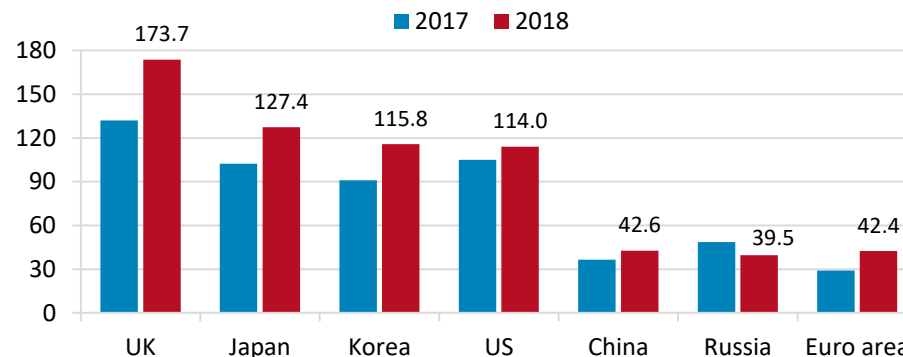


Figure 49: Russian equities market trading volumes proves stable

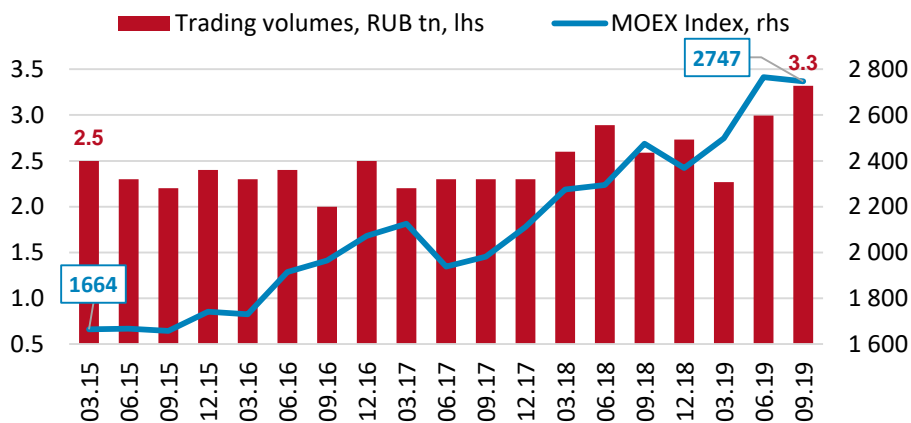


Figure 50: Dividend yield (12M): Russia vs. EM, %





## SECURITIES MARKET (6)

Russian equity market remains undervalued despite strong performance in recent years

Figure 51: Russian MSCI index vs EM peers (01.01.15 = 100%)

