RUSSIAN FINANCIAL SECTOR
Investor presentation
December 2018
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BANK OF RUSSIA: OVERVIEW
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

1990 – 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

Federal Financial Markets Service (FFMS): founded in 1993

2001 – Law on AML/CFT
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

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

2013 – CBR becomes the megaregulator of the Russian financial sector

Focus on Russian financial market development
Monetary policy framework development

2006
Inflation targeting announced
Inflation targeting is represented as a midterm goal in the "Monetary Policy Guidelines"

2008
Active inflation targeting communications

2009
Liquidity management
Instruments are developed, the interest rate corridor is narrowed

2012
Transition deadline set
"Floating rate and inflation targeting by 2015"

2013
Key rate introduced

2014
Floating exchange rate introduced

Since Dec. 2017
Inflation below 4% (2.5% as of July 2018)

1998 - 2008
Narrow band

2008 - 2014
Flexible band

2015
Transition to the inflation targeting regime is completed

Since Nov. 2014
Free floating Ruble
Bank of Russia supervises the following key segments:

<table>
<thead>
<tr>
<th>Banking sector</th>
<th>Payment infrastructure</th>
<th>Non-state pension funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market infrastructure, including fair pricing</td>
<td>Asset managers</td>
<td>Securities market, including securities market professionals</td>
</tr>
<tr>
<td>Microfinance</td>
<td>Credit rating agencies</td>
<td>Insurance sector</td>
</tr>
</tbody>
</table>
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);
- deposit insurance with RUB 1.4 mln as a limit (in some cases – up to RUB 10 mln);
- 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, IIA)

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

Pension system
guarantee fund mechanism introduced, investment horizon for non-state pension funds extended to 5 years

Payment infrastructure
- Russian payment system infrastructure developed and currently in use by all leading international payment systems
- payment infrastructure monitoring and supervision
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 ranks #31 in DOING BUSINESS-2019 Ratings (#35 in 2018)

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

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.
The Bank of Russia Guidelines for the Development of the Russian Financial Market in 2016 – 2018 (presented in 2016 and undergone discussion with market participants in 13 Russian regions) cover the following areas:

- Consumer financial protection and financial literacy of the population of the Russian Federation;
- Improving financial inclusion for households and small and medium-sized businesses;
- Discouraging malpractice in the financial market;
- Enhancing investor appeal for the equity financing of public companies via improved corporate governance;
- Development of the bond market and syndicated lending market;
- Improvement of the financial market regulation, including the use of proportional regulation and optimization of regulatory burden on financial market participants;
- Advanced training for professionals working in the financial market;
- Incentives to electronic interaction mechanisms in the financial market;
- International cooperation for the development and implementation of rules regulating the global financial market;
- Improvement of tools ensuring financial market stability.


The draft document was discussed with more than 3000 representatives of financial institutions in the most of the Russian regions. At the end of October the document was sent to the President of the Russian Federation, the State Duma and the National Financial Board. The final version and the roadmap will be adopted in the beginning of the 2019.
### NEWSLETTER (1)
Key news from Russian financial market

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>21 December 2018</td>
<td><strong>The Bank of Russia raises risk weights on unsecured consumer loans</strong> extended after 1 April 2019 with the effective interest rate of 10% to 30%.</td>
</tr>
<tr>
<td>14 December 2018</td>
<td>The Bank of Russia decided to <strong>resume regular foreign currency purchases</strong> in the domestic market as part of the fiscal rule implementation <strong>from 15 January 2019</strong>.</td>
</tr>
<tr>
<td>5 October 2018</td>
<td>The Bank of Russia has approved the list of <strong>systematically important credit institutions</strong> – 11 banks are recognized as systemically important.</td>
</tr>
</tbody>
</table>
| 1 October 2018  | ✓ The Bank of Russia completed transition to the new macroprudential regulation mechanism by introducing **risk weight add-ons for capital adequacy calculation** by credit institutions while bringing standard risk weights on assets in line with Basel III requirements (effective 8 Oct).  
✓ **Risk weight add-ons for mortgage loans and loans for construction co-funding with LTV > 80%** were set at 100%, i.e. 200% risk-weight will be applied to such loans extended after 1 January 2019.  
✓ **The countercyclical capital buffer** for Russian credit institutions is retained at 0% of risk-weighted assets. |
| 25 July 2018    | The Bank of Russia introduces **16 criteria of economic relations between related party-borrowers** to calculate N6. |
| 24 July 2018    | **Higher requirements introduced to the minimum authorized capital for insurers**: RUB 450 mln for life insurers, RUB 300 mln for personal and property insurers and RUB 600 mln for reinsurers. |
23 May 2018 The Bank of Russia raises risk weights on FX loans and securities, effective from July 1. The new FX risk weights are: 110% (from 100%) for exporters, 150% (from 130%) for real estate purchase, 130% (from 110%) for other FX corporate loans.


