



Bank of Russia

# RUSSIAN FINANCIAL SECTOR INVESTOR PRESENTATION

September 2021



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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
- 2020 – Sustainable finance working group is established



- 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**

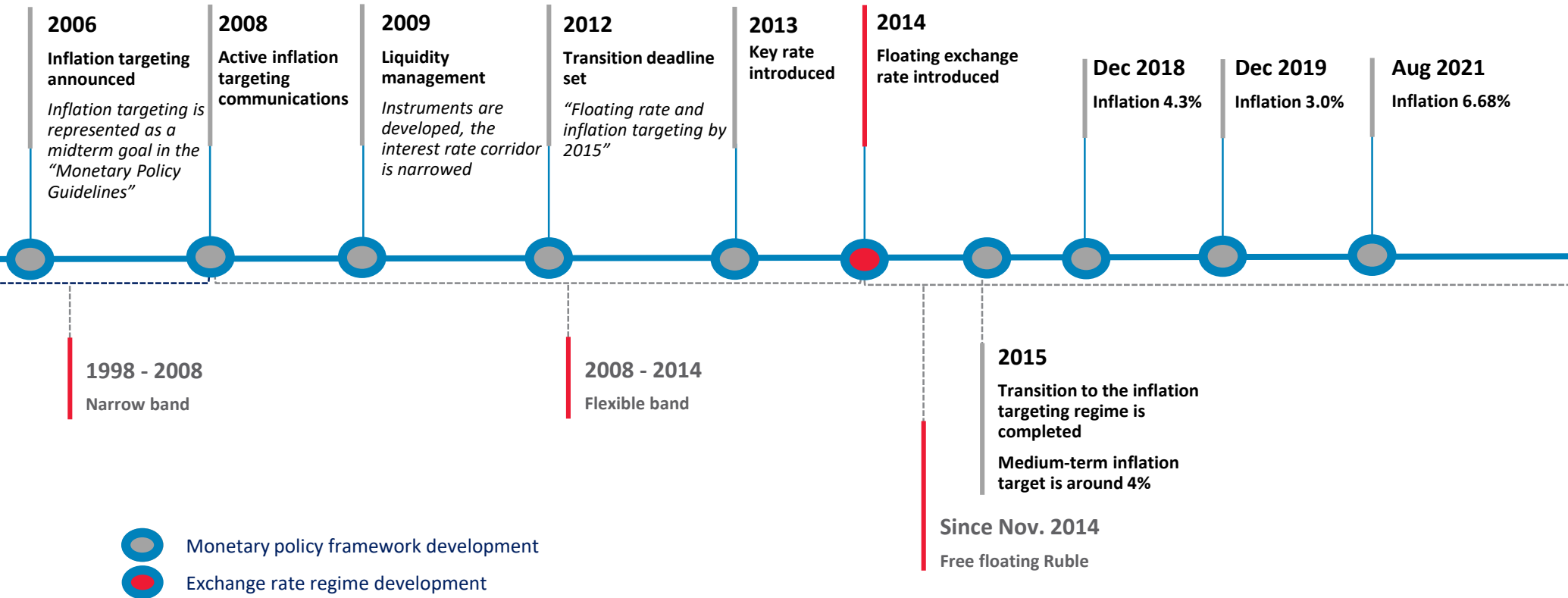
**2013**  
**CBR becomes the megaregulator of the Russian financial sector**

**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, cutting edge technologies and best practices



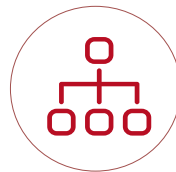
### Monetary policy

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 – personal finance platform 'Finuslugi' launched in October 2020



### 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
- Introduction of new voluntary personal pension plan (simple and standard) is being discussed

## 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**



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



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)



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



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



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**

**The BoR payment system** fully complies with **the PFMI**.



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



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





# INTERNATIONAL COOPERATION

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

## Multilateral cooperation

## Financial market authorities

## Regional financial integration



## NEWSLETTER (1)

### Key news from the Russian financial market

September 2021	<p><b>13 September 2021:</b> Effective from 1 October 2021, under <a href="#">CBR Ordinance No 5873-U</a>, brokers, dealers, asset managers and forex dealers must comply with the capital adequacy ratio and make provisions for credit claims. The ratio is planned to be set in stages. From 1 October 2021, the minimum acceptable value will be 4%, increasing to 6% from 1 April 2022 and thereafter to 8% from 1 October 2022.</p> <p><b>13 September 2021:</b> Finance Ministry and Bank of Russia launch public discussion of Financial Market Development Strategy through 2030. <b>The Financial Market Development Strategy through 2030</b> is the first strategic planning document prepared by the Finance Ministry and the Bank of Russia in close partnership with federal authorities, businesses and the academic community.</p>
August 2021	<p><b>23 August 2021:</b> According to the Bank of Russia's draft ordinance, the capabilities of the Faster Payments System (FPS) will be expanded through launching cross-border money transfers. The new function is expected to be available as early as 2022.</p> <p><b>16 August 2021:</b> The Bank of Russia's Board of Directors approved amendments to Bank of Russia Instruction No. 199-I, which stipulate weighing all bank credit claims on 'VEB.RF' nominated and funded in rubles with the risk weight of 20% when calculating the prudential ratios of banks (previously, from 20% to 100%, depending on credit claim parameters).</p>
July 2021	<p><b>31 July 2021:</b> The Bank of Russia decided to <b>increase risk-weight add-ons for unsecured consumer loans</b> in rubles issued beginning from 1 October 2021.</p> <p><b>19 July 2021:</b> The Bank of Russia <a href="#">recommends</a> that public joint-stock companies disclose information about how they take into account factors related to the impact on the environment, the social sphere and corporate governance (the ESG factors), as well as how they implement these factors into their business model and development strategy.</p>
June 2021	<p><b>30 June 2021: until 30 September 2021</b> (1) the Bank of Russia recommends that banks restructure retail and SME loans for borrowers (i) whose financial situation has worsened following the pandemic; (ii) if retail borrowers have a confirmed COVID-19 case; (2) the SME lending support programme will cover entities without the status of an SME or a systemically important organization.</p>
May 2021	<p><b>21 May 2021:</b> The Bank of Russia decided to <b>raise risk weights add-ons for mortgage loans and loans for construction co-funding</b> granted starting 1 August 2021. The increase in add-ons will help reduce the incentives for banks to expand lending by issuing loans with a low down payment to borrowers, and will also speed up the recovery of the macroprudential buffer on mortgage loans and ensure banks' resilience to potential stress scenarios.</p> <p><b>13 May 2021:</b> Under amendments to Ordinance No. 590-P with respect to loans to fund mergers and acquisitions, coming into force on 1 October 2021, banks' discretion about upgrading a quality category (upgrading category III to II) with phasing of additional provisions is conditional on positive operational performance of borrowers.</p>



## NEWSLETTER (2)

### Key news from the Russian financial market

April 2021	<b>2 April 2021:</b> The Bank of Russia has published a consultation paper “ <a href="#">Ecosystems: regulatory approaches</a> ” to discuss main trends in ecosystems’ development and their role in the modern economy, as well as approaches to the regulation of ecosystems’ operation.
February 2021	<p><b>17 February 2021:</b> The changes proposed to the Bank of Russia Regulation No. 199-I will enable a wider use of government guarantees of the Russian Federation to reduce credit exposure in calculating required ratios in the case of ruble claims secured by ruble-denominated government guarantees.</p> <p><b>11 February 2021:</b> According to a draft Bank of Russia ordinance, limits that banks set for their customers’ daily operations in the Faster Payments System (FPS) should not be less than Rub 150 thousand. Banks will have to adjust their limits by 1 October 2021. This will improve the availability of FPS transfers for individuals.</p> <p><b>3 February 2021:</b> Credit institutions will be allowed <b>to measure operational risk for calculating their capital adequacy ratios in compliance with Basel III</b>. The new standardised approach involves the usage of a loss threshold. According to banks, this will enable them to save a part of capital allocated to cover operational risk. Banks with a universal license shall comply with the new rules beginning on 1 January 2023.</p>
January 2021	<p><b>20 January 2021:</b> The Bank of Russia has laid out <a href="#">key objectives in refining debt-to-income (DTI) ratio calculation</a> for 2021-2022. There are plans to develop and propose legislation to make lenders legally obliged to calculate the DTI ratio. In addition, the roadmap provides for the potential introduction of a new macroprudential toolset to ensure quantitative restrictions are in place on the share of high-risk loans, in particular, unsecured consumer loans issued to high-DTI borrowers.</p> <p><b>11 January 2021:</b> Under amendments to Ordinance No. 590-P the Bank of Russia postponed the beginning of the application of rules on the provisioning for M&amp;A transactions till 1 October 2021.</p>
December 2020	<b>21 December 2020:</b> Under the Bank of Russia Regulation No. 730-P, effective from 2021, banks that have switched to the internal ratings-based approach (IRB approach) to calculating regulatory capital requirements are authorised to use their own credit risk assessment methodology and models in the creation of provisions.
October 2020	<b>15 October 2020:</b> Effective <b>from 1 April 2021</b> , under the Bank of Russia Regulation No. 729-P (a new version of Regulation No. 509-P) <b>banking groups</b> will be able to use <b>a new standardised approach to measuring credit risk for the calculation of capital adequacy ratios</b> . This will allow credit institutions that are parts of such groups to free capital, expanding their capabilities to lend to the real sector of the economy.



## NEWSLETTER (3)

### Key news from the Russian financial market

August 2020	<p><b>10 August 2020:</b> The Bank of Russia <b>reduced risk weight add-ons</b> for unsecured consumer loans in rubles issued starting 1 September 2020. The changes will mostly apply to borrowers with lower levels of PTI.</p> <p>The Bank of Russia <b>extended the following temporary regulatory forbearance measures until 31 December 2020:</b></p> <ul style="list-style-type: none"> <li>• (i) Banks are allowed not to accrue loan loss provisions and not to calculate the borrower's PTI for retail borrowers whose financial situation has worsened following the pandemic, as well as for restructured loans (both under Federal Law No. 106-FZ and in-house programmes); (ii) Banks are allowed not to apply risk weight add-ons to retail loans if the borrowers have a confirmed COVID-19 case; (iii) Banks are allowed not to accrue loan loss provisions for SME loans restructured due to the coronavirus pandemic and to maintain the quality assessment as of 1 February 2020.</li> <li>• Loan loss provisions should be created in full under restructured retail and SME loans <b>until 1 July 2021</b>.</li> <li>• Banks are entitled to delay loan loss provisioning <b>until 1 April 2021</b> for corporate loans restructured due to the coronavirus pandemic and to maintain the quality assessment as of 1 January 2020 if collateral is classified into I or II category.</li> <li>• <b>Until 2022</b> banks are allowed not to apply risk weight add-ons to FX loans issued to manufacturers of pharmaceuticals, medical products and equipment. Risk weights for investments in FX debt securities of such organisations are also set free from the add-ons made during the above-mentioned period.</li> </ul>
July 2020	<p><b>24 July 2020:</b> The Bank of Russia approved a <b>fast-track implementation of credit risk assessment approach under Basel III standard for mortgage loans</b>. Risk weights are set in the range from 20% to 100% depending on the values of LTV and PTI ratios (earlier, risk ratios were set in the 35-100% range).</p> <p>Temporary regulatory easing:</p> <ul style="list-style-type: none"> <li>• To stimulate the activity during the recovery period and afterwards <b>the risk weight for investments in subordinated debt of non-financial organizations</b> (including perpetual) will be reduced from 150% to 100% till mid-2025.</li> <li>• To stimulate banks to settle problem loans of systemically important companies through a compensation or share pledge (a debt/equity swap) the Bank of Russia will lower <b>the risk weight for investments in equity of systemically important companies</b> received under the abovementioned arrangements from 150% to 100% till mid-2022.</li> </ul>
March 2020	<p><b>20 March 2020:</b> Temporary regulatory forbearance:</p> <ul style="list-style-type: none"> <li>• The Bank of Russia decided to postpone several amendments to the regulation of credit institutions, incl. (1) the beginning of the application of rules on the provisioning for M&amp;A transactions until 30 September 2020; (2) the introduction of the large exposures concentration ratio (N30) until 1 January 2022.</li> <li>• The Bank of Russia <b>reduced risk-weight add-ons for mortgage loans and loans for construction co-funding</b> with downpayment from 15 to 20% granted in rubles from 1 April 2020 from 100 to 20-80 p.p. depending on the PTI ratio.</li> </ul>

# 2

## RUSSIAN MACRO UPDATE

## KEY INDICATORS

Russian economy started to recover in 2016 and moderated in 2019

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

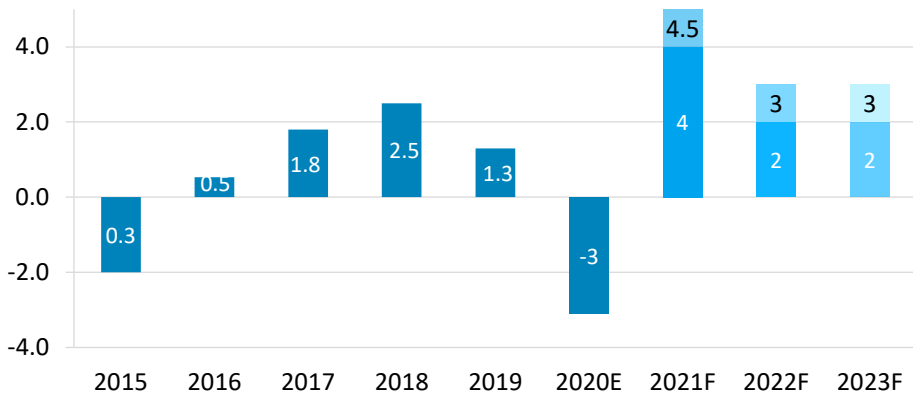


Figure 2: Private consumption and investment dynamics (YoY, %)

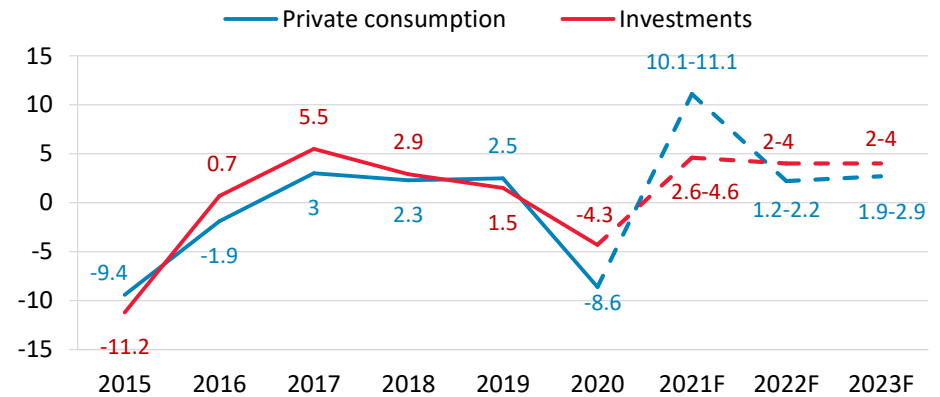


Figure 3: Russian Ruble volatility remains low while in free-floating

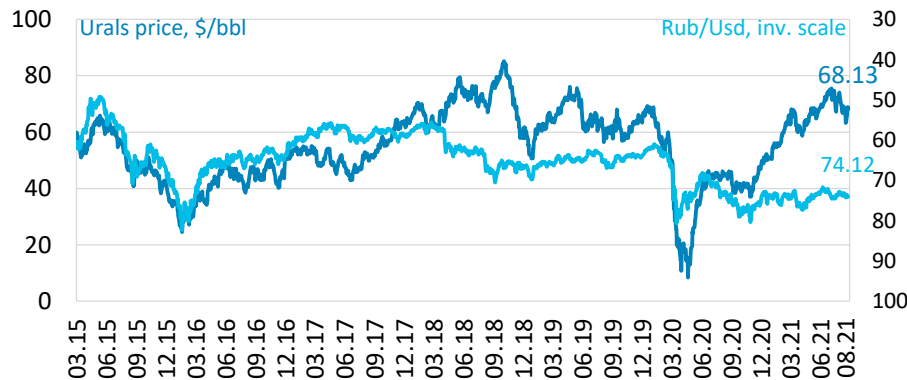
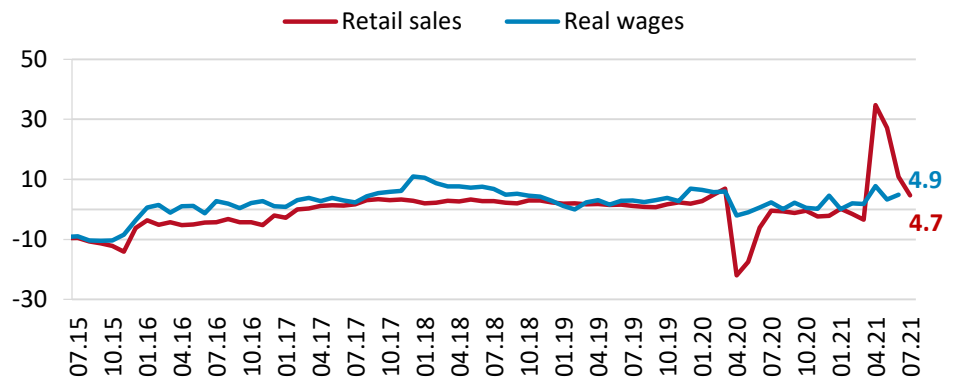


Figure 4: Retail sales and real wages dynamics (YoY, %)