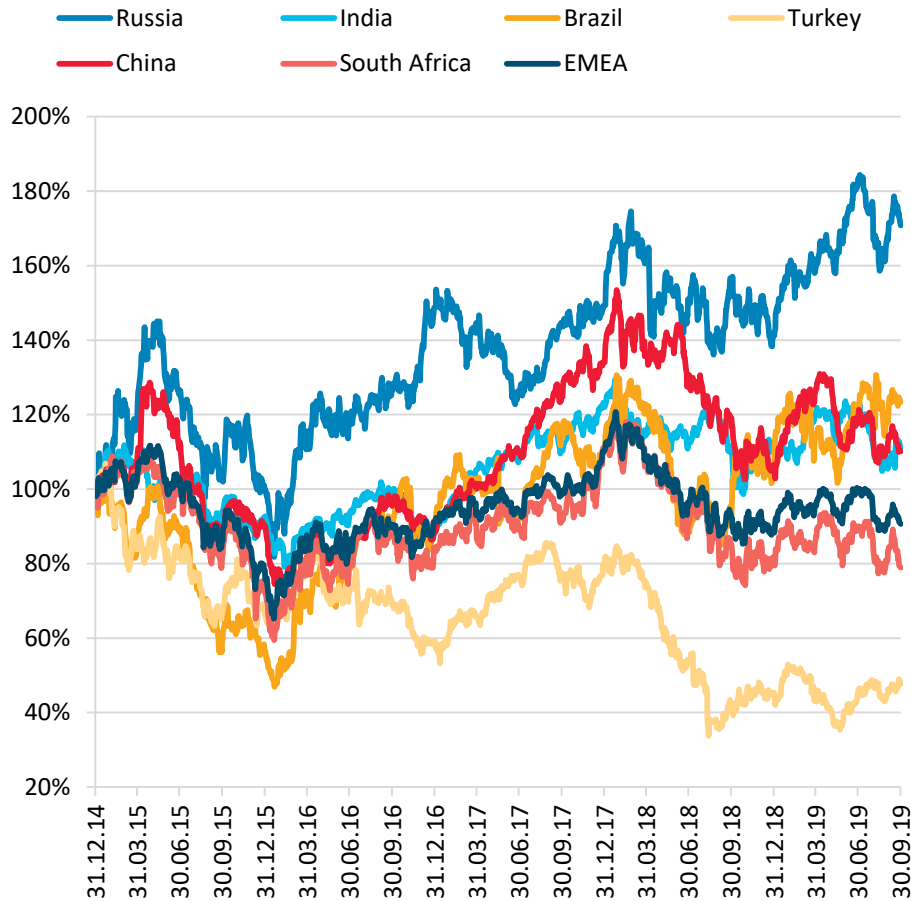
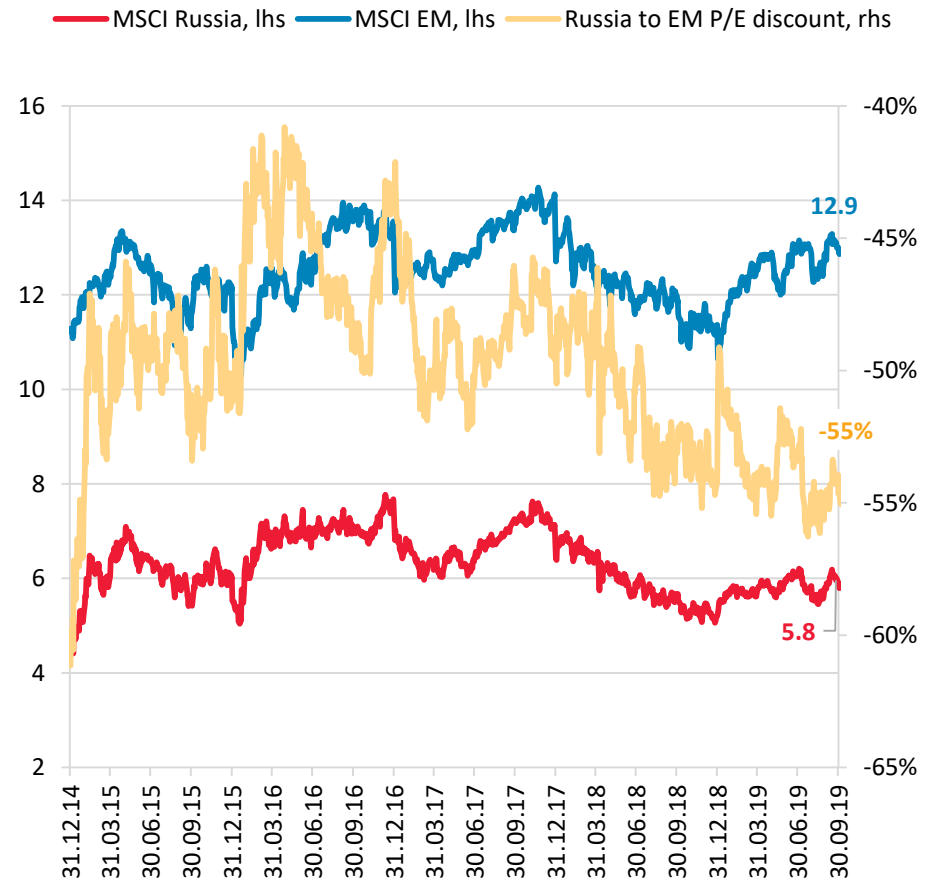


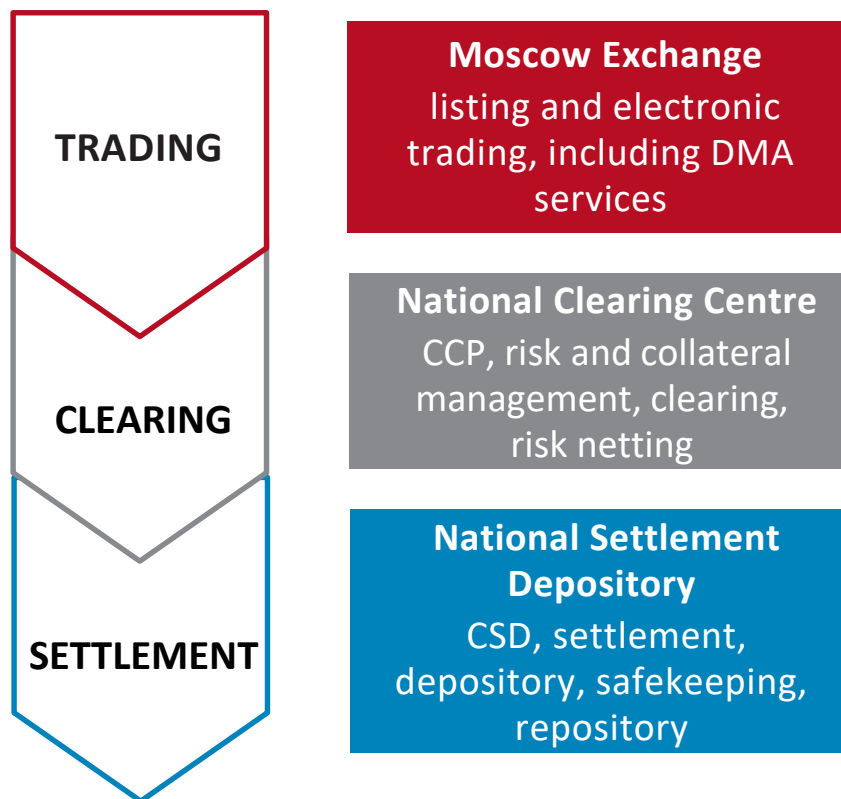
Figure 52: Forward P/E ratio (12m), MSCI Russia vs MSCI EM