24 April 2018 The Bank of Russia suggests introducing the principle of proportionality in non-bank financial institutions regulation.

1 January 2018 ✓ The risk ratios for mortgage loans with LTV higher than 80% and 90% are tightened by the Bank of Russia, reaching 150% and 300% respectively.
✓ Basel III in force: Leverage ratio (except for banks with basic license), NSFR – for D-SIBs
✓ Unification of personal income tax regimes for Ruble bonds and bank deposits
✓ Bank of Russia switches to proportional regulation of the banking system
✓ Capital buffers under Basel III are increased: capital conservation buffer is 1.875%; countercyclical capital buffer is 0%; buffers for systemically important banks are at 0.65%
✓ Banks are required to introduce IFRS 9, which supersedes IAS 39
KEY INDICATORS
Clear signs of macro stabilization across the board

Figure 1: Real GDP growth started to recover (YoY, %)

Figure 2: Retail trade turnover and real wages dynamics (YoY, %)

Figure 3: Russian economy recovered driven by private consumption and investment (YoY, %)

Figure 4: Russian Ruble volatility remains low while in free-floating

Source: Bank of Russia, Rosstat
MACROFINANCE
Solid fiscal and external positions

**Figure 5:** Current account surplus is expected to amount to USD 111 bn in 2018

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

**Figure 7:** Significant international reserves assuring financial stability

**Figure 8:** Public debt to GDP among the lowest in both EM and DM (2017, %)

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Source: Bank of Russia, International Monetary Fund, Thomson Reuters, Ministry of Finance
INFLATION
Annual inflation is expected to return to 4% by end-2018

Figure 9: Inflation is close to 4% (YoY, %)

Source: Bank of Russia, Rosstat

January 2016: Oil prices reach their lowest level in a decade

Medium-term inflation target
ECONOMIC FORECASTS (1)
Baseline scenario*: medium-term outlook for the Russian economy

<table>
<thead>
<tr>
<th>as % of previous year (unless indicated otherwise)</th>
<th>2017 (actual)</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urals price (annual average), US dollars per barrel</td>
<td>53</td>
<td>70</td>
<td>55</td>
<td>55</td>
<td>55</td>
</tr>
<tr>
<td>Inflation, % in December year-on-year</td>
<td>2.5</td>
<td>3.9-4.2</td>
<td>5.0-5.5</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Inflation, yearly average</td>
<td>3.5</td>
<td>2.8-2.9</td>
<td>5.0-5.5</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Gross domestic product**</td>
<td>1.8</td>
<td>1.5-2.0</td>
<td>1.2-1.7</td>
<td>1.8-2.3</td>
<td>2.0-3.0</td>
</tr>
<tr>
<td>Final Consumption Expenditure</td>
<td>2.5</td>
<td>2.0-2.5</td>
<td>1.0-1.5</td>
<td>1.5-2.0</td>
<td>2.0-2.5</td>
</tr>
<tr>
<td>- households</td>
<td>3.3</td>
<td>2.5-3.0</td>
<td>1.0-1.5</td>
<td>1.5-2.0</td>
<td>2.5-3.0</td>
</tr>
<tr>
<td>Gross formation</td>
<td>9.3</td>
<td>(-1.5-0.5)</td>
<td>1.5-2.5</td>
<td>2.5-3.5</td>
<td>3.5-4.5</td>
</tr>
<tr>
<td>- gross fixed capital formation</td>
<td>4.9</td>
<td>1.5-2.0</td>
<td>1.8-2.3</td>
<td>3.0-3.5</td>
<td>3.5-4.5</td>
</tr>
<tr>
<td>Exports</td>
<td>6.0</td>
<td>5.5-6.0</td>
<td>3.2-3.7</td>
<td>2.7-3.2</td>
<td>2.7-3.2</td>
</tr>
<tr>
<td>Imports</td>
<td>17.4</td>
<td>4.0-4.5</td>
<td>2.5-3.0</td>
<td>3.5-4.0</td>
<td>4.5-5.0</td>
</tr>
<tr>
<td>Money supply in national definition</td>
<td>10.5</td>
<td>11-14</td>
<td>7-11</td>
<td>7-12</td>
<td>7-12</td>
</tr>
<tr>
<td>Lending to non-financial organizations and households in rubles and foreign currency</td>
<td>8.2</td>
<td>12-14</td>
<td>7-11</td>
<td>7-12</td>
<td>7-12</td>
</tr>
<tr>
<td>- lending to non-financial and financial organizations in rubles and foreign currency</td>
<td>7.1</td>
<td>9-11</td>
<td>7-10</td>
<td>6-10</td>
<td>6-10</td>
</tr>
<tr>
<td>- lending to households in rubles and foreign currency</td>
<td>12</td>
<td>21-24</td>
<td>12-17</td>
<td>10-15</td>
<td>10-15</td>
</tr>
</tbody>
</table>