# MACROFINANCE

## Solid fiscal and external positions

Figure 5: Current account surplus amounted to USD 36 bn in 2020

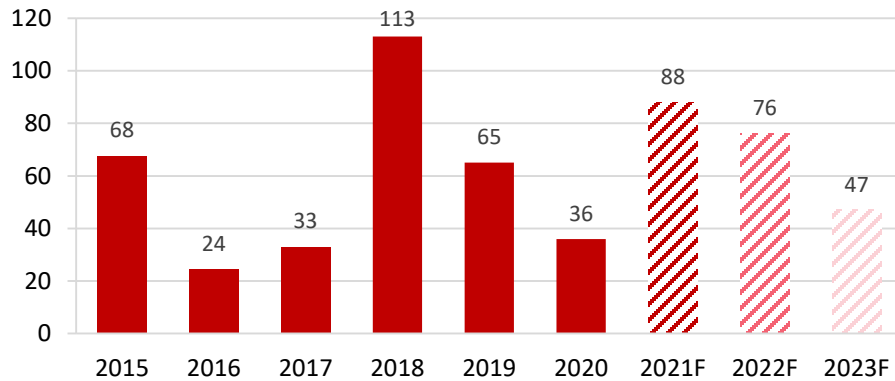


Figure 6: Strong fiscal position: budget consolidation and fiscal rule

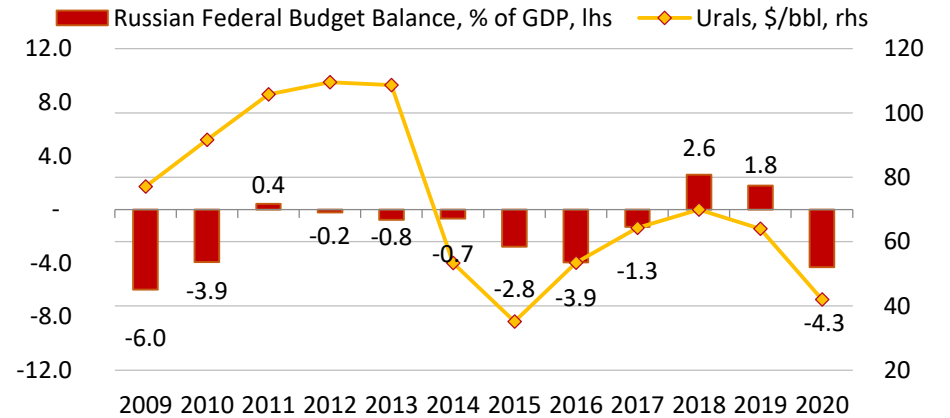


Figure 7: Significant international reserves assuring financial stability

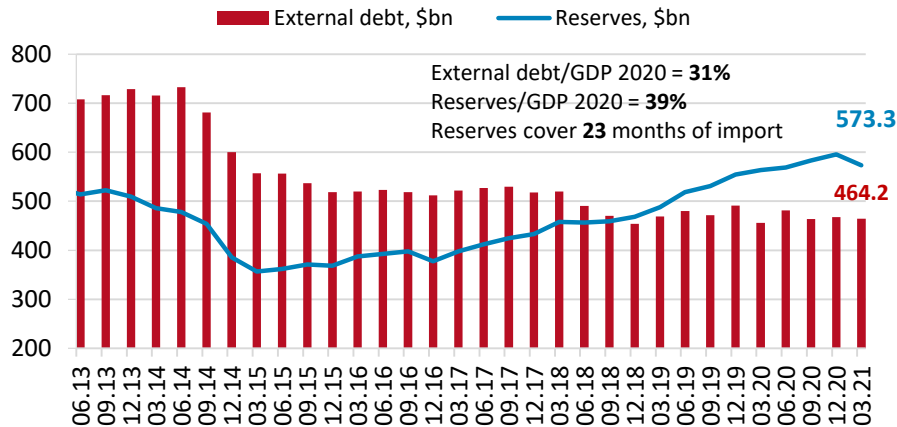
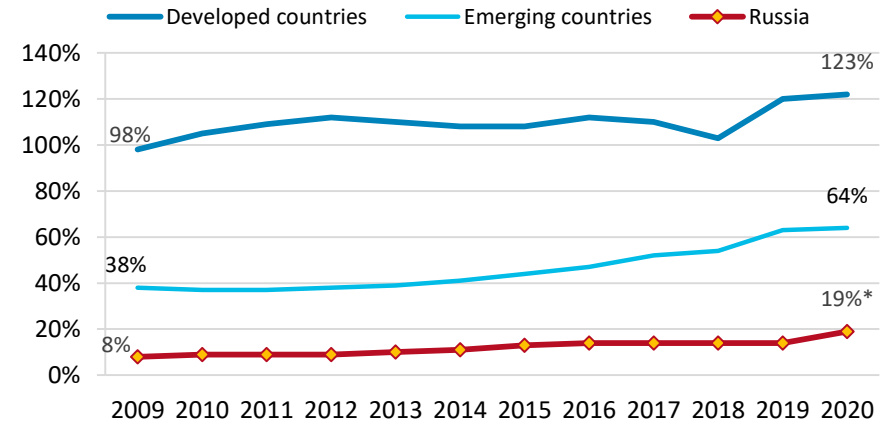


Figure 8: Sovereign debt to GDP lowest in both EM and DM spaces



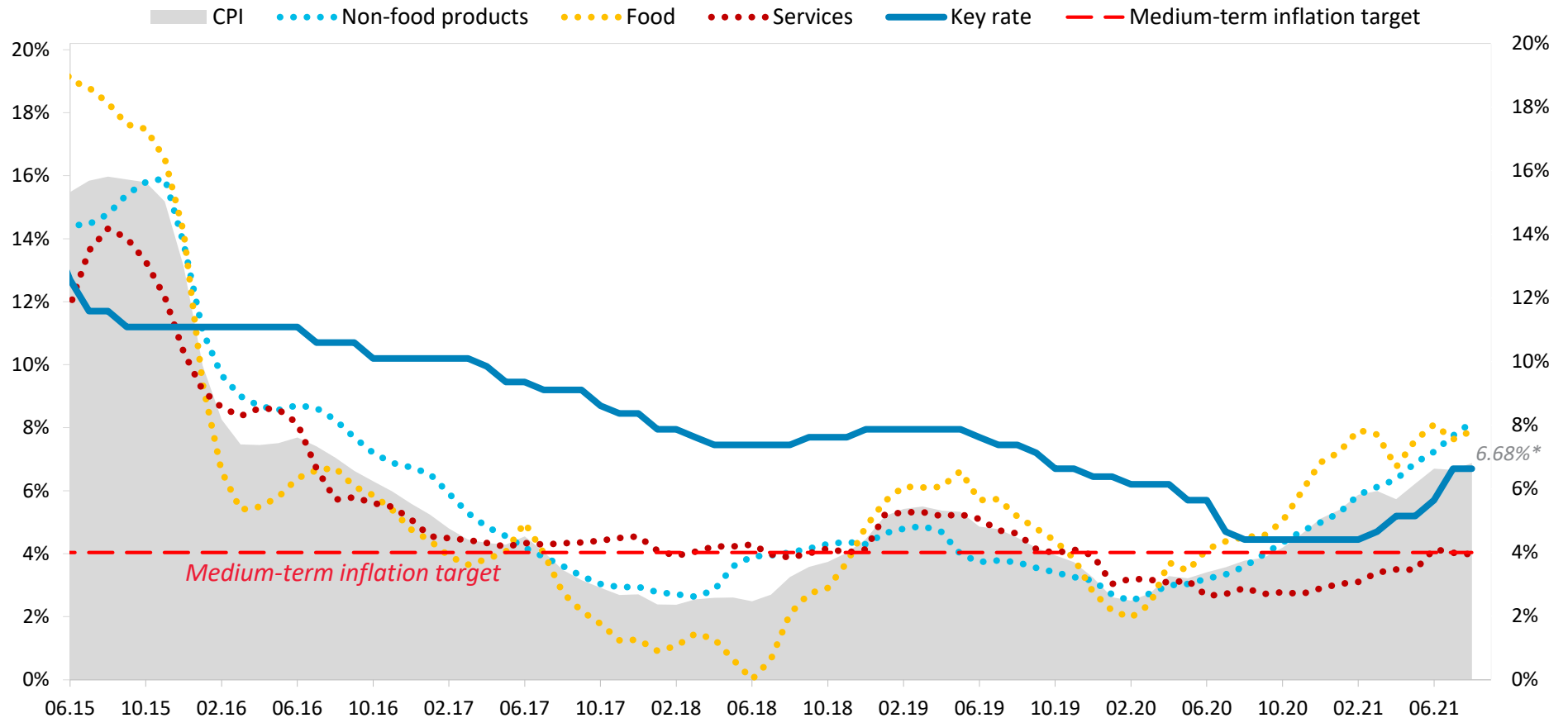
Source: Bank of Russia, Bloomberg, Ministry of Finance, IMF

\*estimate

# INFLATION

Medium-term inflation target is set at around 4%

Figure 9: Inflation (YoY, %)



Source: Bank of Russia, Rosstat

\*Inflation is 6.68% as of August, 2021



## INFLATION EXPECTATIONS

Inflation expectations of households and businesses stopped growing but remain elevated

Expect. horizon		2018				2019				2020					2021								
		I	II	III	IV	I	II	III	IV	I	II	III	Oct	Nov	Dec	I	Apr	May	June	July	Aug	Sep	
<b>Inflation expectations (absolute numbers), %</b>																							
<b>Households</b>																							
FOM (median, expected inflation)	Next 12 months	8.5	9.8	10.1	10.2	9.1	9.4	8.9	9.0	7.9	-**	8.9	9.7	10.1	12.0	10.1	11.9	11.3	11.9	13.4	12.5	12.3	
FOM (subgroup with savings)	Next 12 months	8.0	9.0	9.2	9.1	8.0	8.3	8.4	8.3	6.9	-	8.1	9.0	9.6	10.9	9.1	10.5	10.2	9.7	11.4	10.6	10.5	
FOM (subgroup without savings)	Next 12 months	8.8	10.3	10.5	10.8	9.8	10.0	9.2	9.4	8.5	-	9.6	10.0	10.6	12.0	10.6	12.5	11.8	12.9	14.7	14.0	13.4	
FOM (median, observed inflation)	Past 12 months	9.2	10.6	10.2	10.2	10.0	10.2	9.9	9.4	8.3	-	9.4	9.6	10.7	11.5	12.7	14.5	14.8	14.9	16.5	16.5	15.6	
FOM (subgroup with savings)	Past 12 months	8.4	9.7	10.0	9.2	9.2	9.0	9.4	8.7	7.2	-	8.5	9.1	10.0	10.6	11.5	11.8	12.4	12.1	14.1	13.5	12.9	
FOM (subgroup without savings)	Past 12 months	9.6	11.2	10.4	10.8	10.8	11.1	10.4	9.6	8.6	-	9.9	9.8	11.2	11.7	12.4	16.4	16.0	16.9	18.0	18.3	17.2	
<b>Professional analysts</b>																							
Bloomberg	2021									4.0	3.6	3.9	3.9	3.5	3.7	3.9	4.4	4.5	5.0	5.5	6.0	5.8	
Bloomberg	2022									3.9	3.7	3.8	3.8	3.8	4.3	4.4	4.4	4.3	4.0	4.0	4.1	4.1	
<b>Financial markets</b>																							
OFZ IN (option not subtracted)	2023	3.9	4.7	5.5	5.1	4.6	3.9	3.2	2.8	3.5	2.3	2.6	2.6	3.5	2.6	3.7	3.8	3.8	4.1	4.2	4.1	4.2	
OFZ IN (option not subtracted)	2028			4.7	5.5	5.2	4.9	4.1	3.5	3.4	4.1	3.0	3.5	3.3	3.8	3.2	3.9	4.0	4.1	4.2	4.1	4.0	
<b>Inflation expectations (balanced index*)</b>																							
<b>Businesses</b>																							
Bank of Russia monitoring	Next 3 months	6.8	10.2	12.6	16.5	10.6	9.9	8.3	8.5	18.1	15.1	17.5	20.3	20.5	19.0	20.7	24.9	26.7	27.4	25.2	25.9	25.0	
PMI M, input prices, diff. index	Current month	...	70.3	69.1	62.5	66.2	54.6	54.3	54.0	59.8	58.8	63.3	72.5	77.1	78.5	72.6	76.2	74.4	76.0	71.8	65.8	-	
PMI M, output prices, diff. index	Current month	...	56.6	56.8	52.5	56.1	51.5	50.4	50.4	55.4	51.6	53.0	57.1	58.3	60.6	65.3	67.1	66.9	66.2	61.1	62.3	-	
PMI S, input prices, diff. index	Current month	...	61.8	59.4	60.4	60.3	56.3	55.3	55.6	61.5	55.9	58.6	58.0	64.5	60.4	65.0	62.2	68.3	62.4	61.8	61.2	-	
PMI S, prices charged, diff. index	Current month	...	52.1	51.3	53.0	54.6	52.5	52.3	52.4	54.2	49.7	53.5	53.1	53.6	54.7	56.3	56.2	60.5	57.1	56.3	55.9	-	

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

\*\*Households surveys in Apr-July 2020 were conducted by phone, their results are not comparable with those obtained later.

Source: FOM, Rosstat, Bloomberg, IHS Markit, 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)	2020 (actual)	BASELINE		
		2021	2022	2023
<b>Inflation, as % in December year-on-year</b>	<b>4.9</b>	<b>5.7-6.2</b>	<b>4.0-4.5</b>	<b>4.0</b>
Inflation, average for the year, as % year-on-year	<b>3.4</b>	6.0-6.2	4.1-4.9	4.0
Key rate, average for the year, % per annum	<b>5.1</b>	5.5-5.8 <sup>1</sup>	6.0-7.0	5.0-6.0
<b>Gross domestic product</b>	<b>-3.0</b>	4.0-4.5	2.0-3.0	2.0-3.0
Final consumption expenditure	<b>-5.2</b>	7.2-8.2	1.2-2.2	1.7-2.7
– households	<b>-8.6</b>	10.1-11.1	1.2-2.2	1.9-2.9
Gross capital formation	<b>-2.0</b>	3.5-5.5	1.2-3.2	2.7-4.7
– gross fixed capital formation	<b>-4.3</b>	2.6-4.6	2.0-4.0	2.0-4.0
Exports	<b>-4.3</b>	2.6-4.6	5.0-7.0	1.1-3.1
Imports	<b>-12.0</b>	14.1-16.1	2.2-4.2	1.8-3.8
Money supply in national definition	<b>13.5</b>	11-15	9-13	7-11
<b>Claims on organisations and households in rubles and foreign currency**</b>	<b>10.9</b>	11-15	9-13	7-11
– on organisations	<b>10.2</b>	9-13	8-12	6-10
– on households, including	<b>12.9</b>	18-22	12-16	10-14
mortgage loans	<b>21.6</b>	20-24	14-18	14-18

<sup>1</sup>Given that from January 1st to July 25th 2021 the average key rate was 4.7%, from July 26th to the end of 2021 the average key rate forecast range is 6.5-7.1%. Additional information on how to interpret the proposed format of the key rate forecast communication is presented in the methodological note [[http://cbr.ru/Content/Document/File/120337/comment\\_20210422\\_e.pdf](http://cbr.ru/Content/Document/File/120337/comment_20210422_e.pdf)].

\*\*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)	2020 (actual)	BASELINE		
		2021	2022	2023
<b>Current account</b>	<b>36</b>	<b>88</b>	<b>76</b>	<b>47</b>
Balance of trade	<b>94</b>	151	166	141
Exports	<b>333</b>	452	460	440
Imports	<b>240</b>	301	295	300
Balance of services	<b>-17</b>	-18	-34	-37
Exports	<b>47</b>	52	58	63
Imports	<b>64</b>	70	92	100
Balance of primary and secondary income	<b>-41</b>	-44	-56	-57
<b>Current and capital account balance</b>	<b>36</b>	<b>88</b>	<b>76</b>	<b>47</b>
<b>Financial account (excluding reserve assets)</b>	<b>53</b>	<b>50</b>	<b>29</b>	<b>18</b>
Government and the central bank	<b>-1</b>	-1	-6	-7
Private sector	<b>54</b>	50	35	25
<b>Net errors and omissions</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change in reserve assets ('+' – increase, '-' – decrease)</b>	<b>-14</b>	<b>38</b>	<b>46</b>	<b>29</b>
<b>Urals price, average for the year, US dollars per barrel</b>	<b>42</b>	<b>65</b>	<b>60</b>	<b>55</b>

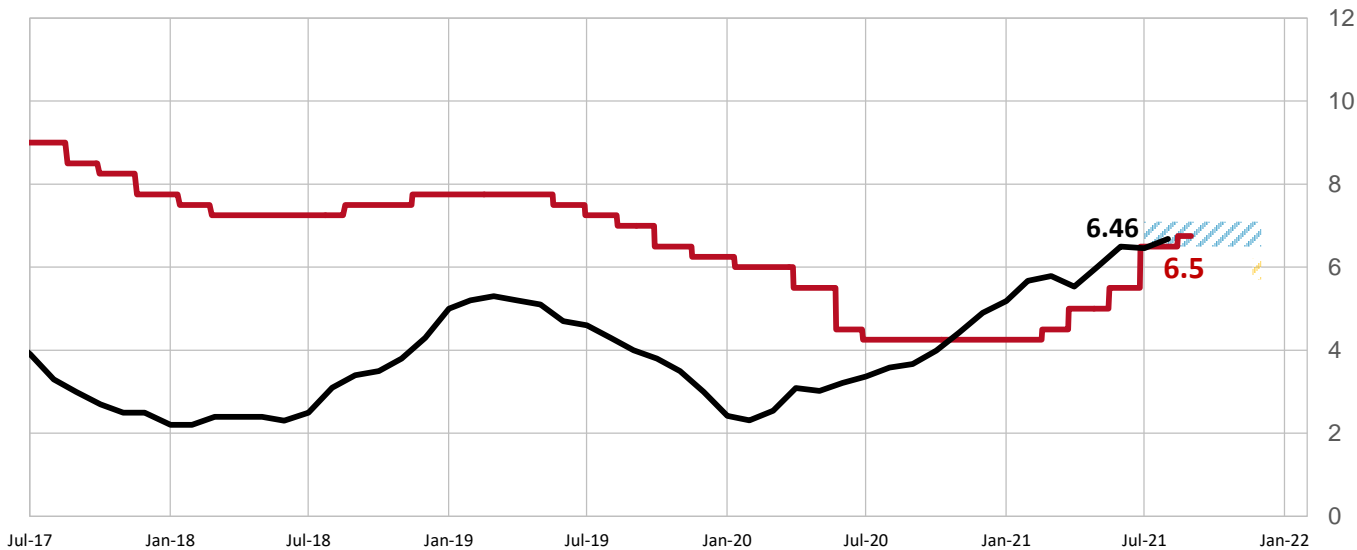
\* Using the methodology of the 6th edition of "Balance of Payments and International Investment Position Manual" (BPM6). In the Financial account "+" stands for net lending, "-" – for net borrowing. Due to rounding total results may differ from the sum of respective values.



# MONETARY POLICY (1)

- ❑ In 2021 Q2, the Russian economy reached its pre-pandemic level and is, according to Bank of Russia estimates, returning to a balanced growth path. The contribution of persistent factors to inflation remains considerable on the back of faster growth in demand relative to output expansion capacity.
- ❑ In this environment, given high inflation expectations, the balance of risks for inflation is tilted to the upside. This may bring about a more sustained deviation of inflation from the target.
- ❑ According to the Bank of Russia’s forecast, annual inflation will begin to slow down in 2021 Q4. Given the monetary policy stance, annual inflation will edge down to **4.0-4.5% in 2022 and will remain close to 4% further on.**

▨ Inflation, % YoY, YE21F 
 ▨ Key rate, average from July 26th to year-end, % p.a. 
 ▬ Key rate, % p.a. 
 ▬ Inflation, % YoY



\*from July 26th to the end of 2021 the average key rate forecast range is 6.5-7.1%.