Source: Bloomberg

## SECURITIES MARKET (7)

Moscow Exchange group offers the best infrastructure in its class



- ✓ MOEX captures the **entire value chain** for end-customers, offering a one-stop shop for listing, risk management, market data, multi-asset trading, clearing settlement and custody
- ✓ MOEX is **strategically positioned** to benefit from the development of Russia’s capital markets in the coming years
- ✓ Fully **vertically integrated infrastructure** with regulation and oversight by the Bank of Russia
- ✓ **Eligible collateral** to trade any asset class
- ✓ Foreign investors have Direct Market Access (**DMA**), Sponsored Market Access (**SMA**) and International Clearing Membership (**ICM**) **services** at their disposal



## SECURITIES MARKET (8)

Russian financial market has necessary infrastructure and regulation for trading OTC

### Robust legal protection in place

- ✓ Enforceability of close-out netting in derivatives and repo markets is confirmed by relevant legal opinions (ISDA, ICMA)
- ✓ Russian standard documentation developed by SROs and approved by the Bank of Russia

### Russia adheres to G20 decisions in respect of OTC derivatives reforms

- ✓ Trade reporting to repositories (two authorized repositories available)
- ✓ National Clearing Centre provides clearing services for OTC trades

### Variety of instruments and service providers

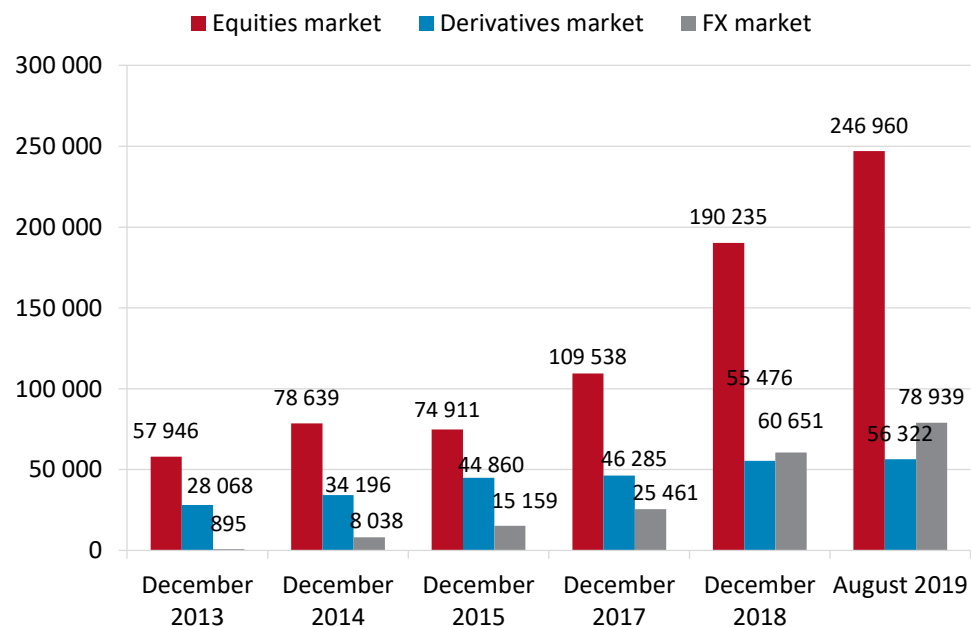
- ✓ Non-financial counterparties have access to a broad range of hedging instruments offered by banks (including structured products)
- ✓ National Settlement Depository provides collateral management services (repo)

## SECURITIES MARKET (9)

Rapidly developing retail market with strong tax incentives and accelerating FinTech