*As presented in Monetary Policy Report No. 4 (December 2018)
** 2017 data – Bank of Russia estimate with Rosstat-revised industrial production data factored in

Source: Bank of Russia
## ECONOMIC FORECASTS (2)

Baseline scenario*: medium-term outlook for the Russian economy

<table>
<thead>
<tr>
<th>USD billions</th>
<th>2017 (estimate)</th>
<th>Baseline*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2019</td>
</tr>
<tr>
<td><strong>Current account</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade balance</td>
<td>33</td>
<td>112</td>
</tr>
<tr>
<td>Export</td>
<td>115</td>
<td>191</td>
</tr>
<tr>
<td>Import</td>
<td>-238</td>
<td>-250</td>
</tr>
<tr>
<td>Balance of services</td>
<td>-31</td>
<td>-31</td>
</tr>
<tr>
<td>Export</td>
<td>58</td>
<td>65</td>
</tr>
<tr>
<td>Import</td>
<td>-89</td>
<td>-96</td>
</tr>
<tr>
<td>Balance of primary and secondary income</td>
<td>-51</td>
<td>-49</td>
</tr>
<tr>
<td>Capital account</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Financial transactions account (reserve assets excluded)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public administration and central banks</td>
<td>-14</td>
<td>-72</td>
</tr>
<tr>
<td>Private sector</td>
<td>-28</td>
<td>-67</td>
</tr>
<tr>
<td><strong>Net errors and omissions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in FX reserves (+ is for decrease, - is for growth)</td>
<td>-23</td>
<td>-39</td>
</tr>
</tbody>
</table>

*As presented in Monetary Policy Report No. 4 (December 2018)

Source: Bank of Russia
### Inflation Expectations

Uncertainty persists over the subsequent movements of inflation expectations.