Source: Bank of Russia

**Decision**  
as of September 10,  
2021

**The Bank of Russia  
increased the key rate  
to 6.75% p.a.**

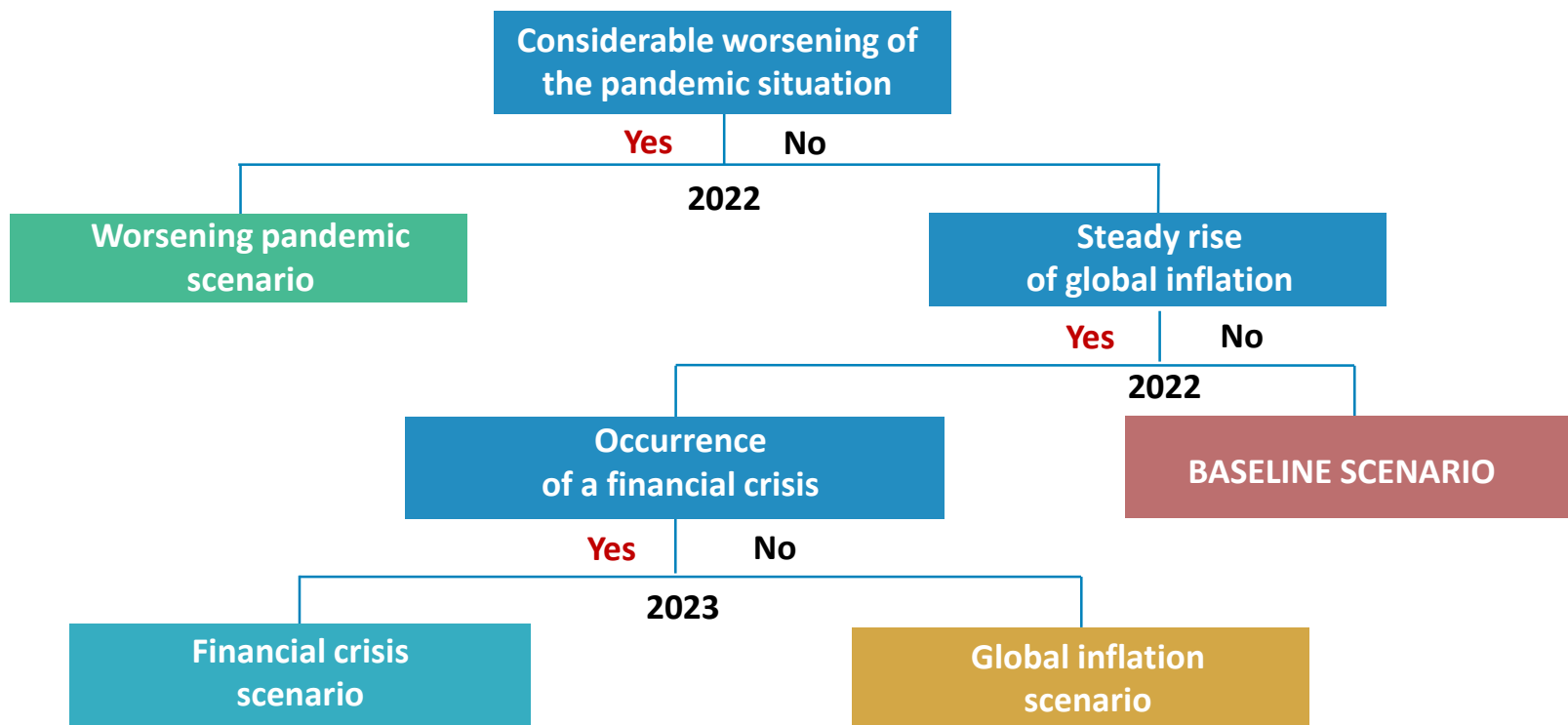
## Signal

*“If the situation develops in line with the baseline forecast, the Bank of Russia holds open the prospect of further key rate rises at its upcoming meetings. Key rate decisions 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.”*

## MONETARY POLICY (2)

### Bank of Russia macroeconomic scenarios: a flowchart\*

- Key scenario conditionals based on external factors:
  - Epidemiological situation significantly deteriorates again in 2022
  - Steady increase of inflation pressures in the global economy, combined with a faster and more significant tightening of foreign central banks' monetary policies in 2022
  - Financial crisis amid exacerbated debt issues in a number of countries in 2023
- For further information on additional **uncertainty factors** please see next slide



## MONETARY POLICY (3)

### Uncertainty factors\*

Factors	Impact on Russian GDP	Impact on inflation in Russia
Global epidemiological situation	Reduced economic growth prospects amid a new wave of the pandemic (slow vaccination, new COVID-19 variants, declining effectiveness of existing vaccines, stronger restrictions)	Disinflationary pressures upon the introduction of anti-pandemic restrictions. Strong proinflationary pressures after the economies re-open and the demand recovers amid growing inflation expectations
Persistence of global inflation; scope and pace of monetary policy tightening in advanced economies	Medium-term prospects of economic growth worsening due to monetary policy being tightened in Russia and globally to reduce inflation	Strong proinflationary pressures in the short term due to businesses' rising expenses and expanded opportunities for consumer price transmission given a high demand
Financial crisis spurred by growing imbalances in the assets market	Economy declining in the year of the crisis, higher risks for financial stability	Considerable proinflationary pressures at the start of the crisis, followed by the inflation slowing down due to a significantly lower demand
Investing funds from the National Wealth Fund that exceed the 7%-of-GDP threshold	Scope of the factor's influence on the economy's growth rate and potential will depend on the particular investment projects to be implemented, their timeframes and funding schemes	Possible proinflationary influence will depend on the particular investment projects to be implemented, their timeframes and funding schemes
Geopolitical risks	Deteriorated economic growth prospects	Short-term proinflationary pressures due to higher volatility on financial markets

### Long-term factors beyond the forecasting horizon

Demographic change	Ageing, shrinking workforce could put a limit on the potential growth rate	Lower pressure due to a reduced total demand, but proinflationary pressure is also possible due to the economy's decreased potential (the end result will depend on the balance between the two factors)
Climate risks	Output losses due to natural disasters (physical risks), upon their materialisation and in the long term. Prolonged output decline due to the transition to a low-carbon economy	Inflation volatility rising if physical risks materialise, highly probable secondary effects due to increased inflation expectations. Transitional measures exert proinflationary pressure on the prices of "dirty" and alternative "green" goods and resources, followed by disinflationary pressures induced by new production technologies

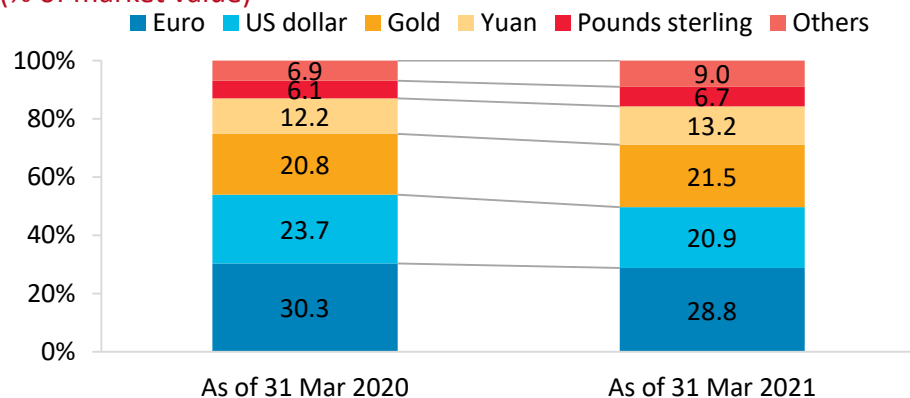
# INTERNATIONAL RESERVES

## Foreign exchange and gold assets by asset class

Assets	As of 30 March 2020		As of 31 March 2021		Change in Apr 2020 - Mar 2021, billions of US dollars
	billions of US dollars	share of assets, %	billions of US dollars	share of assets, %	
Government securities of foreign issuers*	186.6	33.3	219.3	38.6	32.8
Deposits and account balances with foreign counterparties	167.6	30.0	150.5	26.5	-17.1
Gold	116.5	20.8	122.1	21.5	5.6
Non-government securities of foreign issuers	57.5	10.3	47.2	8.3	-10.3
International organisations securities	22.0	3.9	20.3	3.6	-1.7
Net position with the IMF	5.4	0.5	4.0	0.7	1.2
Reverse repo operations with foreign counterparties	2.8	1.0	3.1	0.5	-2.2
Claims on foreign counterparties on foreign currency supply	1.3	0.0	1.3	0.2	1.4
Claims in foreign currency on Russian counterparties and issuers**	-0.1	0.2	0.9	0.2	-0.4
<b>Total***</b>	<b>559.7</b>	<b>100.0</b>	<b>568.9</b>	<b>100.0</b>	<b>9.2</b>

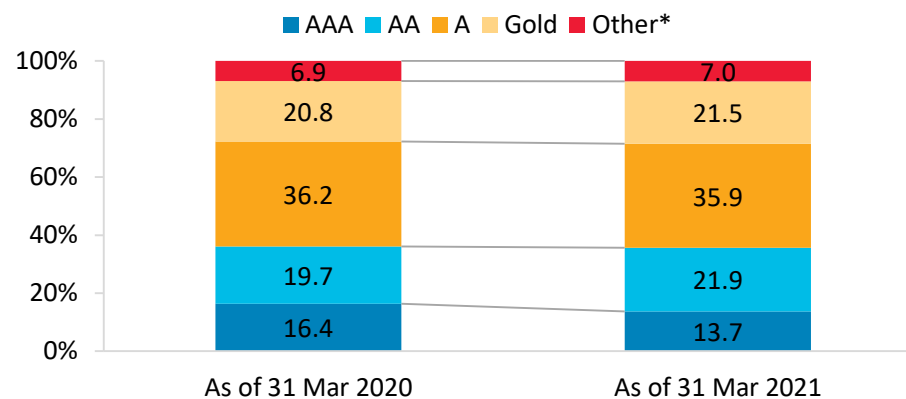
\* Securities issued by a foreign government or foreign issuers with explicit government guarantee.  
 \*\* Claims on Russian credit institutions, Eurobonds of the Russian Federation and other Russian issuers.  
 \*\*\* The total value may differ from the sum of asset classes values due to rounding.

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 reporting date.

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 of 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. 123 banks hold basic license, as of 1 November 2020.*



## BANKING SECTOR: NEW RESOLUTION MECHANISM\*

The bank resolution mechanism implemented in 2017 is designed to reduce both costs and time while enhancing control over resolution processes

In 2017 the Bank of Russia adopted a new resolution mechanism, involving the CBR's direct participation in the capital of the banks under resolution. Over 2017-2019, measures were taken to rehabilitate three major systemically important financial groups: **Promsvyazbank**, **Otkritie**, **B&N Bank**, and two regionally important banks: **Moscow Industrial Bank** and **Asian-Pacific Bank**.

Resolution measures have been applied to Promsvyazbank PJSC, Public Joint-Stock Company "Bank Otkritie Financial Corporation", B&N Bank and PJSC Asian-Pacific Bank, which established permanent administration bodies, and now these banks are supervised by the Bank of Russia under the general mode.

✓ Deposit Insurance Agency acquired over 99.99% of Promsvyazbank PJSC's shares, and then transferred them to the Russian government.

✓ Public Joint-Stock Company "Bank Otkritie Financial Corporation" and B&N Bank became a basis for a universal financial group.

✓ NB TRUST, Bank AVB and "Rost Bank" (JSC) provided a basis for the Non-Core Asset Bank, which received the non-core and bad assets of the banks under resolution.

### Update on current status

- **Bank FC Otkritie**  
Bank of Russia is developing a strategy for exiting the capital of the Otkritie group with the help from investment consultants and is looking for investors who would buy the group's shares.

*Recapitalization: RUB 556 bln*

*Deposit Balance: RUB 0*

- **Asian-Pacific Bank**  
Bank of Russia has held a first-price sealed-bid auction, where the buyer of the Asian-Pacific Bank group's shares was determined.

*Recapitalization: RUB 9 bln*

*Deposit Balance: RUB 0*

- **NB Trust bank**  
Non-Core Asset Bank's work with bad and non-core assets is planned to be completed in 2023. There are no plans to sell the bank afterwards.

*Recapitalization: RUB 1 bln*

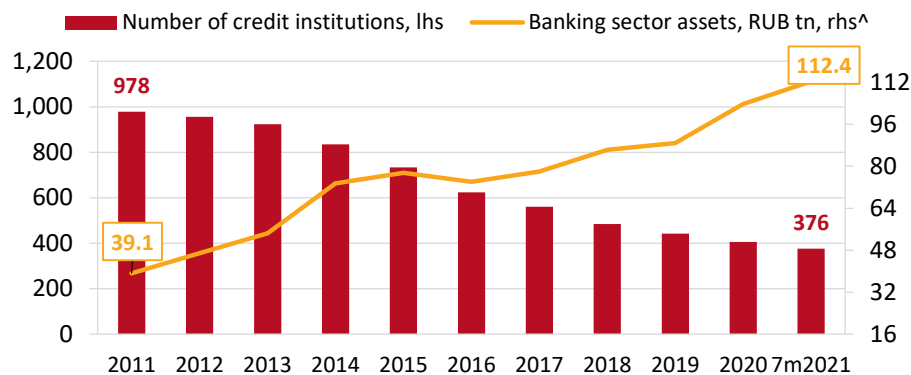
*Deposit Balance: RUB 1,668 bln*

\*A new bank resolution mechanism involving the Bank of Russia has been implemented since 2017. Besides, since 2008, the "credit" mechanism of bank resolution with DIA's participation has also been in use. Under the latter mechanism, DIA engages an investor and afterwards may provide the bank with financial assistance at a preferential rate; such loans are funded by the Bank of Russia.

## BANKING SECTOR: KEY FIGURES

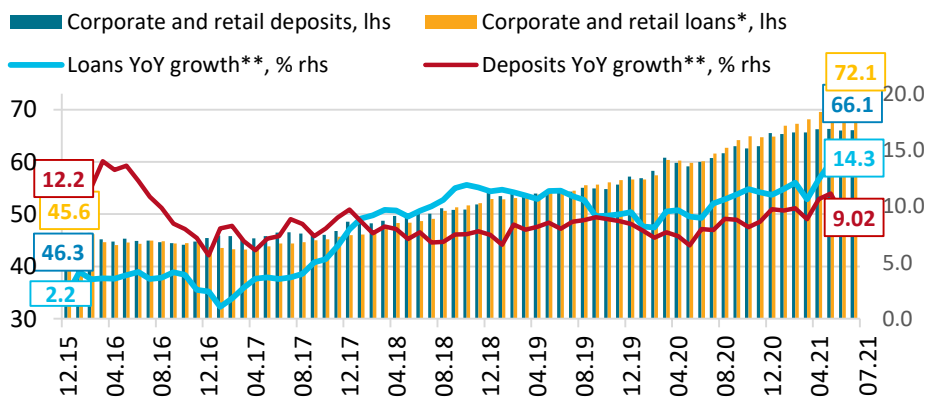
Active supervision and tighter regulation allowed to strengthen the health of the banking sector

Figure 12: In 2013-2021 more than 450 licenses were revoked causing almost no impact on the banking sector's total assets



\*341 banks and 37 non-banking credit organisations

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



^Since 01.11.2020 assets are shown net of created provisions. Data for retrospective periods restated.

\*Since 01.01.2020 corporate loans include loans to financial and non-financial organizations (excl. credit organizations). Data for retrospective periods restated

\*\*YoY, ccy adj. by credit institutions operating as of the reporting date. Since 01.01.2020 annual growth rate is based on chain method. Data for retrospective periods restated

Figure 13: Banking sector profitability restored

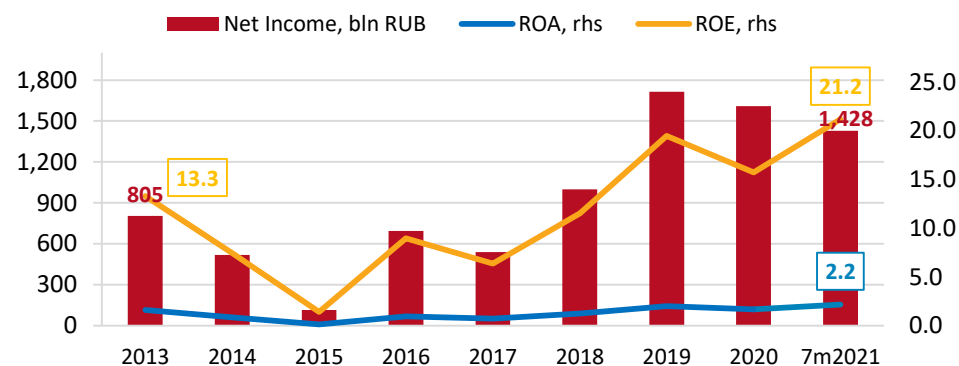
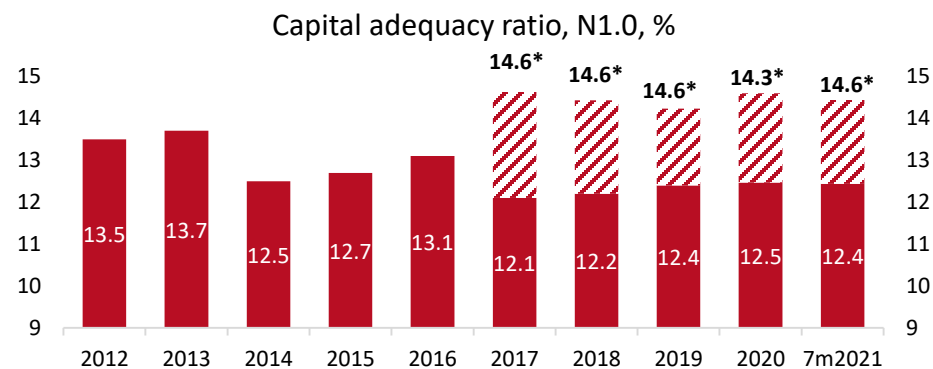


Figure 15: Banks hold an acceptable level of capital under Basel III



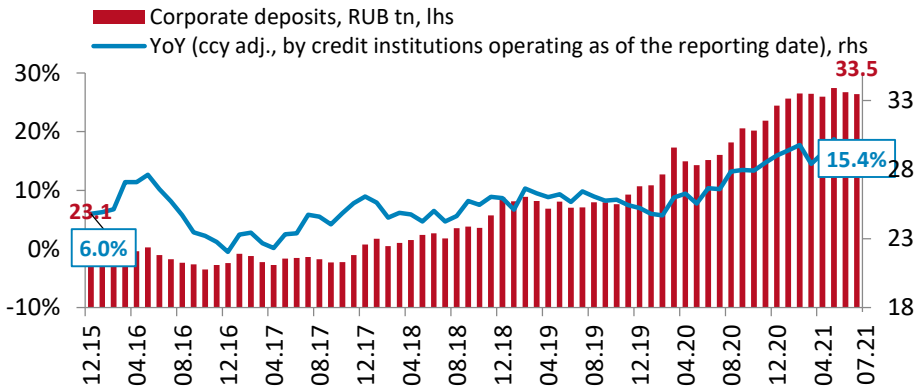
\*Excluding credit institutions under financial rehabilitation procedure



# BANKING SECTOR: FUNDING

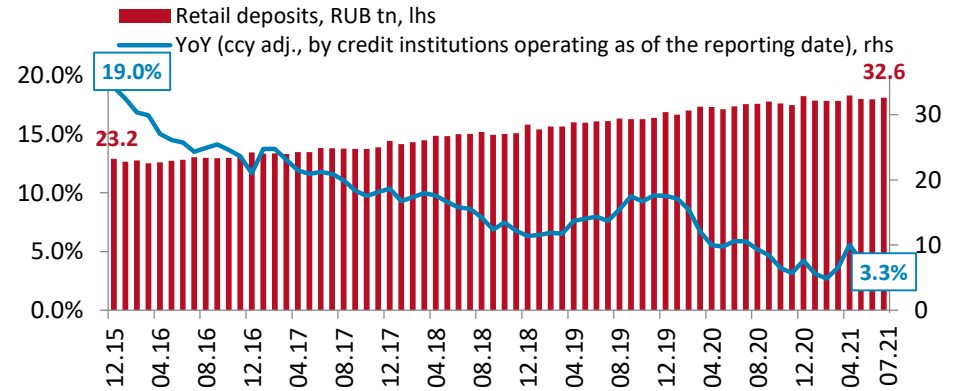
The funding of the banking sector mostly comes from corporate and retail deposits

Figure 16: In July 2021 corporate deposits amounted to RUB 33.5 tn, growth slowed down to 15.4% YoY



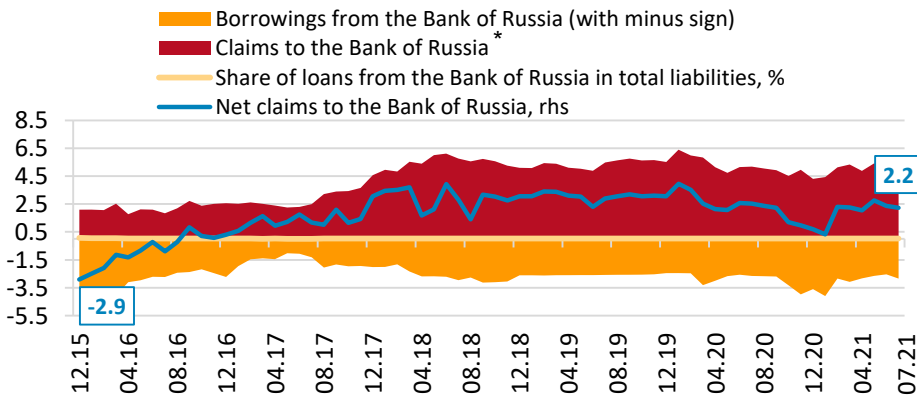
\*Since 01.01.2020 annual growth rate is based on chain method. Data for retrospective periods restated.