- ✓ In September 2019, the number of retail investors on Moscow Exchange reached **3 million**
- ✓ More than **246 960** retail investors were reported as “active” traders

Figure 53: Number of active retail client accounts



Source: Moscow Exchange

### Recent regulatory changes

**Individual Investment Accounts** for private investors since 2015.

- RUB 1 mln – max sum to invest in a year.
- More than 825k accounts opened as of May 2019

**Tax deductions** for IIA type A – max RUB 52 000; for IIA type B – at the rate of investment income

**Corporate bonds** with yield of under 12.75% became tax-exempt on January 1, 2018

Capital gains on securities held for more than 3 years are **tax-exempt**

Retail investors allowed to open brokerage and management accounts **online**



## 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

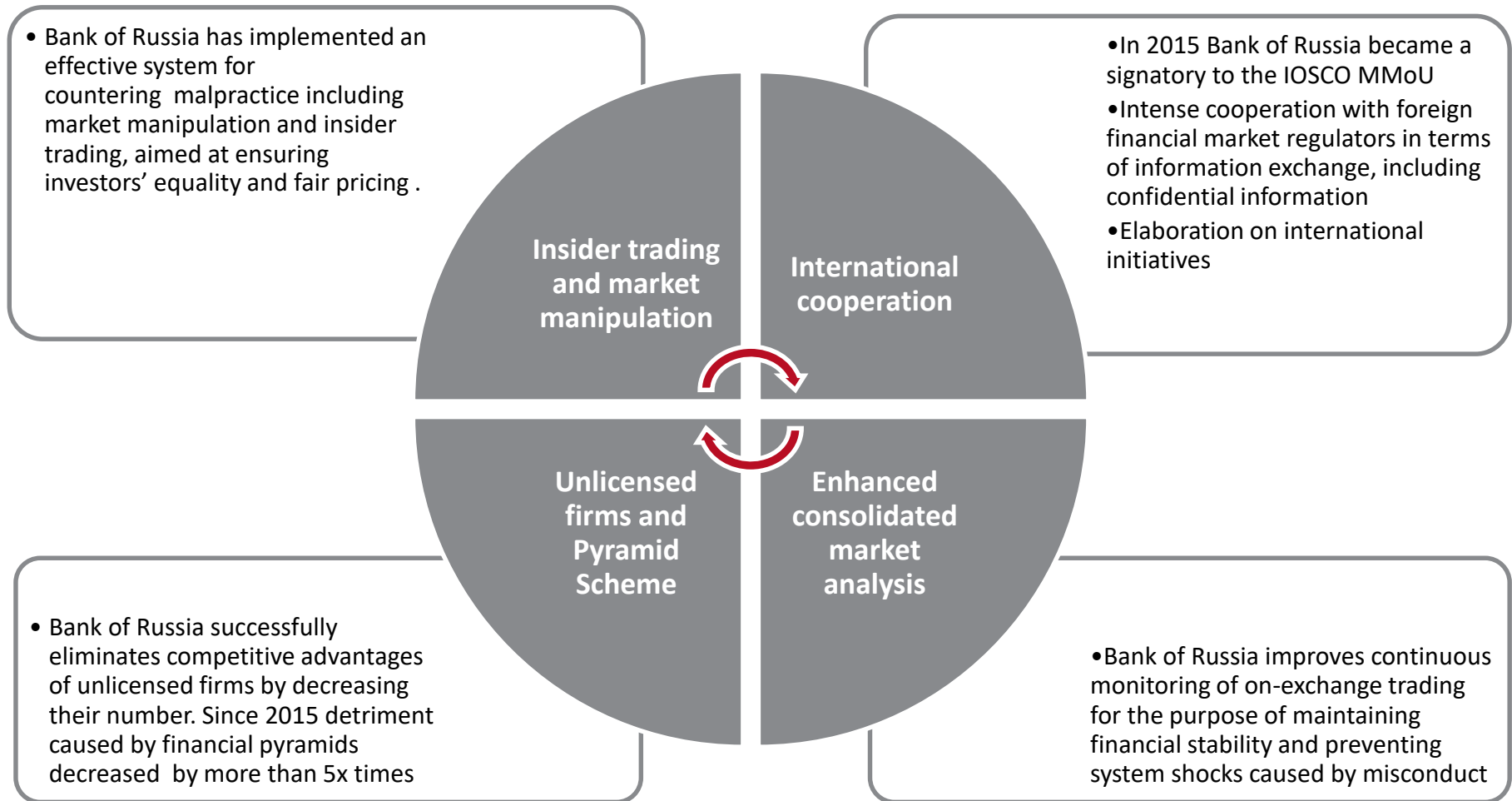
- ✓ NSD used a blockchain-based settlement platform to complete an inaugural placement of a RUB 500 mln bond issue in 2017
- ✓ In 2018 first Russian bonds via smart contracts were issued for a total sum of RUB 750 mln

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

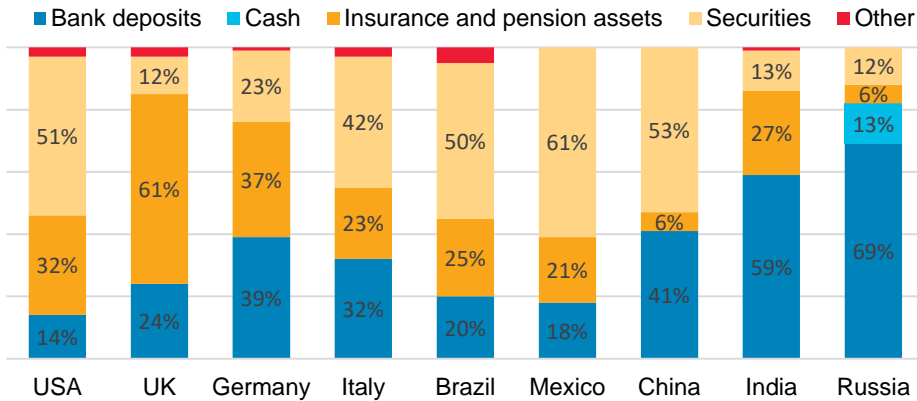
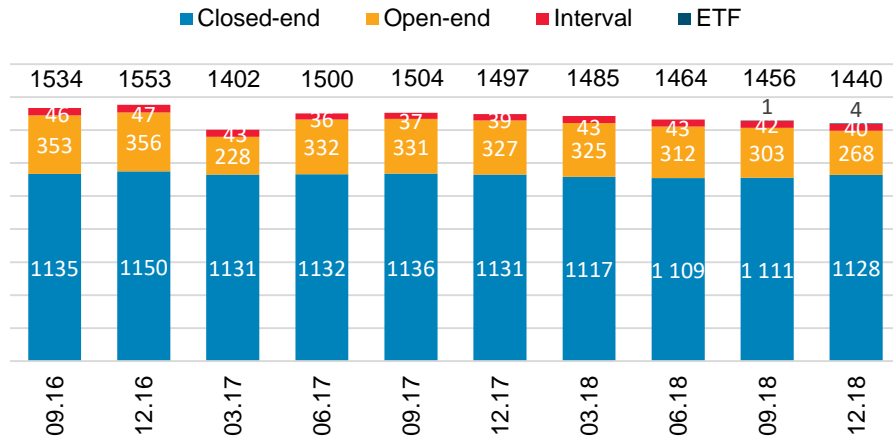


Figure 56: Number of investments funds in Russia by the type



\* As of the end of 2017

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

Figure 55: Assets of investments funds in Russia (RUB tn)

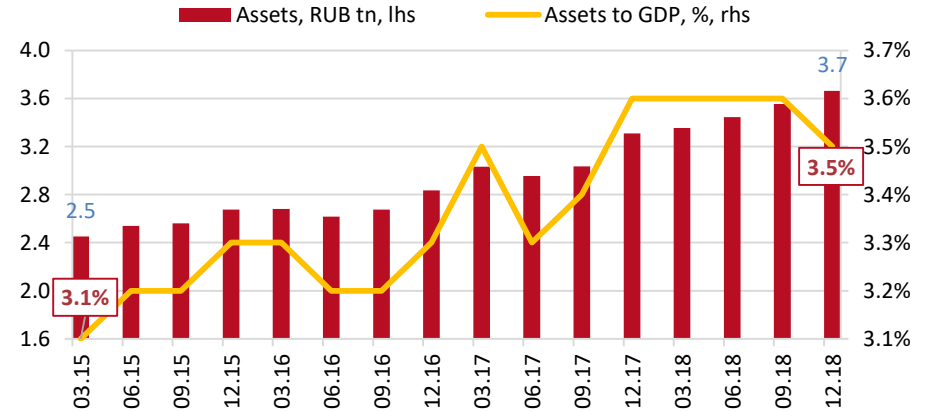
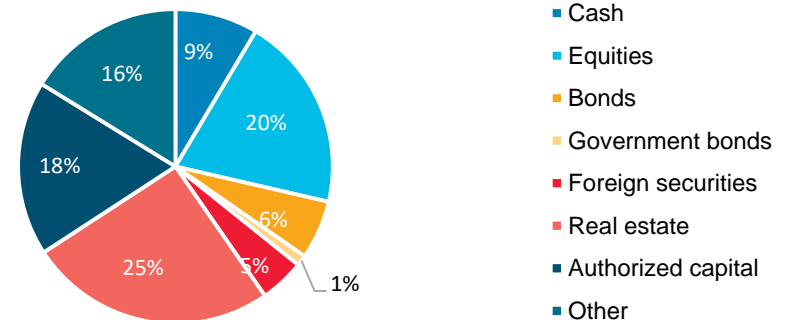