Figure 17: In July 2021 retail deposits amounted to RUB 32.6 tn, growth edged up to 3.3% YoY



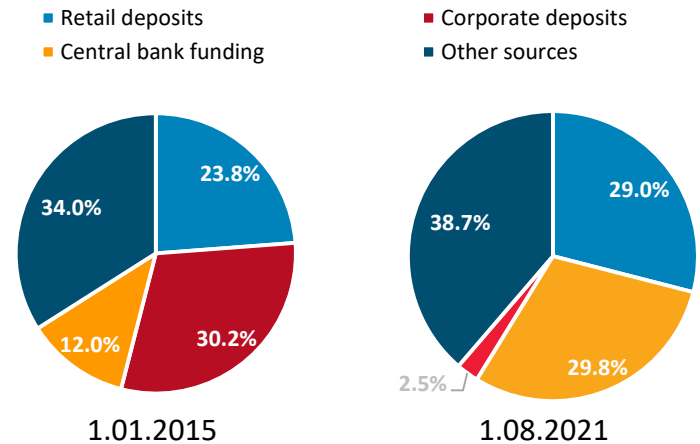
\*Since 01.01.2020 annual growth rate is based on chain method. Data for retrospective periods restated. Retail deposits are shown net of escrow accounts, data for retrospective periods restated

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



\*excluding Mandatory cash balances by credit organizations with the Bank of Russia

Figure 19: Sources of funding, % of total liabilities

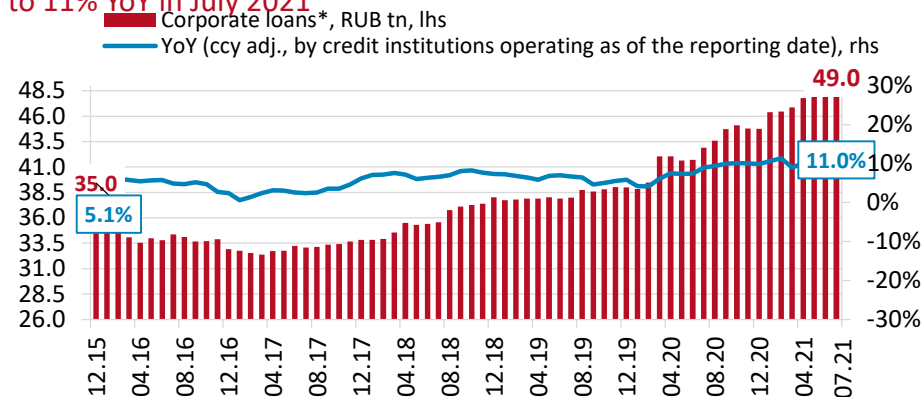




# BANKING SECTOR: LENDING

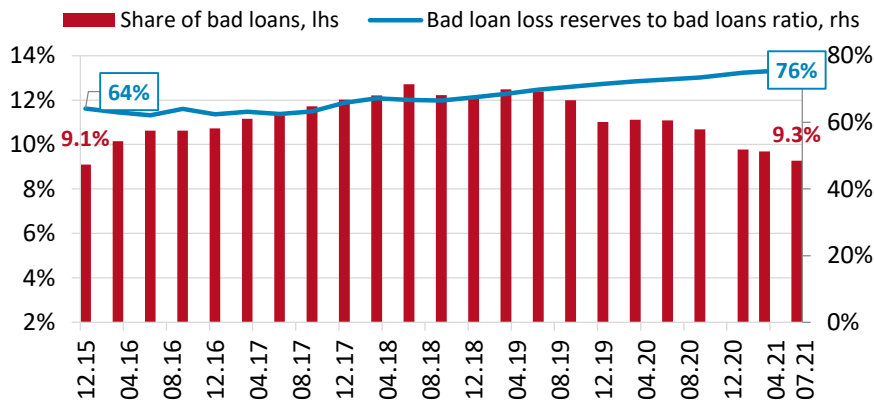
## The growth pace of retail loans has accelerated

Figure 20: Corporate loans amounted to Rub 49 tn, growth edged down to 11% YoY in July 2021



\*Since 01.01.2020 corporate loans include loans to financial and non-financial organizations (excl. credit organizations). Data for retrospective periods restated

Figure 22: Share of bad corporate loans\*\* slightly decreased to 9.3% as of August 2021, while the bad loan loss reserves to bad loans ratio accounted for 75.7%

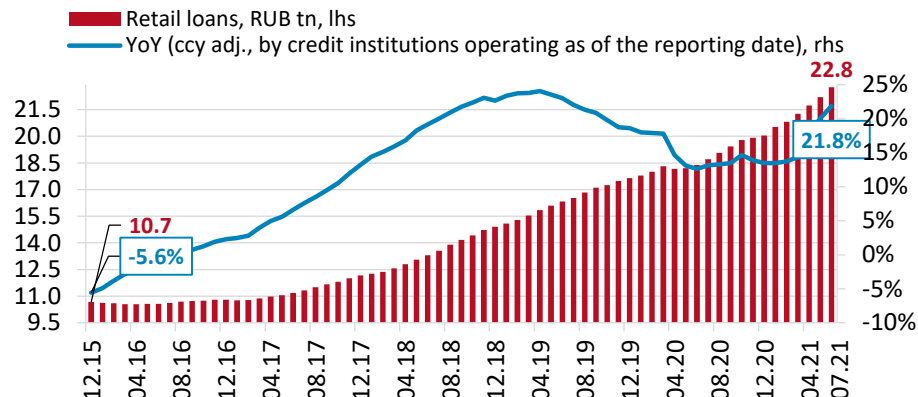


\*\* Loans classified into quality category of IV and V according to the requirements of Regulation No.590-P.

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);

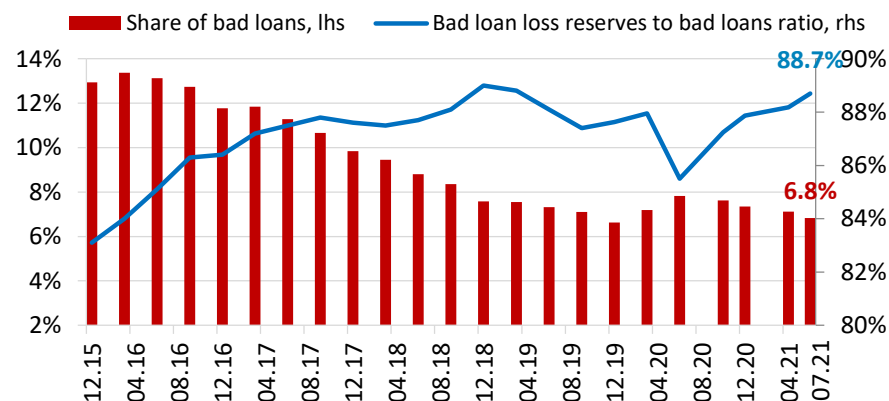
Quality category V – no possibility of loan repayment due to the borrower’s inability or refusal to meet loan commitments, which requires complete (100 per cent) depreciation of the loan.

Figure 21: Retail lending growth increased to 21.8% YoY in July 2021



\*Since 01.01.2020 annual growth rate is based on chain method. Data for retrospective periods restated

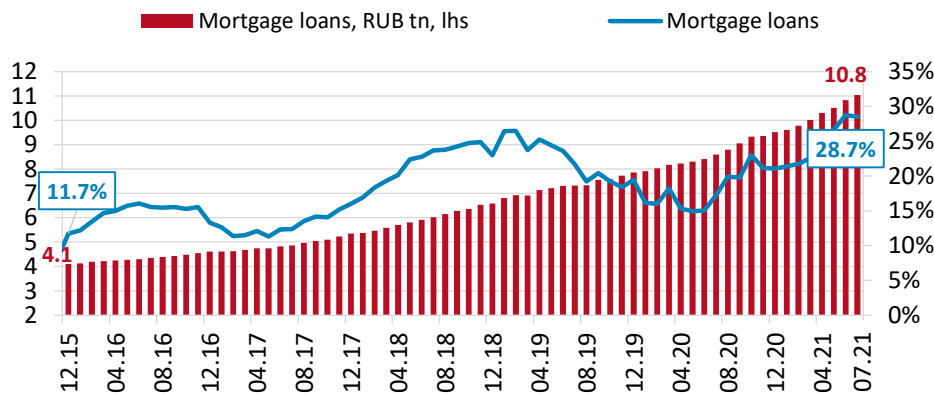
Figure 23: The share of bad loans\*\* decreased to 6.8% in July 2021 vs YE 2020



# BANKING SECTOR: MORTGAGE SEGMENT

## Mortgage lending continues to support credit expansion in 2021

Figure 24: Mortgage lending growth increased 28.7% YoY in July 2021



\*Since 01.01.2020 annual growth rate is based on chain method. Data for retrospective periods restated.

Figure 26: Distribution of mortgage loans by LTV

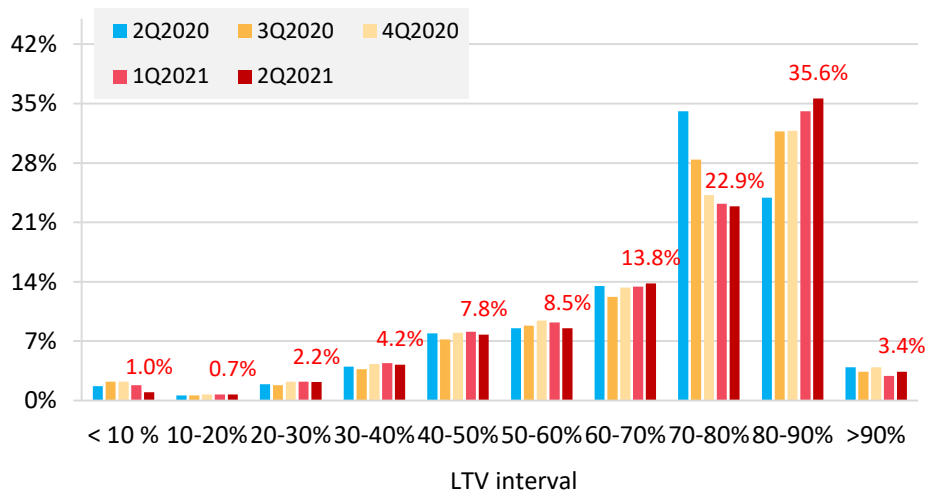


Figure 25: Share of NPLs remains at historically low levels

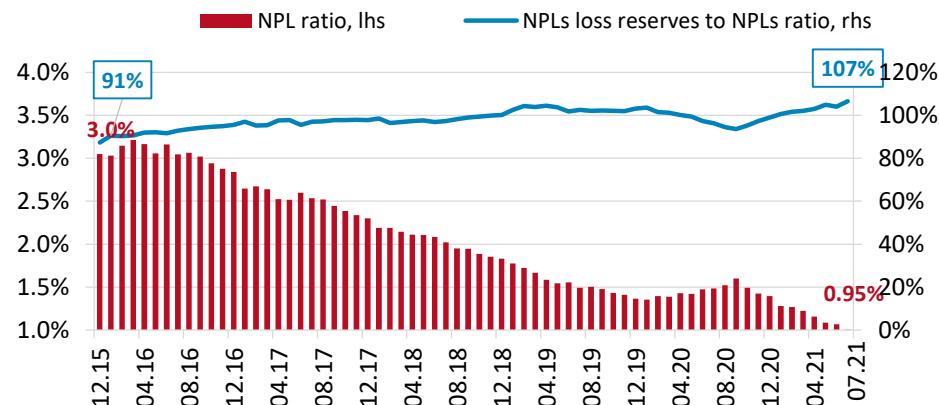


Figure 27: Risk weight add-ons applied to RUB mortgage loans depending on the LTV and the PTI (applied from 1 August 2021)

LTV	PTI interval, %							PTI not calculated
	0-30	30-40	40-50	50-60	60-70	70-80	80+	
80-85	0.5	0.5	0.5	0.7	0.8	0.9	1.0	0.7
85-90	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
90+	2.0 for the whole term (excl. loans repaid with the use of the maternity capital)							

\*Risk weight add-ons applied from 1 August 2021 to mortgage loans issued from 1 August 2021

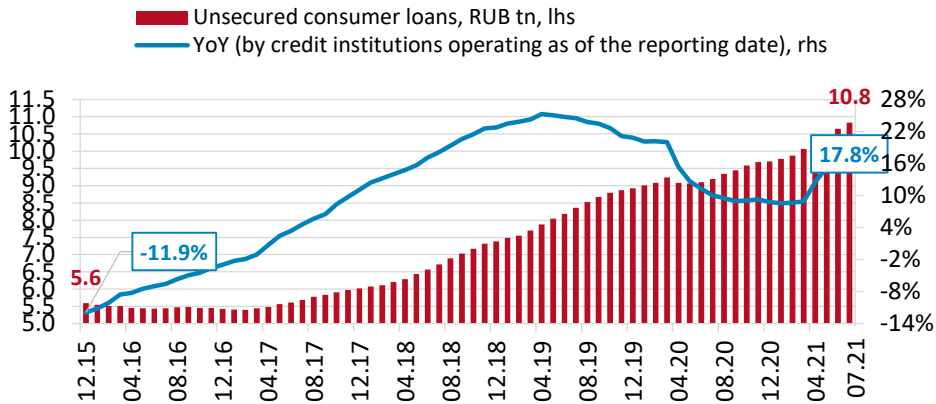




# BANKING SECTOR: UNSECURED CONSUMER LENDING

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

Figure 28: Unsecured consumer lending growth increased to 17.8% YoY in July 2021



\*Since 01.01.2020 annual growth rate is based on chain method. Data for retrospective periods restated.

Figure 30: Share of NPLs amounted to 8.4% as of July 2021

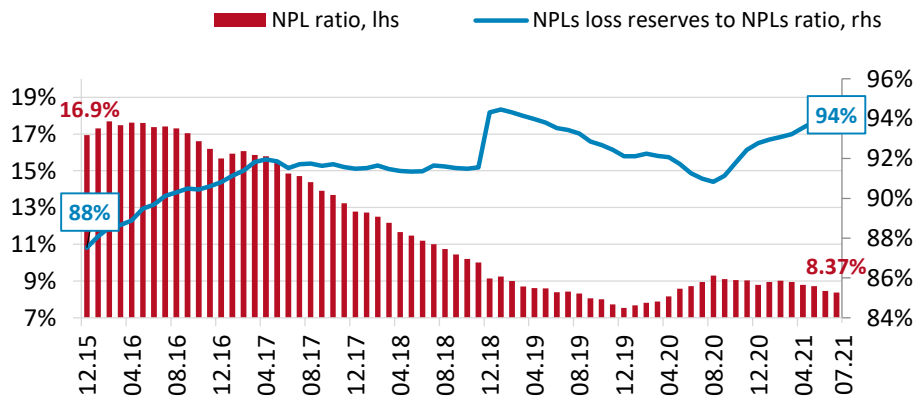
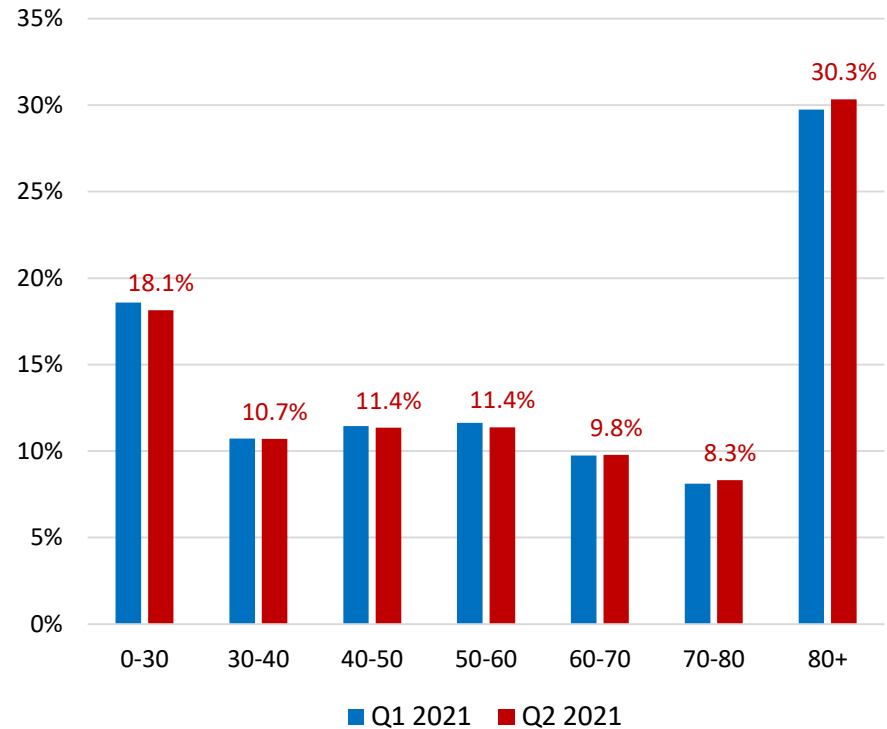


Figure 29: Distribution of unsecured consumer loan issuance by payment to income ratio (under CBR Ordinance No. 4892-U), %





## BANKING SECTOR: INTRODUCTION OF PTI

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


Starting from 1 October 2021, the Bank of Russia decided to raise add-ons on unsecured consumer loans up to the values that were in effect before the start of the pandemic (*please refer to table below*).

		PTI interval, %							
		W/o DTI	0-30	30-40	40-50	50-60	60-70	70-80	80+
EIR interval, %	0-10	0.7	0.3	0.3	0.3	0.7	0.9	1.2	1.5
	10-15	0.8	0.5	0.5	0.5	0.8	1.0	1.3	1.6
	15-20	1.2	0.7	0.7	0.7	1.2	1.5	1.7	2.0
	20-25	1.6	1.0	1.0	1.0	1.6	1.9	2.1	2.4
	25-30	2.0	1.5	1.5	1.5	2.0	2.1	2.3	2.6
	30-35	2.7	2.5	2.5	2.5	2.7	2.9	3.1	3.4
	35+	5.0	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.

 Risk-weight add-ons to be increased starting 1 October 2021

## BANKING SECTOR: INTEREST RATES

An upward trend started to emerge in loan and deposit interest rates

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

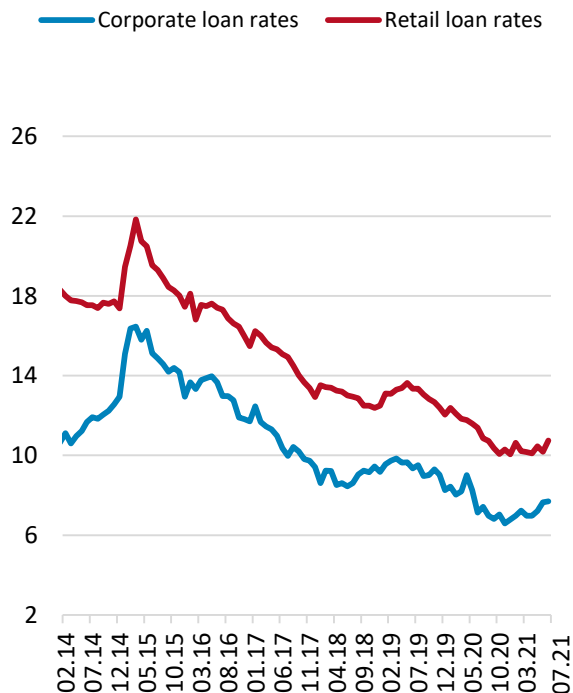


Figure 32: Weighted average long-term interest rates on deposits in rubles, %\*

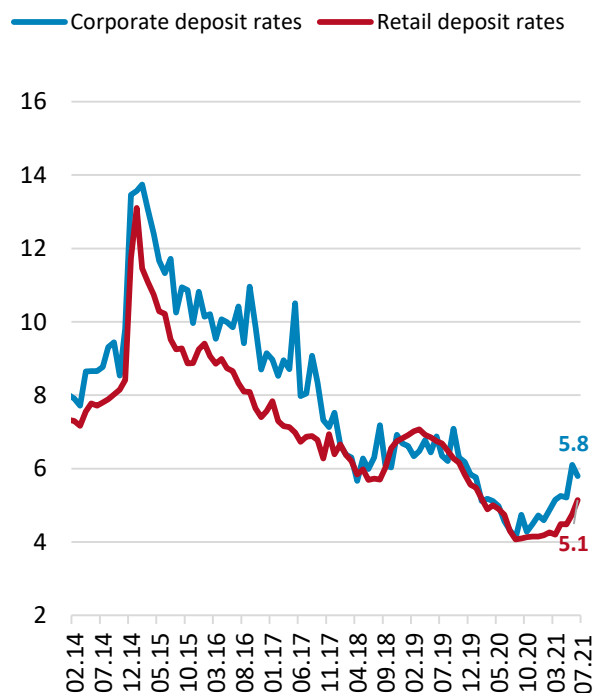
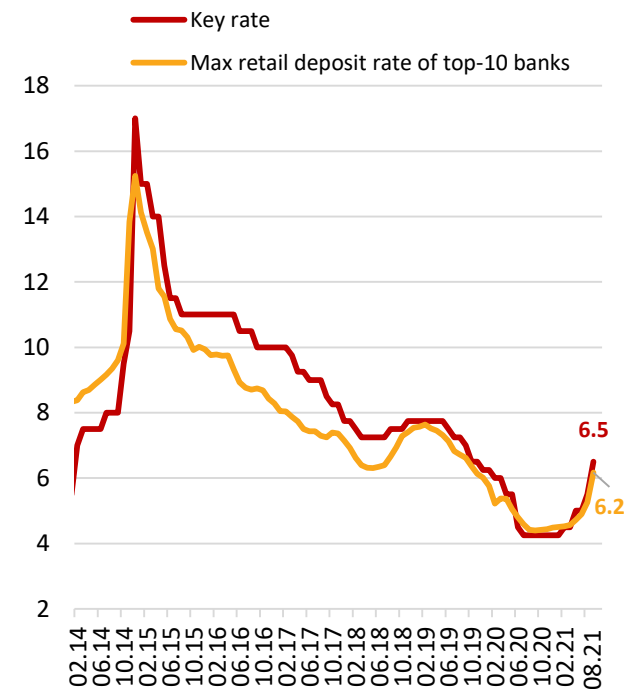


Figure 33: Max interest rate on retail deposits in rubles of top-10 banks and Bank of Russia's policy rate, %

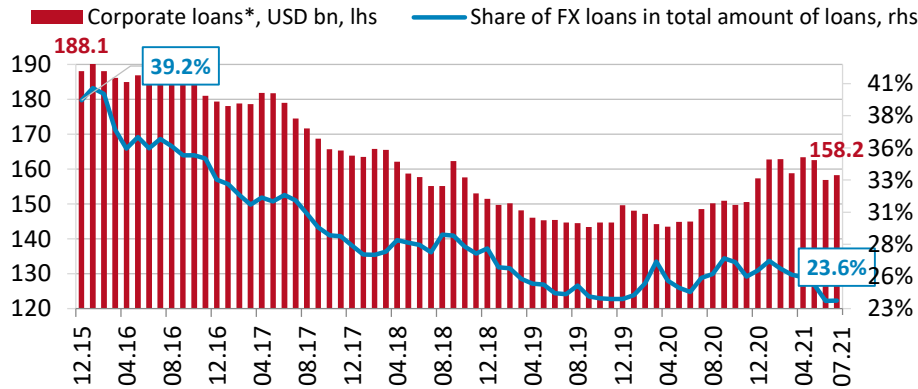


\*with maturities of over 1 year

# 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



\*Since 01.01.2020 corporate loans include loans to financial and non-financial organizations (excl. credit organizations). Data for retrospective periods restated.

Figure 36: Due to ruble depreciation the share of corporate and retail FX deposits in total amount of deposits has risen vs. YE 2019

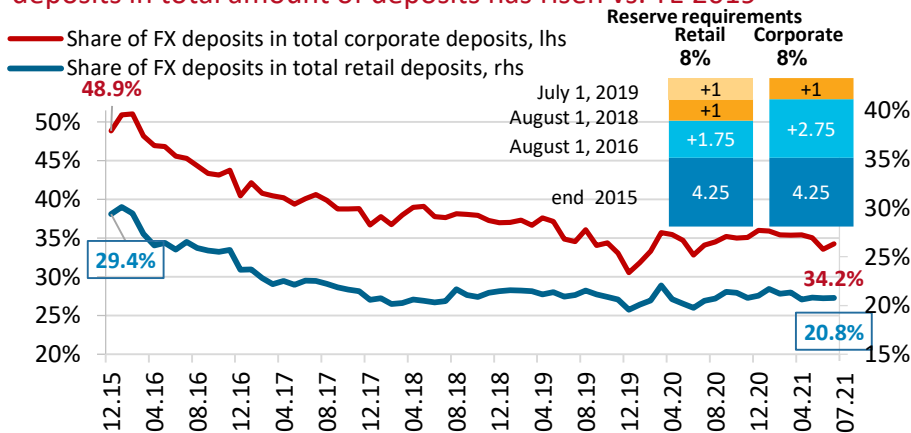


Figure 35: Retail FX loan portfolio is insignificant in size

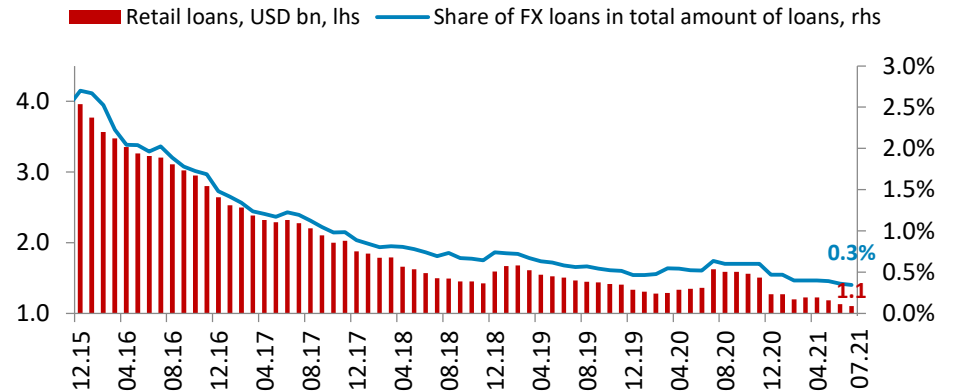
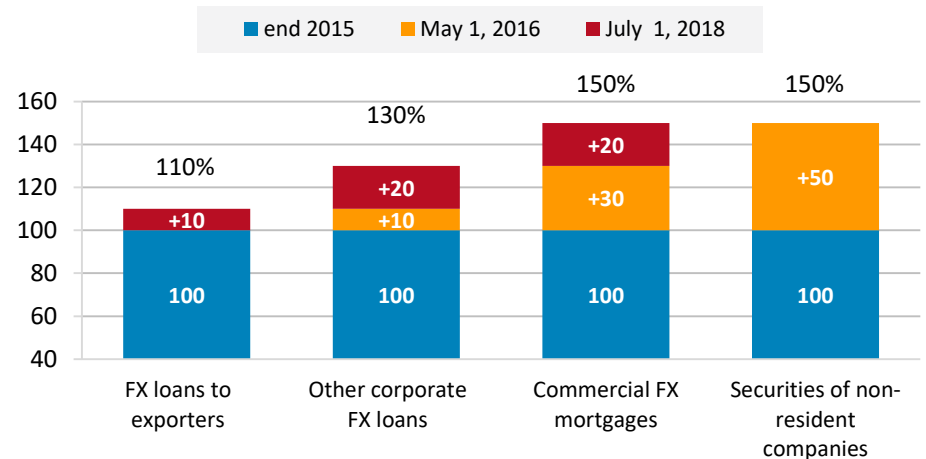


Figure 37: Risk weights applied to FX assets, %



## 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 remains stable (12.5% on 1.01.21 and 12.6% 1.08.21)

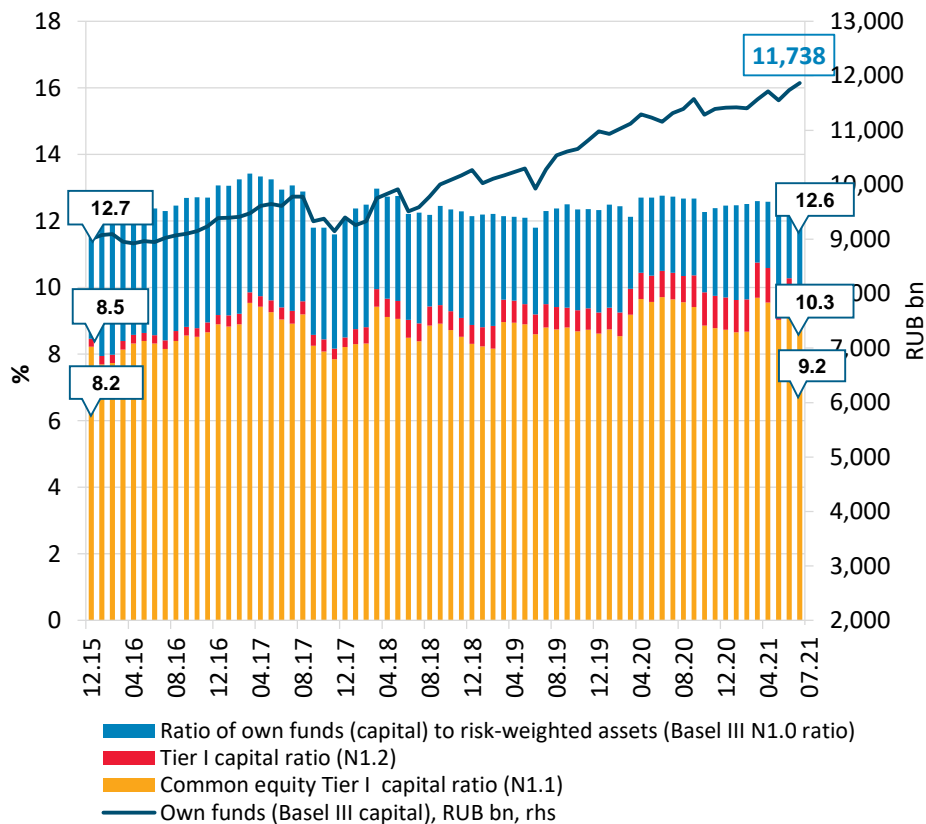
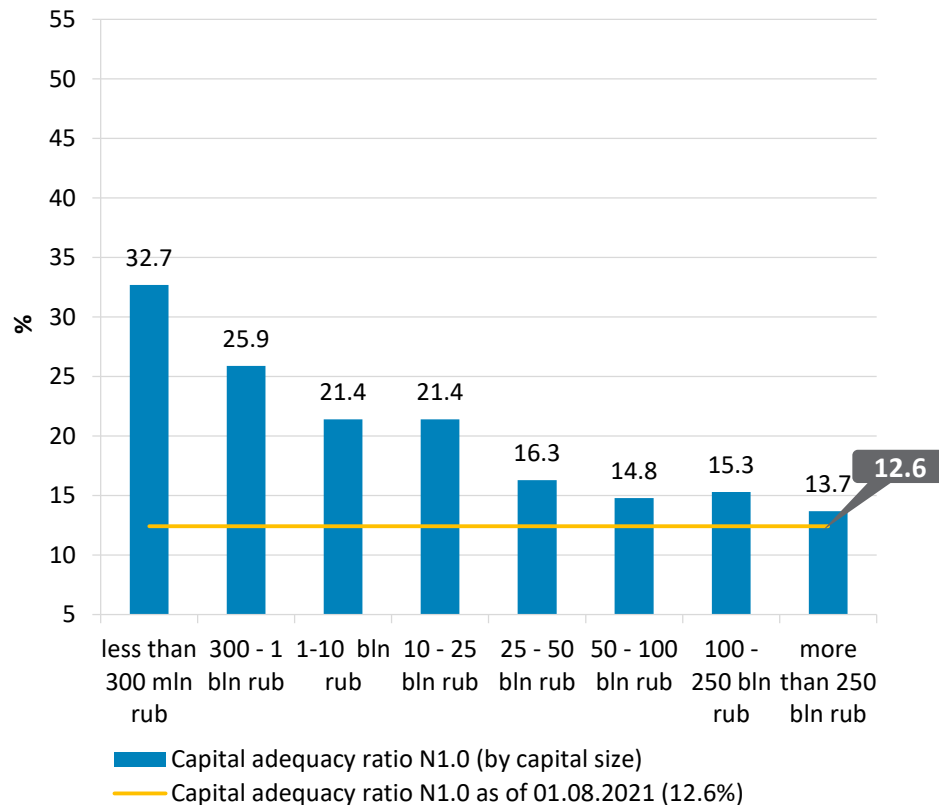


Figure 39: Credit organizations with capital exceeding RUB 25 bln have lower buffer vs N1.0 minimum requirement due to the economies of scale



## 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	36.4
2	VTB Bank	18.9
3	Gazprombank	8.1
4	Alfa-Bank	5.0
5	Russian Agricultural Bank	4.0
6	Credit Bank of Moscow	3.2
7	Bank FC Otkritie	3.0
8	Sovcombank	1.8
9	Promsvyazbank	n/a
10	Raiffeisenbank	1.5
11	Rosbank	1.4
12	UniCredit Bank	1.2

Assets as of 1 Aug 2021

Systemically important financial institutions account for 75% 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%	2.25%	2.50%*
SIFI buffer	0.35%	0.65%	0.65%	1.0%
Countercyclical buffer	0%	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 was raised in accordance with the schedule approved by the Bank of Russia throughout 2019 – it was set 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 literacy 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 7,150 MFI companies.

23% of the entire MFO microloan portfolio are microloans to small to medium enterprises (bearing 5-10% 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 23% of the entire MFO microloan portfolio.

Starting from 1 October 2019, microfinance organizations 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

#### Lending trends and credit risks

Lending trends vary in different segments of the economy. The annual growth of **corporate lending** slowed down slightly, specifically from 11.2% as of 1 July to 10.4% as of 1 September 2021.

The growth of **unsecured consumer loans** continue to speed up, reaching 18.5%<sup>1</sup> as of 1 September 2021. To limit the risks associated with the surge in unsecured consumer lending, the Bank of Russia made the decision in July 2021 to raise macroprudential risk-weight add-ons since 1 October 2021.

According to 2021 Q2 statistics, the accelerated growth in unsecured consumer lending is coupled with a worsening of lending standards. The portion of the highest-risk loans issued to borrowers whose payment-to-income (PTI) ratios exceed 80% edged up to 30.3% in 2021 Q2, which is higher than the pre-pandemic level (26.7%). As banks accumulate loans disbursed to borrowers with high PTI ratios faster, this augments the risks of the retail loan portfolio.

Moreover, banks have been expanding the portion of long-term consumer loans with maturities of over five years. In 2021 Q2, such loans accounted for 20.7% of the total amount of disbursed cash loans, as compared to no more than 11% before the pandemic. Banks have extended loan maturities seeking to lend maximum amounts allowed by their credit policies. The average amount of loans issued for over five years equals 747,000 rubles, whereas that of loans with maturities of up to five years — 242,000 rubles<sup>2</sup>.

In this regard, the Bank of Russia plans to revise the effective PTI calculation procedure. Average monthly payments on long-term consumer loans will be calculated based on the assumption that such loans shall be repaid within four years (currently, this period is five years). This will increase PTI ratios for long-term consumer loans. Concurrently, in order to discourage banks to issue long-term consumer loans and generally to lend money to borrowers whose PTI ratios are excessively high, the Bank of Russia plans to consider in 2021 Q4 the possibility of an increase in macroprudential risk-weight add-ons for such loans.

Speaking of **mortgage lending**, the Government changed the terms of its subsidised mortgage lending programme beginning from 1 July 2021 and simultaneously expanded the family mortgage programme now encompassing families having one child born on 1 January 2018 and later. The revision of the terms of these programmes helped stabilise the pace of mortgage lending expansion in July—August, with the annual growth rate in this segment equalling 20%. This level conforms to a well-balanced path of mortgage lending development, which would not involve any risks to financial stability.

#### Decision

as of September 30, 2021

*“The Bank of Russia Board of Directors has decided to set the rate of the national countercyclical capital buffer for Russian banks’ capital adequacy ratios at zero per cent of risk-weighted assets.”*

*“...Given that the growth in corporate and mortgage lending has slowed down and that the Bank of Russia has sector-specific instruments to limit consumer lending risks, it would be unreasonable to set a positive rate of the national countercyclical buffer.”*

<sup>1</sup> According to Section 3 of Reporting Form 0409115. For credit institutions operating as of the last reporting date, including previously reorganized banks.

<sup>2</sup> According to the 2021 Q2 statistics from the three largest credit history bureaus.





## SECURITIES MARKET (1)

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



### Crisis-proven market infrastructure

- the Moscow Exchange has built a secure and reliable infrastructure ensuring uninterrupted trading
- Trading rules do not stipulate any trading suspensions, reduction in trading hours, short sell bans or other restrictions
- T+2 settlement on equities, T+1 on OFZs, T+0 on corporate bonds



### Upgraded corporate governance

- Updates to the Listing Rules have created a Sustainability Sector for financing ESS projects
- 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



### 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.)
- High level of competition in the Russian financial market helps keep the cost of brokerage and depository services low
- Financial intermediaries are allowed to make both brokerage and depository operations



### Increased transparency

- Moscow Exchange instruments comply with the post-trade transparency requirements under MiFID II/MiFIR
- Mandatory audited IFRS for all public companies
- Strengthened regulation to prevent market manipulation and insider trading
- Improved disclosure practices
- 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

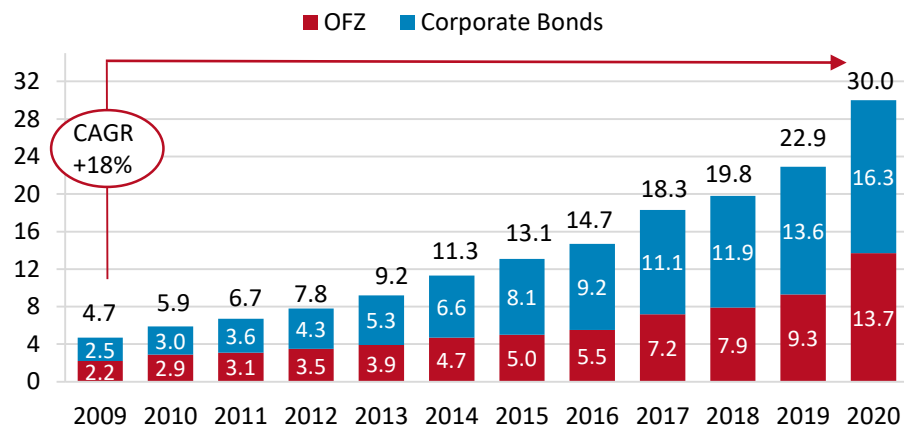


Figure 41: Volume of the Russian corporate bond market, RUB tn

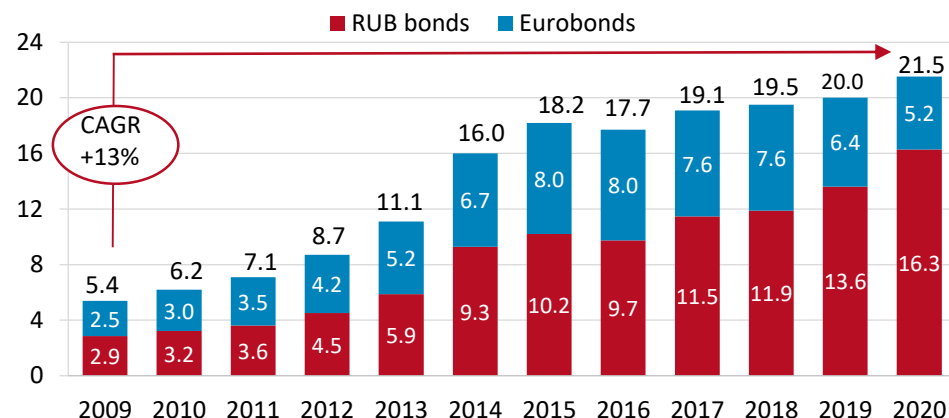
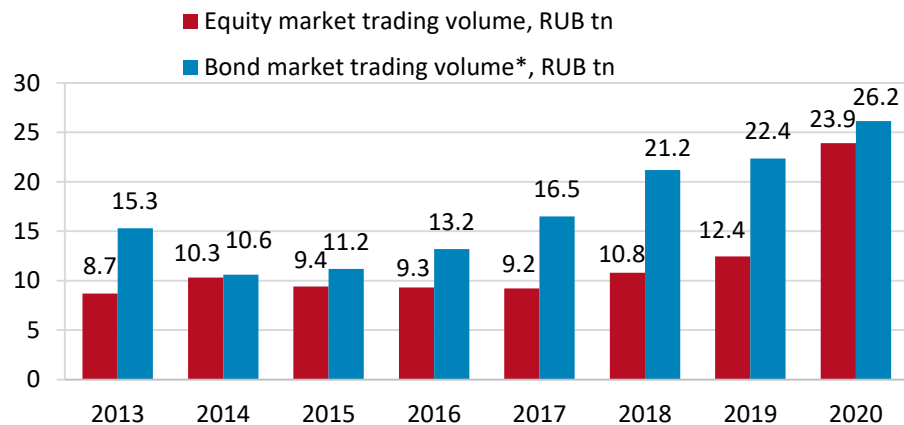