Figure 57: Breakdown of investment funds' assets by the type (as of December 31, 2018)



## NON-STATE PENSION FUNDS

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

Figure 58: Pension assets in Russia (RUB tn)

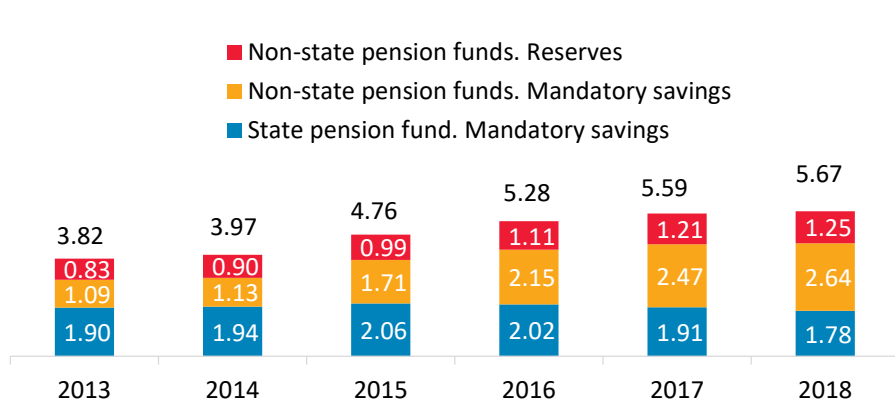
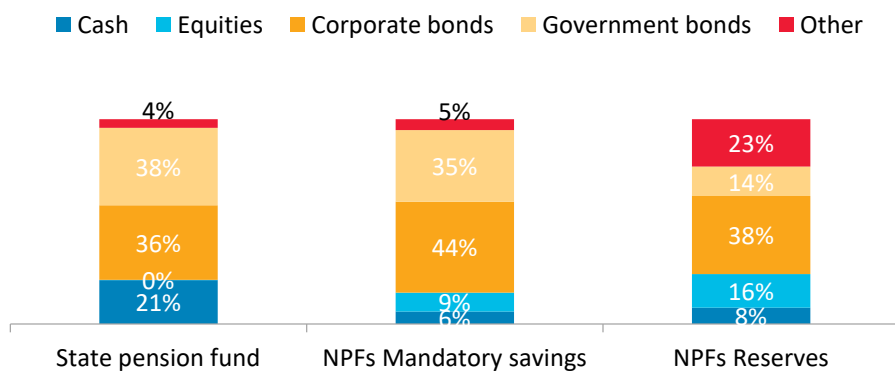


Figure 59: Pension system asset allocation (as of December 31, 2018, %)



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 60: Premium volume is gradually growing