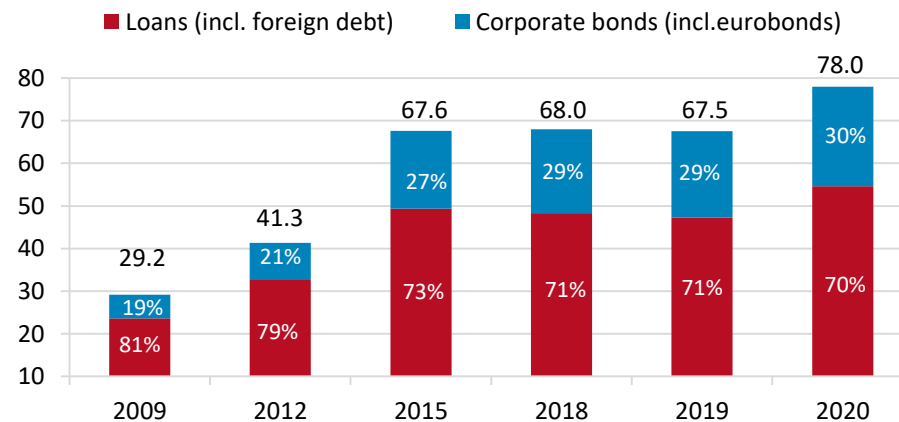
Figure 42: “Bondization” of the Russian financial market



\*excl. overnight bonds

Source: Moscow Exchange, Cbonds

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

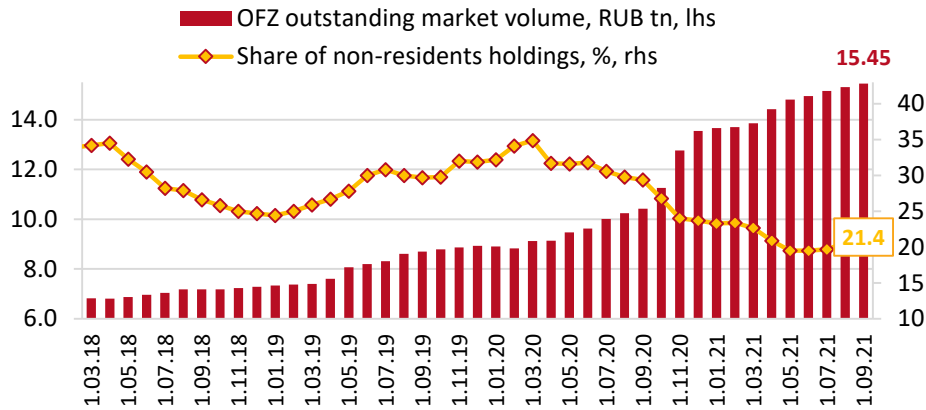


Figure 45: Zero-coupon OFZ yield curve, %

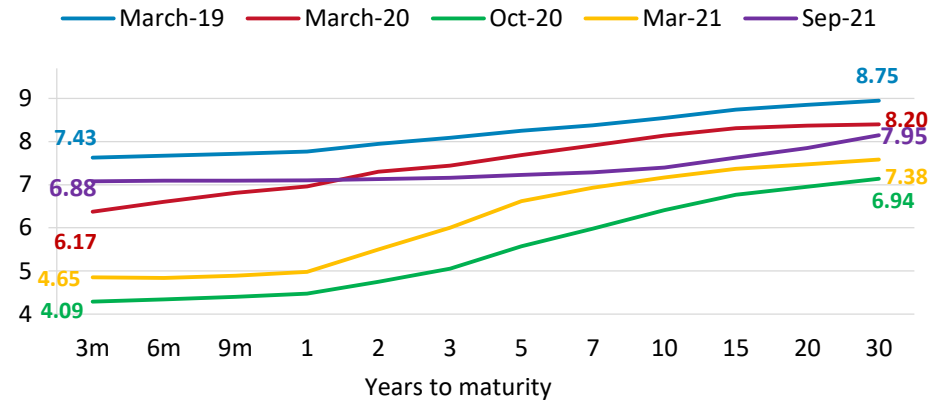


Figure 46: Bond market yields, key rate and RUONIA (% RUB)

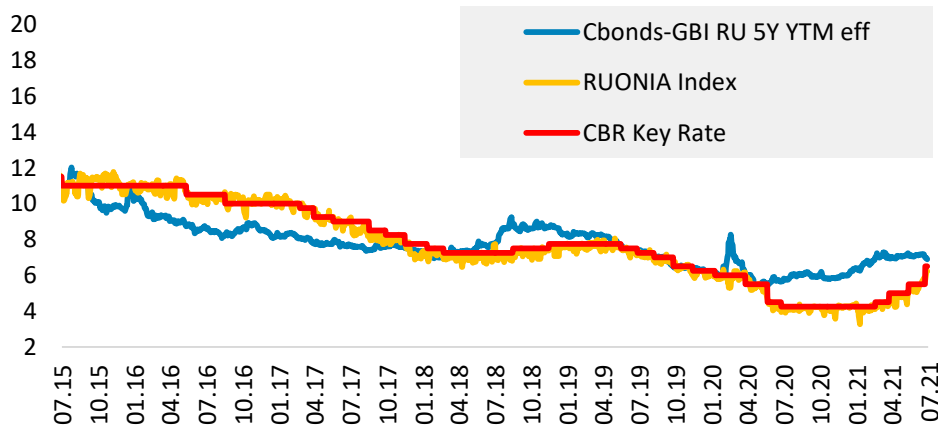
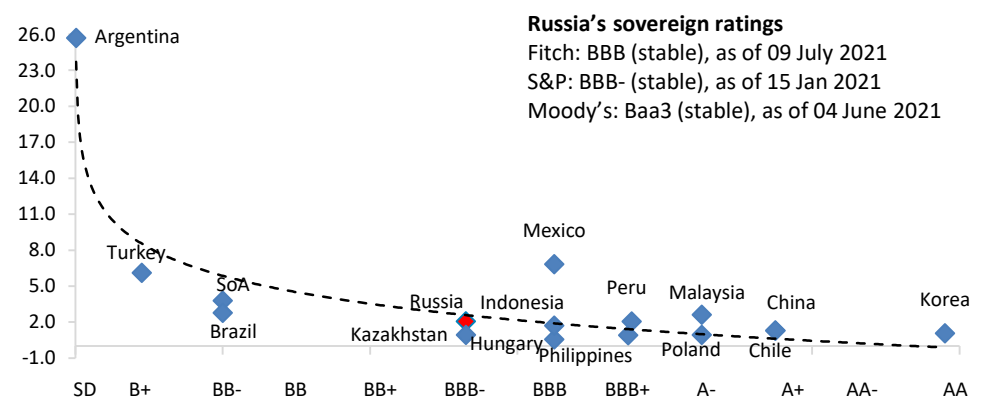


Figure 47: EM 10Y bond yields (% USD) on the background of credit ratings



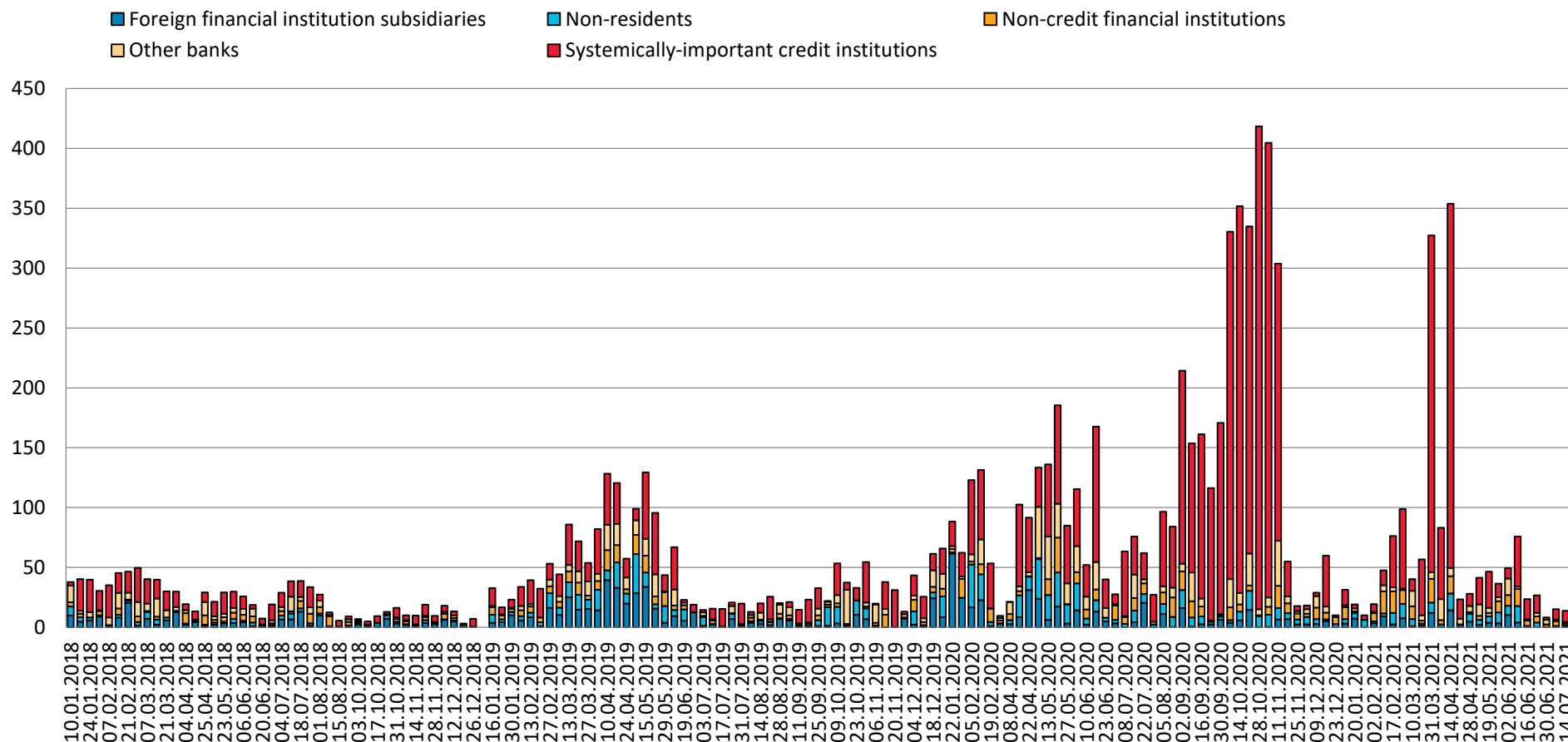
**Russia's sovereign ratings**  
 Fitch: BBB (stable), as of 09 July 2021  
 S&P: BBB- (stable), as of 15 Jan 2021  
 Moody's: Baa3 (stable), as of 04 June 2021



# SECURITIES MARKET (4)

## Demand for OFZs placements remains sustainably high

Figure 48: OFZ placement dynamics in 2018 - 2021 (RUB bn)



Source: Bank of Russia, Ministry of Finance, National Settlement Depository

# SECURITIES MARKET (5)

## Russian equity market: key trends

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

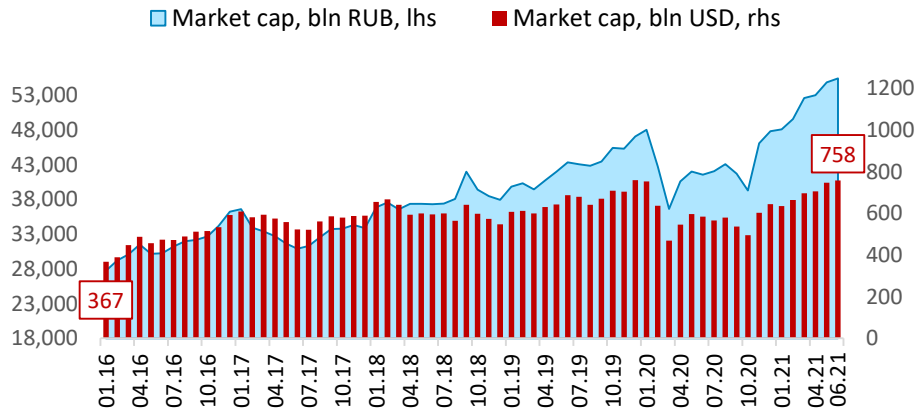


Figure 51: Russian equities market trading volumes proves stable

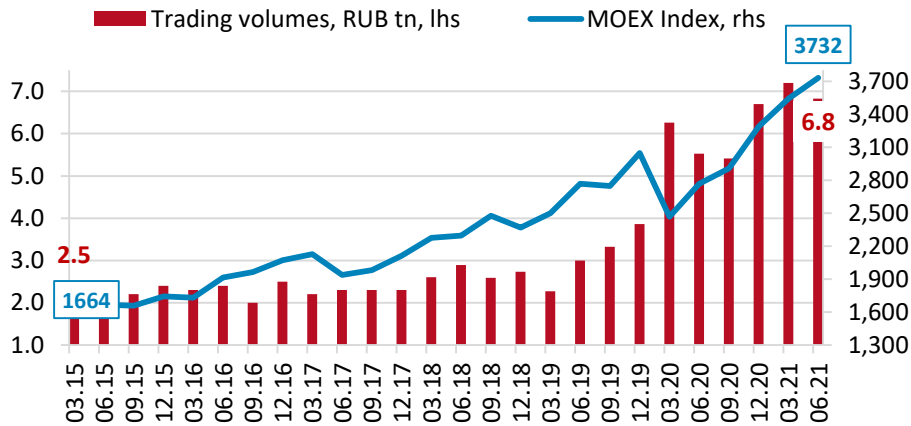
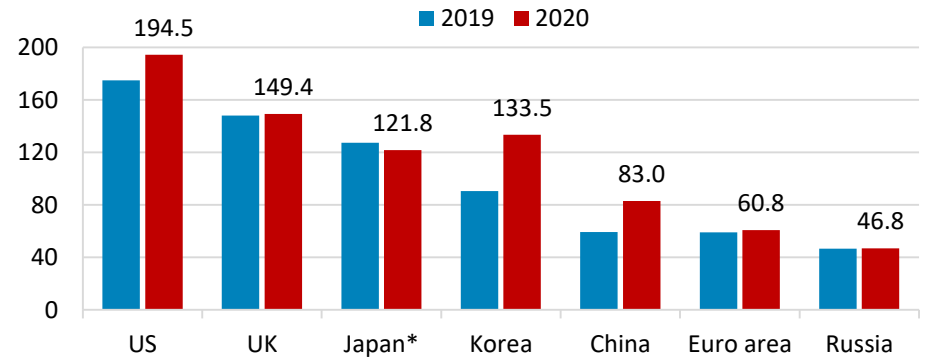
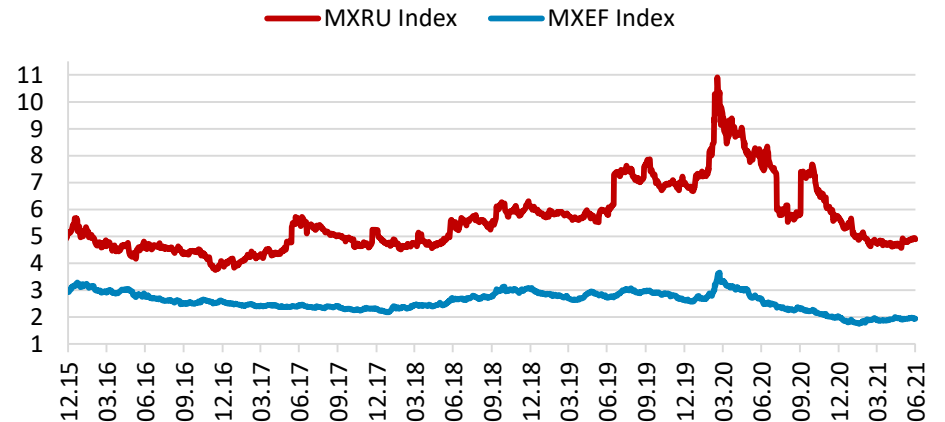


Figure 50: Market capitalization to GDP ratio, %



\*Japan – data for 2018-2019

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%)

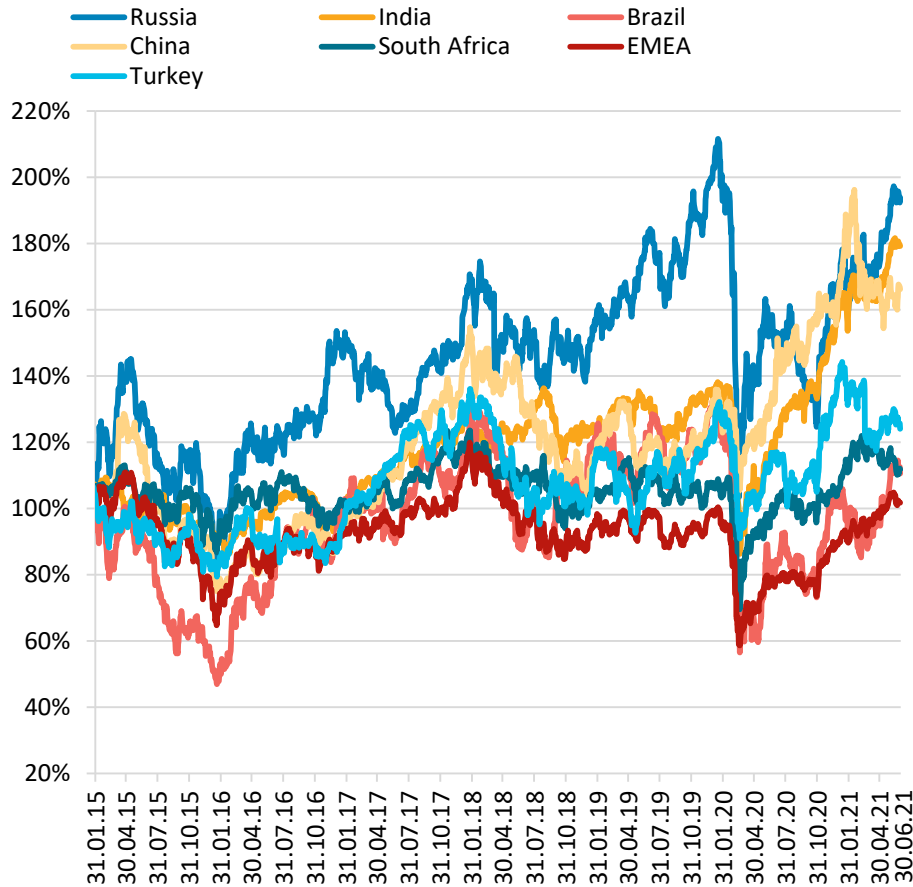
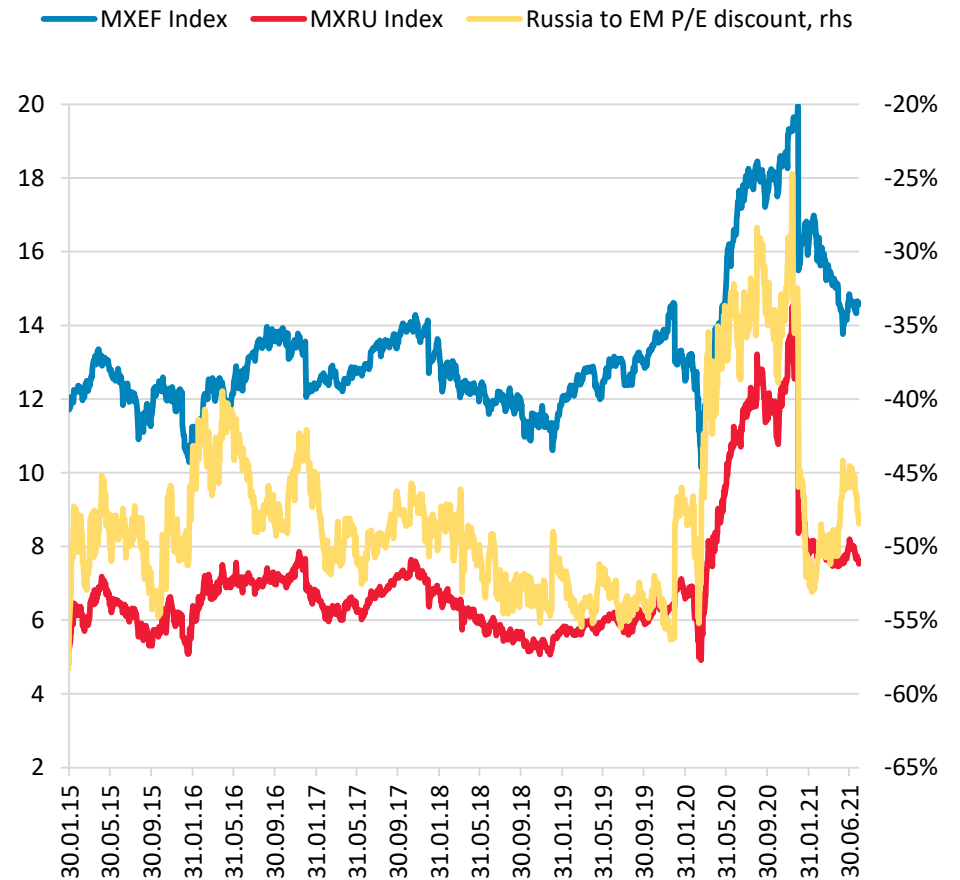


Figure 54: Forward P/E ratio (12m), MSCI Russia vs MSCI EM



Source: Bloomberg

## CORPORATE GOVERNANCE

### New corporate governance standards reflect best international practices

#### Corporate governance

- ✓ Guidance for members of financial institutions' Boards of Directors
- ✓ Recommendations on organizing and conducting self-assessment of the Boards of Directors' performance in public JSCs
- ✓ Recommendations on participation of the Board of Directors in development and management processes related to IT and information security risk management in public JSCs
- ✓ Russian public JSCs are implementing mandatory risk management and internal controls and internal audit
- ✓ Information disclosure reform: reduction of administrative burden on issuers, elimination of excessive requirements for information disclosure (to be put in force since 1 October 2021)

#### Next stage

Providing the possibility to hold general meetings of shareholders online

#### Corporate actions reform

Amendments to the JSC Law :

- ✓ Protection against dilution of stakes in the authorized capital of JSCs and violation of dividend rights
- ✓ Determination of the price at which the issuer repurchases - at the request of shareholders - shares admitted to trading, taking into account their weighted average cost
- ✓ Legal uncertainty with regard to the votes of parties controlled by a party with an interest in the transaction has been eliminated

#### Securities

Securities issuance reform: the procedure of securities issuance was simplified, electronic registration of securities' issues was launched

#### Green, Social and Sustainable Finance

- ✓ Stewardship Code
- ✓ Legal framework for Green, Social and Infrastructural Bond Issuance
- ✓ Special Disclosure rules for Green, Social and Infrastructural Bonds' Issuers
- ✓ Mandatory right of redemption for green and social marked bond holders if capital allocated under Issuance was used improperly
- ✓ Sustainable Development Sector for Bonds on Moscow Exchange
- ✓ Two Sustainable Development Benchmarks ("Responsibility and Transparency", "Sustainable Development Vector")
- ✓ Recommendations on disclosure of non-financial information by public joint-stock companies

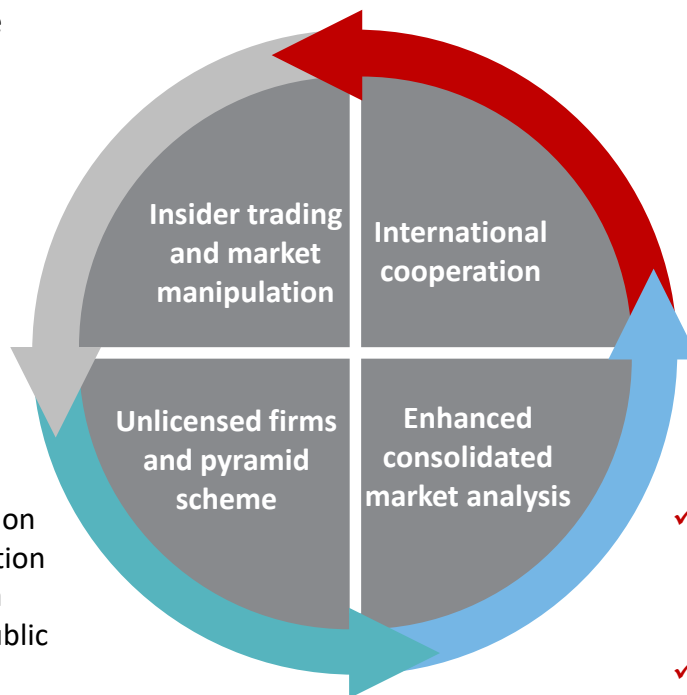
**CBR corporate governance report:** annual monitoring of corporate governance practices and publication of the report on the CBR official site ([only in Russian](#))

## COUNTERING MALPRACTICE

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

- ✓ Bank of Russia has implemented an effective system for countering malpractice such as market manipulation and insider trading, which is aimed at ensuring investors' equality and fair pricing.

- ✓ Bank of Russia identifies companies operating on the financial market without proper authorization (license) and running pyramid schemes, with a view to initiate responsive measures by the public authorities. The number of instances of such measures being taken by public authorities has increased almost 4x times in 2019 compared to 2018. The number of illegal lenders tends to decrease.



- ✓ In 2015, Bank of Russia became a signatory to the IOSCO MMoU.
- ✓ Intense cooperation with foreign financial market regulators in terms of exchanging information, including confidential information.
- ✓ Elaboration of international initiatives.

- ✓ Bank of Russia improves continuous monitoring of on-exchange trading for the purpose of maintaining financial stability and preventing system shocks caused by misconduct.
- ✓ On-exchange trades are supervised by the Analysis Center to identify unusual activity online.



# 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\*

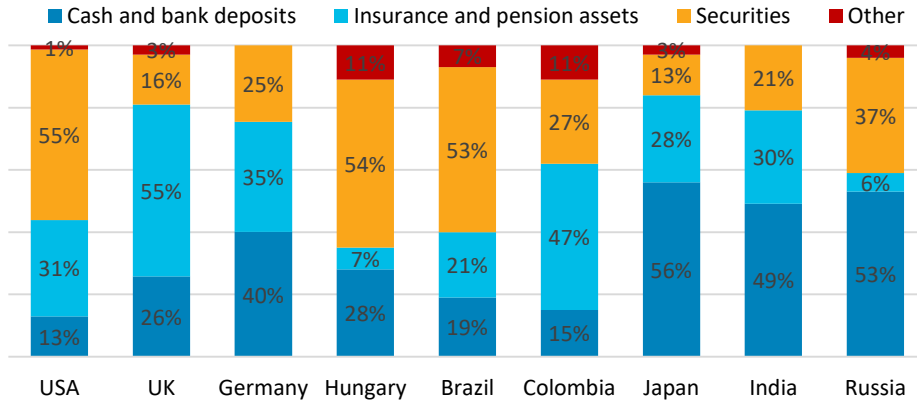
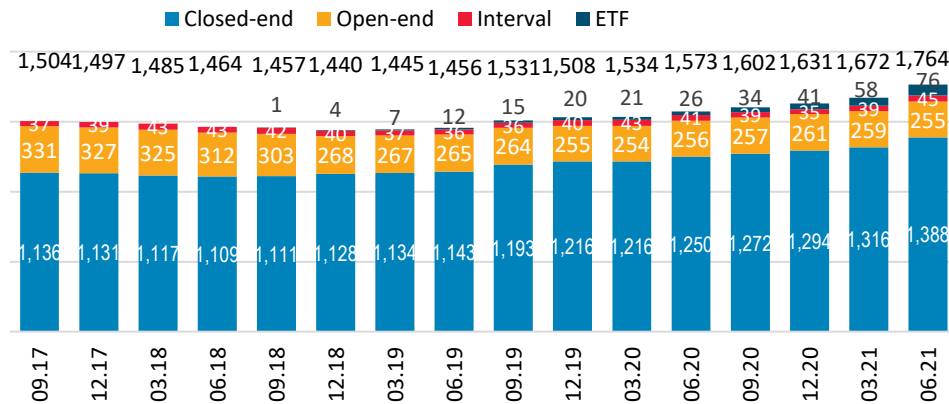


Figure 57: Number of investments funds in Russia by type



\*As of YE2020 (Germany, Colombia, Japan – end of 2019; India, Brazil – end of 2018).  
Source: World Bank, IMF, OECD, Bank of Russia

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

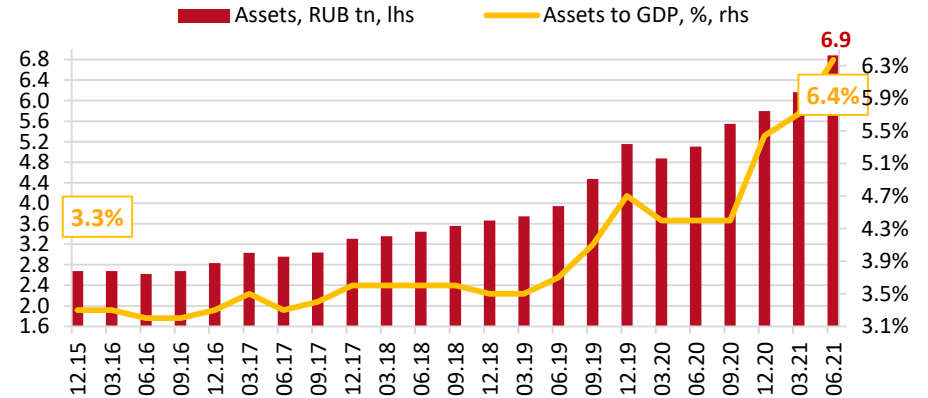
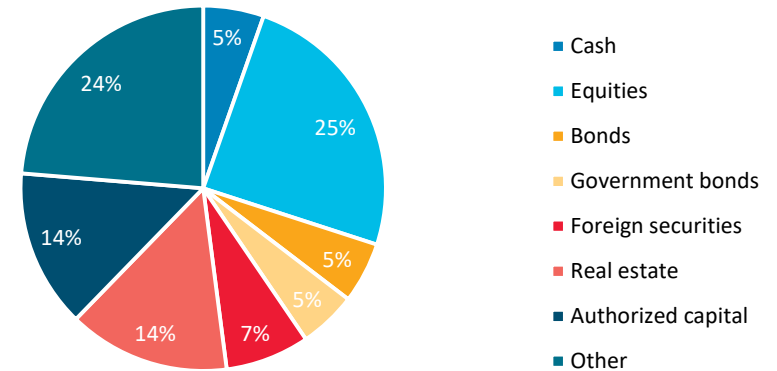


Figure 58: Breakdown of investment funds' assets by type (as of 30 June 2021)



## NON-STATE PENSION FUNDS

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

Figure 59: Pension assets in Russia (RUB tn)

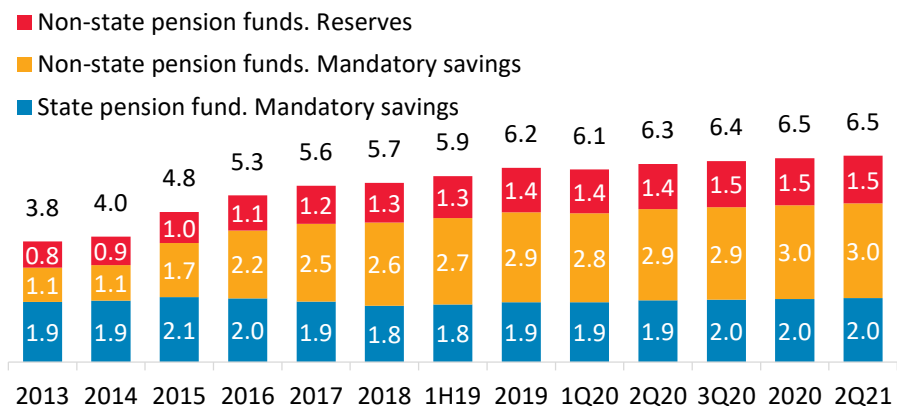
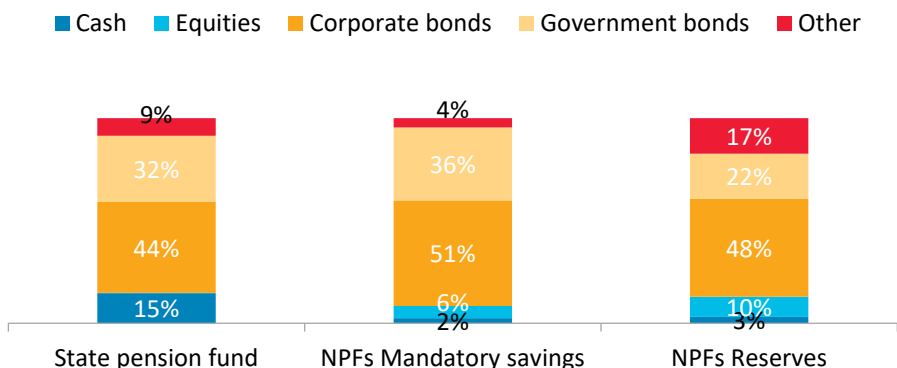


Figure 60: Pension system asset allocation (as of June 30, 2021, %)



Source: Bank of Russia

The 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
- ✓ corporatization of non-governmental pension funds (NPFs) completed
- ✓ work is in progress to improve financial stability of private pension funds (development of legislation, introducing mandatory state guarantee system for voluntary pension plans and mechanisms of private pension funds financial recovery under the Bank of Russia management)

# INSURANCE

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

Figure 61: Premium volume is gradually growing

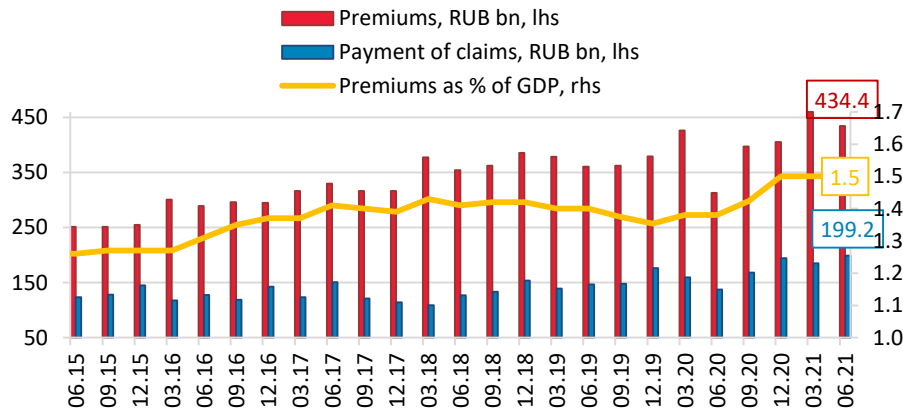


Figure 63: Premium structure in 2Q21 shows high level of market diversification

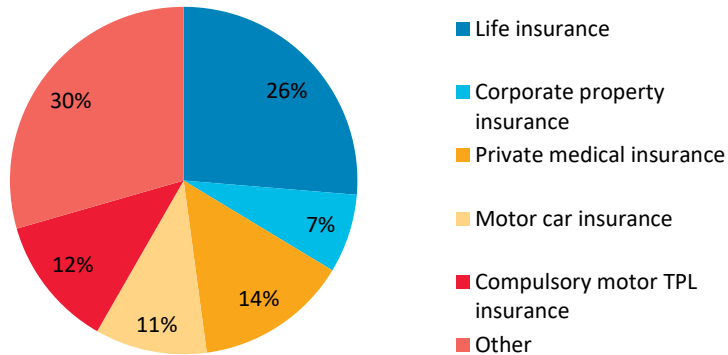


Figure 62: Assets hit 3.8% of GDP

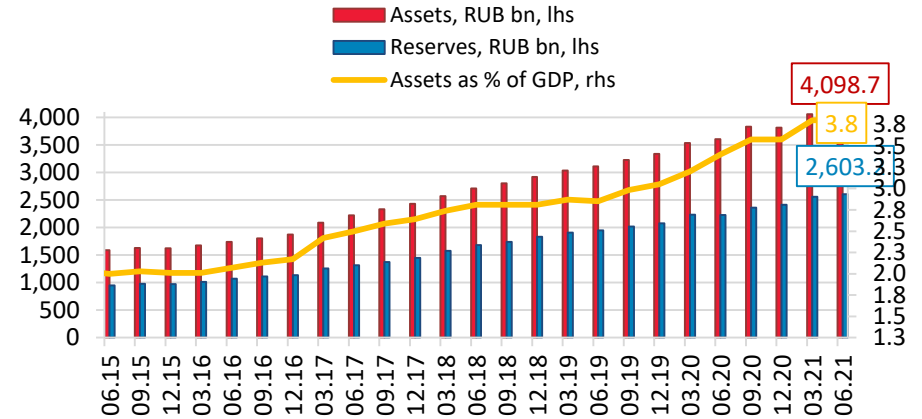
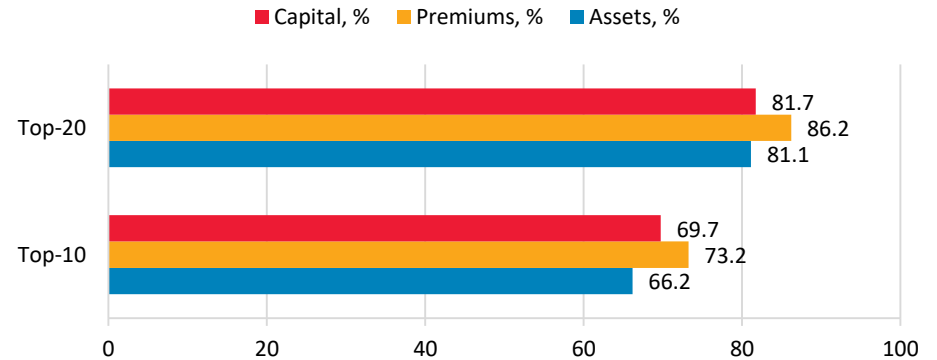


Figure 64: In 2Q21 market remained highly competitive with the Herfindahl-Hirschman Index equal to 858.6



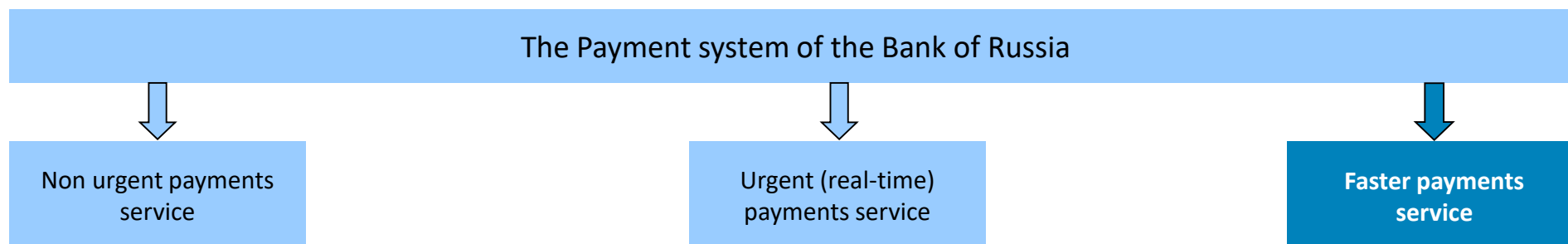
## PAYMENT INFRASTRUCTURE (1/5)

### National Payment System of the Russian Federation

**Payment infrastructure** of the Bank of Russia has evolved rapidly in response to economic growth, technical innovation and regulatory initiatives. As a result of in-depth research and engineering the Bank of Russia currently operates the national payment system which is self-efficient and in line with the international standards.