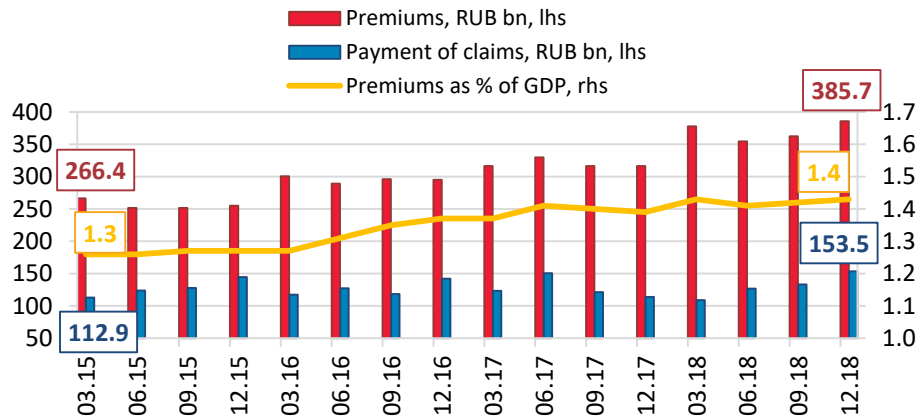


Figure 62: Premium structure in 2018 shows high level of market diversification

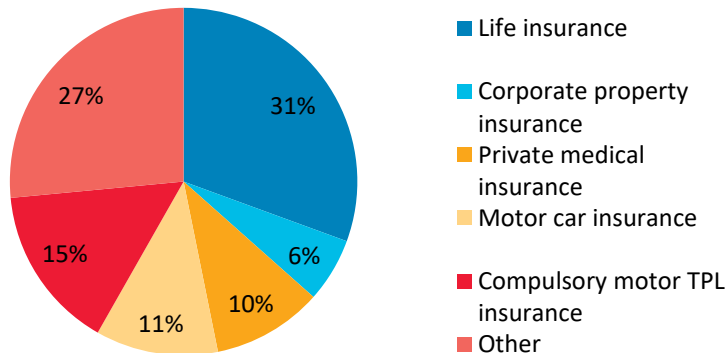


Figure 61: Assets hit 2.8% of GDP

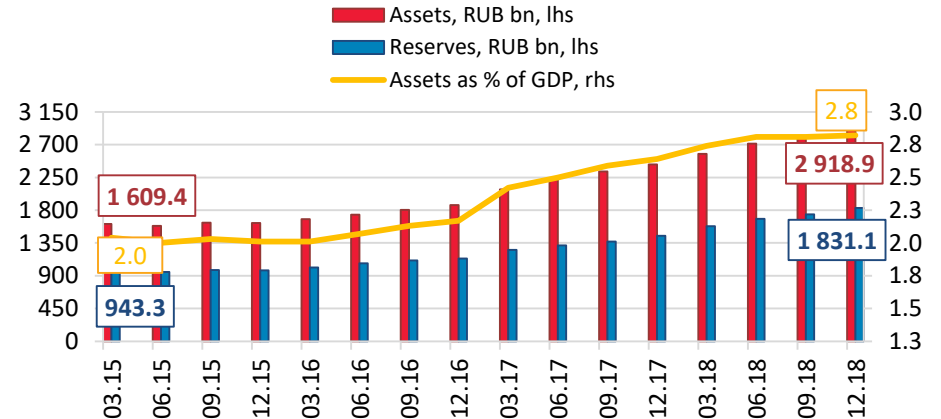
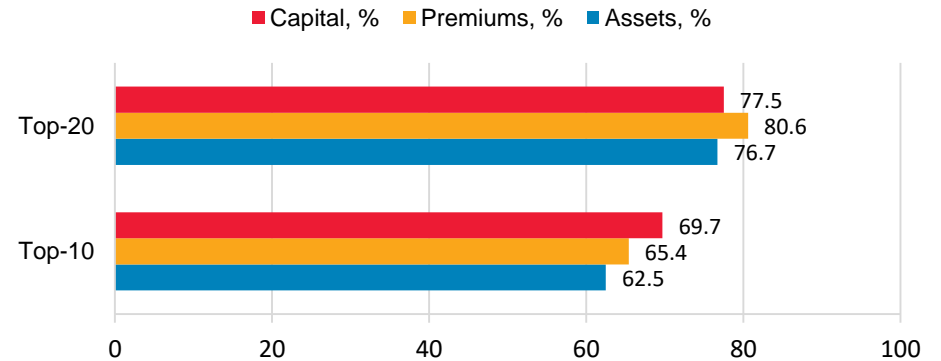


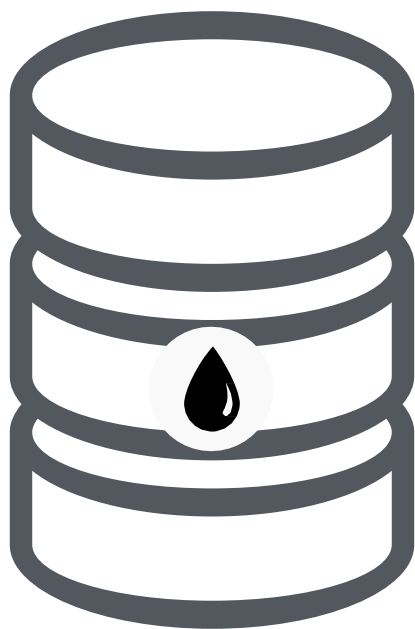
Figure 63: In 2018 market remained highly competitive with the Herfindahl-Hirschman Index equal to 550.6





## COMMODITIES

### Urals futures trading launched to set a price benchmark for Russian export oil



- ✓ Deliverable **SPIMEX Urals Crude Futures** contract is a new oil pricing mechanism allowing a direct quotation of exported Russian oil without reference to other crude oil grades traded on global energy markets
- ✓ Transparent pricing process is based on exchange-traded futures contracts reflecting the supply-and-demand equilibrium reached on the back of a large number of trades concluded on the exchange by a wide range of market participants and setting an arm's length price for the relevant commodity
- ✓ Deliverable SPIMEX Urals Crude Futures contract trading was launched on 29 November 2016
- ✓ Access to the SPIMEX futures contract trades is granted to Russian and foreign legal entities as well as to Russian individual entrepreneurs. Only legal entities (both Russian residents and non-residents) are able to conduct physical deliveries of crude oil
- ✓ The SPIMEX Urals Crude Futures contract is settled by physical delivery upon expiration. Such a futures contract has a direct link with the crude oil spot market and prevents price manipulation. Physical delivery of crude oil under the contract is effected against positions opened as of the relevant contract expiration date