**The National Payment System of the Russian Federation** embraces 28 payment systems, 485 payment operators and more than half thousand payment agents.

The core of the National Payment System of the Russian Federation is **the Payment System of the Bank of Russia** which processes transactions on behalf of the Federal Treasury and all local financial institutions.



Fully centralized with liquidity saving procedures and 1 hour liquidity adjustment period.



Average daily figures (for 2021): **6.25 mln payments, Rub 7.72 tn**



Vast country – extended business hours: system operates in **11 time zones from 1 a.m. to 9 p.m., Moscow time**



## PAYMENT INFRASTRUCTURE (2/5)

### National Payment System of the Russian Federation

Main targets of the Bank of Russia Payment System are:

- ✓ executing payments under orders of its participants
- ✓ clearing under national payments card system
- ✓ clearing of financial markets transactions

The Bank of Russia Payment System enables sophisticated up-to-date payment capabilities:

- ✓ Priority to RTGS approach (86.5% of funds are transferred via the real-time service as of October 4, 2021)
- ✓ New liquidity management tools
- ✓ Future value date settlement functionality
- ✓ Cash-pooling services for Federal Treasury

On 28 January 2019 the **Faster Payments System** (FPS), a new milestone for the local payment industry, was launched.

- ✓ the FPS is an ad hoc built-up to the Payment System of the Bank of Russia which:
  - ✓ enables instant interbank transfers 24/7/365 using mobile phone number
  - ✓ embraces 207 FIs as of October 1, 2021
  - ✓ monthly processes about 90 mln transactions as of October 1, 2021

The **National Card Payment System** was launched in 2014 and ensures guaranteed and uninterrupted processing of domestic banks card transactions (*please see next slide*).

## PAYMENT INFRASTRUCTURE (3/5)

### National Payment Cards System



Operator of the Mir Card Payment System is the **National Card Payment System Joint Stock Company** fully owned by the Bank of Russia (established on 23 July 2014)



- ✓ The first cards of MIR National Payment System were issued in December 2015
- ✓ Approx. 104 mln cards issued as of September 1, 2021
- ✓ Comprises over 260 acquiring banks and over 160 issuing banks as of October 1, 2021



- ✓ Promoted internationally since 2017
- ✓ Co-badging projects with Mastercard, JCB, AmEx and UnionPay.
- ✓ Linked with the national card payments systems of the Republic of Armenia, Republic of Belarus, Kyrgyz Republic, Republic of Tajikistan, Republic of Uzbekistan, Vietnam and other.
- ✓ Accepted by the partner banks in the UK, Republic of Korea, UAE, Cyprus, Turkey, Kazakhstan and South Ossetia



- ✓ Mobile payments and contactless service Mir Pay are developing
- ✓ Support of mobile payment service Samsung Pay
- ✓ Non-financial services are available on the basis of “Mir” payment cards



- ✓ Cashback capabilities



## PAYMENT INFRASTRUCTURE (4/5)

### Supervision and oversight in the national payment system (NPS)

**Supervision in the NPS** - The Bank of Russia's activity to monitor the compliance of NPS entities with the requirements of the law on the NPS and the regulations of the Bank of Russia **in order to ensure stability and development of the NPS.**

#### Market access:

- **payment systems:** registration of payment system operators (PSO) and foreign payment system operators
  - **money transfer operators - credit organizations (including electronic money operators):** licensing.
- The BoR publishes lists of payment application providers, payment aggregators, foreign payment service providers, information exchange operators.

#### The subjects of supervision:

- functioning of the NPS entity separately;
- its relationship with other market participants, disruption of such relationships and systemic risks.

*Set of measures in respect of the supervised subjects is determined taking into account the established supervision mode*

Number of NPS entities (as of March 2021)	
Money transfer operators-credit organizations, including	397
<i>electronic money operators</i>	79
Payment system operators	28

## 1 Off-site supervision

Analyze the activities of NPS entities and payment system participants as well as the organization and functioning of payment systems including payment infrastructure

## 2 On-site inspection

Conduct on-site inspections of NPS entities' compliance with the requirements of the law on the NPS and the regulations of the Bank of Russia

## 3 Actions and Measures

Take actions and enforcement measures with regard to NPS entities in case of violations of the requirements of the law on the NPS

## PAYMENT INFRASTRUCTURE (5/5)

### Supervision and oversight in the national payment system (NPS)

**Oversight in the NPS** - The Bank of Russia's activity to encourage **the improvement** of the NPS entities' activities and services and to promote **the development** of objects of oversight in line with the recommendations of the Bank of Russia.

# 1

## Monitoring

Collection, systematization and analysis of information on the activities of the observed organizations, other NPS entities and related oversight objects

### Main areas of monitoring

- Defining criteria for the importance of payment systems and credit institutions significant in the payment services market;
- Identifying payment systems that meet the criteria of significance, and credit institutions that meet the criteria of significance in the payment services market;
- Identifying trends and development prospects for the Russian payment market.

# 2

## Assessment

Assessment of the activities of the observed organizations (PSO\*) and related objects of oversight in the context of best practices (**in particular, the document CPMI-IOSCO “Principles for financial market infrastructures”**)

\* Operators of systemically and socially important payment systems (as of the beginning of 2020 there are **2** systemically important payment systems and **4** socially important payment systems).

# 3

## Initiation of changes

- Bank of Russia issues recommendations to the PSO on the results of assessment.
- The PSO prepares an action plan for implementation of such recommendations.
- Bank of Russia monitors the implementation of recommendations by the PSO

*A report on the national payment system oversight results is published every two years*

### International cooperation in the field of oversight in the NPS:

- ✓ agreements (memorandums) on cooperation with foreign (national) banks;
- ✓ interaction with international organizations, including the Committee on Payments and Market infrastructures (CPMI), World Bank.



## FINTECH (1)

Russia provides a favorable environment for FinTech development

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

- ✓ Facilitate the **competition** and support **innovation** in the financial market
- ✓ Enhance **accessibility, quality** and **range** of financial services
- ✓ Lower **risks and costs** in the financial market
- ✓ **Digitalize interaction** between the Bank of Russia and supervised entities

### Key areas of development

1. **Legal regulation** to provide favorable environment for innovation development in the financial market
2. **Development of digital infrastructure** with equal access for all financial market participants
3. Implementation of **RegTech & SupTech** in the financial market
4. **Experimental legal regimes** to test innovative financial technologies, products and services
5. Ensuring **information security**

## FINTECH (2)

Russia provides a favorable environment for FinTech development

### Main FinTech initiatives of the Bank of Russia



#### Unified Biometric System

remote identification for financial services provision



#### Digital profile

provision of consumer data from public sources required for financial services delivery with customer consent



#### Faster Payments System

enables real-time P2P, Me2Me, C2B payments



#### Marketplace

financial products and services offered by various companies on a single platform on a 'one stop shop' basis



#### Open APIs

equal access to customer data using standardized open APIs



#### Digital Ruble

an additional form of the Russian national currency that will be issued digitally by the Bank of Russia



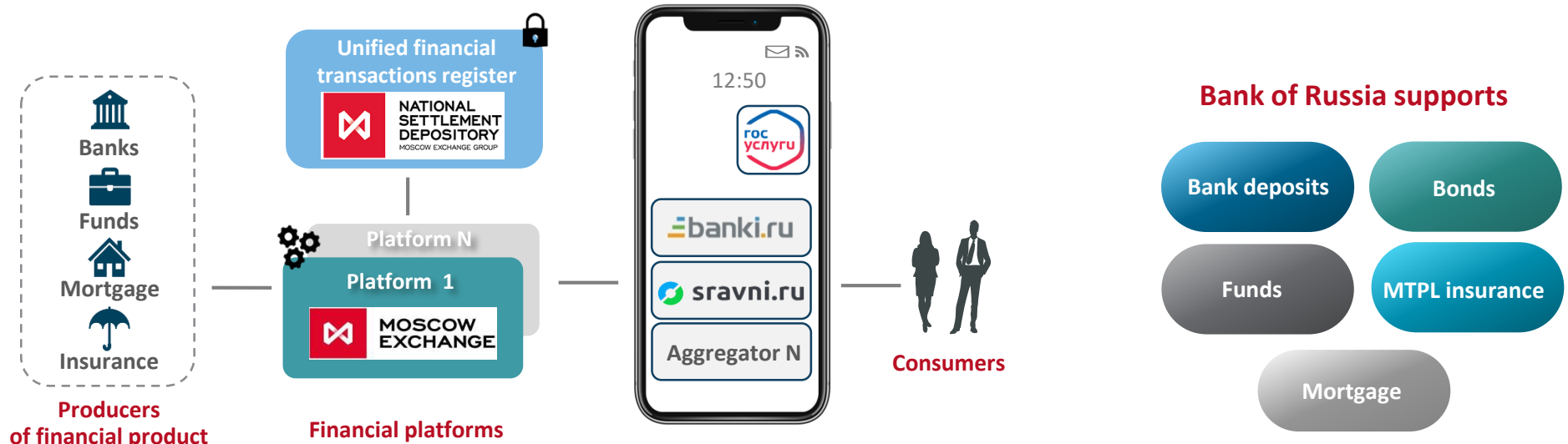
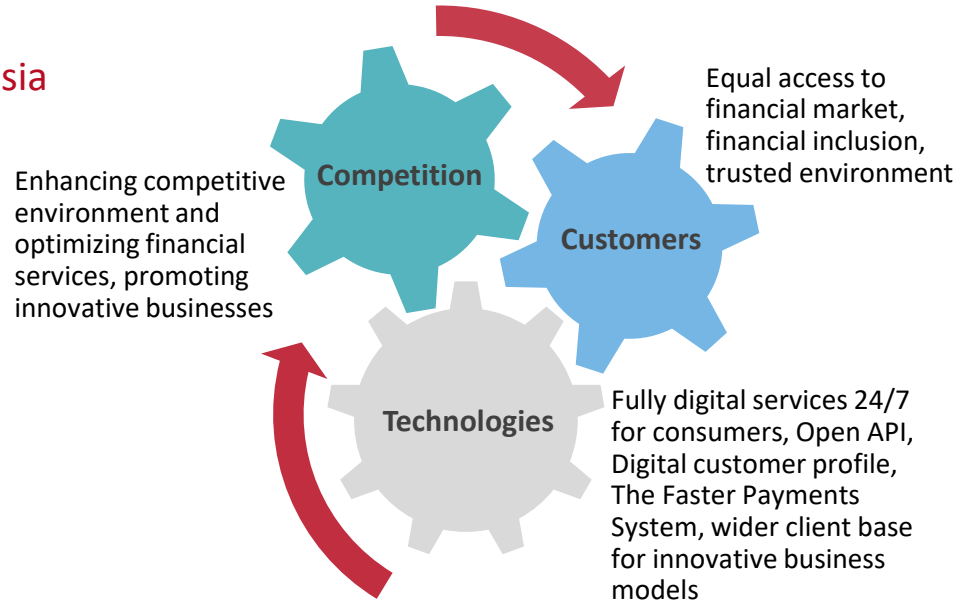
#### Experimental legal regimes

piloting innovative financial technologies, products and services with real customers

# MARKETPLACE

## Shaping the 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
- ✓ In July 2020 the State Duma adopted the law on financial transactions through a financial platform that enabled launching the Marketplace system



For more details, see [http://cbr.ru/eng/fintech/market\\_place/](http://cbr.ru/eng/fintech/market_place/)



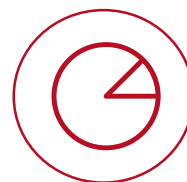
## CONSUMER PROTECTION

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

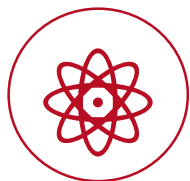
### KEY FINANCIAL CONSUMER PROTECTION WORKSTREAMS



Consumer and investor complaints handling



Differentiation of consumer protection requirements



Conduct supervision



Financial literacy improvement



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



Disclosure requirements for consumers and investors



## FINANCIAL INCLUSION

The Bank of Russia promotes financial inclusion aligned with best international practices

### 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’ (2010) and ‘updated’ (2020) Financial Inclusion Action Plan

### 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
- In 2014, the Bank of Russia became a member of AFI and joined the Maya Declaration setting up the priorities for AFI members on financial inclusion
- The Bank of Russia hosted the 2018 AFI Global Policy Forum: Sochi Accord: Fintech for Financial Inclusion was adopted, Regional initiative for the EECA region was launched

- ✓ Since April 2020, the Bank of Russia has been empowered by law to exercise functions aimed at ensuring financial inclusion
- ✓ In 2018, the Bank of Russia launched the **Financial Inclusion Strategy in Russia for the period of 2018-2020 (prolonged for 2021)**

To increase **access and quality of financial services** for target groups:



#### Citizens who live in remote or hard-to-reach areas

- The Bank of Russia promotes the development of rural presence of banks in various formats, especially agent-based ones.
- One of the significant projects is cash withdrawal service to holders of payment cards at retail and service outlets in rural areas. It was piloted in 2019 and the number of access points grew to more than 6.3 thousand (July 1, 2021)



#### Persons with disabilities, elderly and other low-mobile groups

- The Bank of Russia has made concerted efforts to ensure the financial inclusion of PwD/LMG in recent years. It focused on technology-based solutions to address the various constraints faced by PwD/LMG in accessing financial products.
- 65% of credit institutions have fully or mostly implemented the Bank of Russia’s recommendations on eliminating barriers for PwD/LMG and 64% – recommendations on the accessibility of remote servicing channels (October 2020)



#### Small and medium business

- Together with the Government, the Bank of Russia continues to take joint actions to promote SMEs financial inclusion through:
  - special lending programs subsidized by the Government,
  - regulatory changes aimed at supporting bank lending to SMEs,
  - developing instruments of non-bank financing for SMEs, such as crowd-investing and dedicated stock market segment,
  - introducing new instruments and platforms: online factoring for SMEs, Faster Payments System to pay for SMEs goods and services.



#### To increase the **speed and quality of access** to financial services for **population with Internet connection**

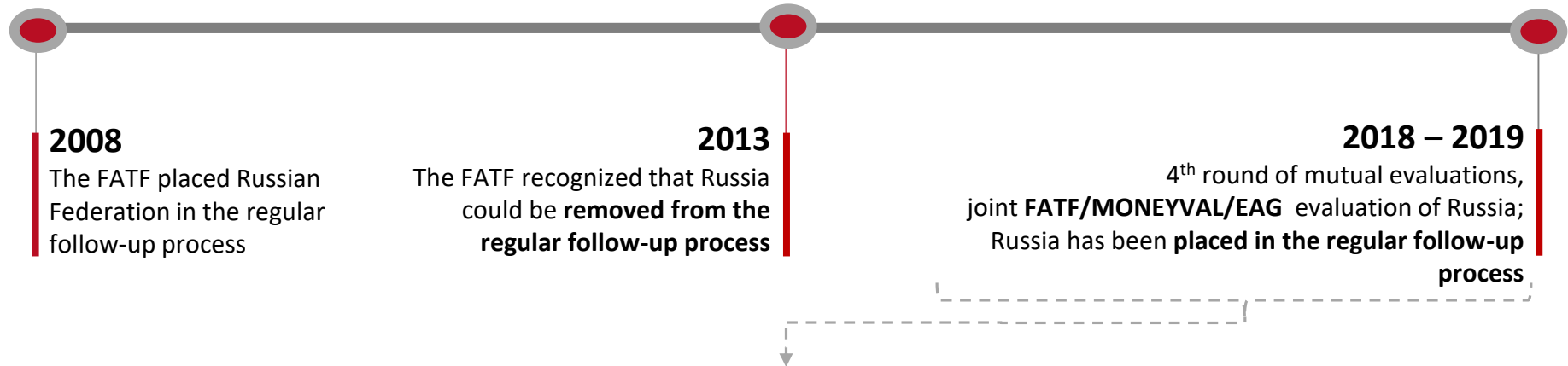
- Over the last year, more than 75% of Russian adults transferred money over the Internet or using mobile banking (May 2021 survey results)
- The Bank of Russia continues to promote FinTech, RegTech and SupTech solutions to facilitate remote services provision and enhance financial inclusion. The key projects here are Digital Biometric Identification, Faster Payments System, Marketplace, Digital Customer Profile, Digital Ruble.



## AML/CFT

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

**Russian AML/CFT law is based on International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation (FATF Recommendations)**



**The findings of the FATF on the Bank of Russia's actions and financial institutions' performance in the AML/CFT area:**



- ✓ **The Bank of Russia's deep understanding of ML/TF risks** in the supervised sectors
- ✓ Improvement of the Bank of Russia's **risk assessment methodology and risk-based AML/CFT supervision**
- ✓ Implementation of an **intense bank supervisory programme informed by ML/TF risks**
- ✓ Substantial improvement of the framework for **preventing criminals from owning and controlling financial institutions**
- ✓ **Adequate level of cooperation** between the Bank of Russia and other Russian competent authorities in the AML/CFT area
- ✓ **Good understanding of ML/TF risks by credit institutions**
- ✓ **Growth of the overall AML/CFT compliance** by financial institutions, including due to the Bank of Russia's supervisory measures

## CYBERSECURITY

### Key initiatives in information security and cybersecurity

- 1. Exchanging information on computer attacks**
- 2. Sharing regulations and best practices**
- 3. Countering online misconduct in credit and finance**
- 4. BRICS Best Practices Compilation as a topic for 2021**

### Key avenues of cooperation in information security

-  Collecting, processing and exchanging information on computer attacks in credit and finance
-  Analyzing the differences among jurisdictions, and sharing available internal practices with regard to how central banks protect themselves and financial institutions
-  Holding consultations, seminars and conferences on best practices in countering computer attacks in credit and finance
-  Providing assistance in returning funds stolen through fraud
-  Developing a compilation of the BRICS countries' Best Practices in information security

## INVESTOR CONTACTS AND REGULAR MEETINGS SCHEDULE FOR 2021\*\*

February 5-12	Quiet period	July 16-23	Quiet period
February 12	Board of Directors pivotal meeting on monetary policy. Publication of an updated medium-term forecast.	July 23	Board of Directors pivotal meeting on monetary policy. Publication of an updated medium-term forecast.
<b>February 17, 17:00 Conference call with institutional investors (Moscow time)</b>		<b>July 28, 17:00 Conference call with institutional investors (Moscow time)</b>	
March 12-19	Quiet period	September 3-10	Quiet period
March 19	Board of Directors meeting on monetary policy	September 10	Board of Directors meeting on monetary policy
April 9-11*	Ad-hoc meetings with investors on the sidelines of the IMF/WB meetings	October 15-17*	Ad-hoc meetings with investors on the sidelines of the IMF/WB meetings
April 16-23	Quiet period	October 15-22	Quiet period
April 23	Board of Directors pivotal meeting on monetary policy. Publication of an updated medium-term forecast.	October 22	Board of Directors pivotal meeting on monetary policy. Publication of an updated medium-term forecast.
<b>April 28, 17:00 Conference call with institutional investors (Moscow time)</b>		<b>October 27, 17:00 Conference call with institutional investors (Moscow time)</b>	
June 4-11	Quiet period	December 10-17	Quiet period
June 11	Board of Directors meeting on monetary policy	December 17	Board of Directors meeting on monetary policy

### International Cooperation Department

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\* *tbc.*

\*\* *Additional ad-hoc conference calls for institutional investors may be held in the periods between the Bank of Russia Board of Directors pivotal meetings.*