## 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.



## 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

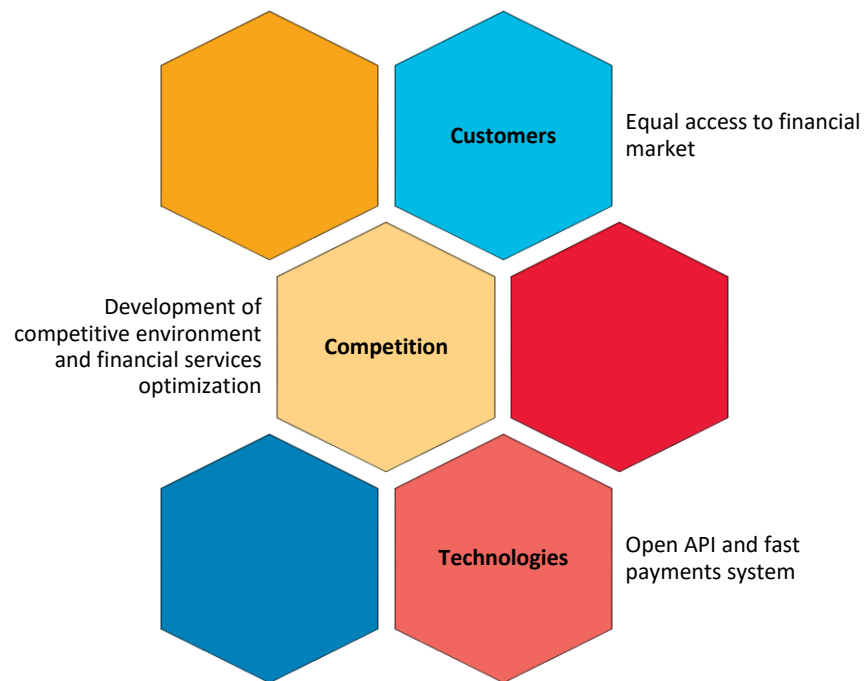
### Main activities (2017-2018)

- ☑ 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 at replacing traditional sales channels with websites and smartphone apps which will enable customers to compare multiple financial product offers
- ✓ CBR arranges the regulatory environment necessary for the project





## 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

## CONSUMER PROTECTION

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

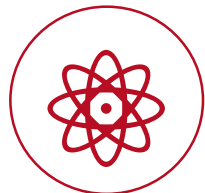
### KEY FINANCIAL CONSUMER PROTECTION WORKSTREAMS



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 (GPII)**

- 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 GPII 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 GPII 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)**

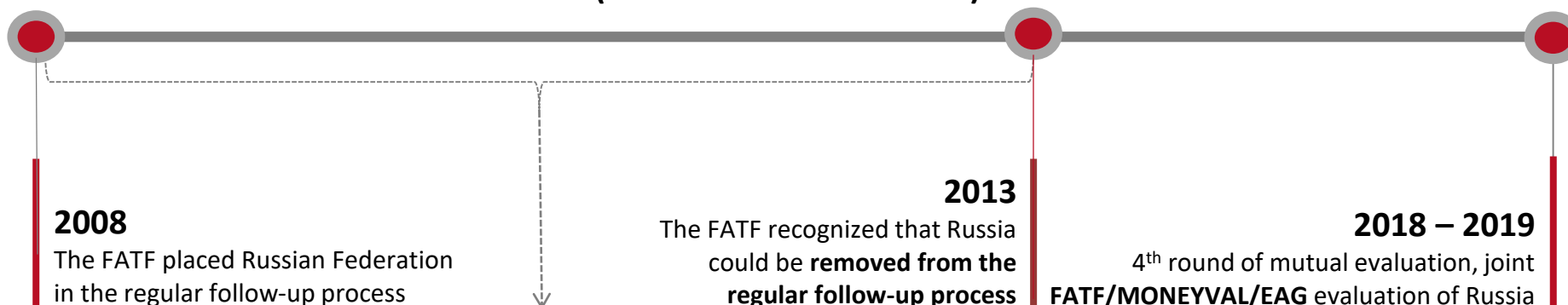
- The global knowledge exchange network empowering policymakers to increase access to quality financial services for the less well-off communities and households
- The Bank of Russia became a member of AFI in February 2014
- In September 2014 the Bank of Russia joined the Maya Declaration setting up 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

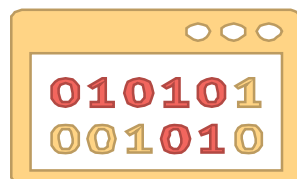
### Key initiatives in information security and cybersecurity



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 12</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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