#### Inflation Expectations (Absolute Numbers), %

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th></th>
<th></th>
<th>2018</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>I</td>
<td>II</td>
<td>III</td>
<td>Oct</td>
<td>Nov</td>
<td>Dec</td>
</tr>
<tr>
<td>FOM Next 12 months</td>
<td>11.2</td>
<td>10.3</td>
<td>9.6</td>
<td>9.9</td>
<td>8.7</td>
<td>8.7</td>
</tr>
<tr>
<td>FOM Prev. 12 months</td>
<td>14.0</td>
<td>12.4</td>
<td>11.2</td>
<td>11.2</td>
<td>10.4</td>
<td>10.0</td>
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<tr>
<td>FOM Next 12 months</td>
<td>4.0</td>
<td>4.0</td>
<td>2.8</td>
<td>2.5</td>
<td>2.3</td>
<td>2.4</td>
</tr>
<tr>
<td>FOM (observed inflation)</td>
<td>8.9</td>
<td>8.4</td>
<td>8.5</td>
<td>7.8</td>
<td>8.6</td>
<td>9.8</td>
</tr>
<tr>
<td>FOM (Bank of Russia calculations)</td>
<td>9.7</td>
<td>9.9</td>
<td>10.1</td>
<td>9.3</td>
<td>9.8</td>
<td>9.8</td>
</tr>
<tr>
<td>Bloomberg 2018</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Interfax 2018</td>
<td>4.2</td>
<td>4.1</td>
<td>3.9</td>
<td>3.9</td>
<td>3.8</td>
<td>3.8</td>
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<tr>
<td>Reuters 2018</td>
<td>4.1</td>
<td>4.0</td>
<td>4.0</td>
<td>4.1</td>
<td>3.8</td>
<td>3.8</td>
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<tr>
<td>Bloomberg 2019</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
<td>4.2</td>
<td>4.4</td>
<td>4.7</td>
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<td>Interfax 2019</td>
<td>4.2</td>
<td>4.1</td>
<td>3.8</td>
<td>4.1</td>
<td>4.0</td>
<td>4.3</td>
</tr>
<tr>
<td>Reuters 2019</td>
<td>3.9</td>
<td>3.9</td>
<td>4.0</td>
<td>4.3</td>
<td>4.5</td>
<td>4.5</td>
</tr>
<tr>
<td>OFZ IN (option not subtracted)</td>
<td>4.9</td>
<td>4.6</td>
<td>4.2</td>
<td>4.0</td>
<td>4.1</td>
<td>5.1</td>
</tr>
<tr>
<td>OFZ IN (option not subtracted)</td>
<td>4.0</td>
<td>3.9</td>
<td>3.8</td>
<td>4.1</td>
<td>4.2</td>
<td>4.5</td>
</tr>
</tbody>
</table>

#### Inflation Expectations (Balanced Index*)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th></th>
<th></th>
<th>2018</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>I</td>
<td>II</td>
<td>III</td>
<td>Oct</td>
<td>Nov</td>
<td>Dec</td>
</tr>
<tr>
<td>FOM Next 12 months</td>
<td>-1.0</td>
<td>-1.4</td>
<td>-5.3</td>
<td>-3.0</td>
<td>-5.7</td>
<td>-4.4</td>
</tr>
<tr>
<td>FOM Next month</td>
<td>-12.3</td>
<td>-13.3</td>
<td>-16.0</td>
<td>-16.7</td>
<td>-17.7</td>
<td>-15.7</td>
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<tr>
<td>FOM (Bank of Russia calculations)</td>
<td>-4.5</td>
<td>-0.7</td>
<td>-1.4</td>
<td>0.9</td>
<td>3.6</td>
<td>9.8</td>
</tr>
<tr>
<td>FOM (observed inflation)</td>
<td>10.9</td>
<td>11.2</td>
<td>12.4</td>
<td>14.6</td>
<td>10.6</td>
<td>9.2</td>
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<tr>
<td>FOM (observed inflation)</td>
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<td>27.4</td>
<td>27.2</td>
<td>28.4</td>
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<td>27.2</td>
<td>28.4</td>
<td>21.6</td>
</tr>
<tr>
<td>FOM (Bank of Russia calculations)</td>
<td>11.4</td>
<td>12.7</td>
<td>27.4</td>
<td>27.2</td>
<td>28.4</td>
<td>21.6</td>
</tr>
<tr>
<td>Bank of Russia monitoring</td>
<td>7.4</td>
<td>9.3</td>
<td>7.3</td>
<td>7.2</td>
<td>7.3</td>
<td>7.1</td>
</tr>
<tr>
<td>PMI input prices</td>
<td>7.8</td>
<td>9.0</td>
<td>12.2</td>
<td>12.4</td>
<td>14.6</td>
<td>10.6</td>
</tr>
<tr>
<td>PMI output prices</td>
<td>1.0</td>
<td>3.4</td>
<td>6.8</td>
<td>3.6</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Retail prices (Rosstat)</td>
<td>27</td>
<td>24</td>
<td>24</td>
<td>22</td>
<td>20</td>
<td>22</td>
</tr>
<tr>
<td>Tariffs (Rosstat)</td>
<td>4</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

#### Change:

- Inflation expectations become better (more than 1 standard deviation)
- Inflation expectations become better (less than 1 standard deviation)
- Inflation expectations unchanged (±0.2 standard deviations)
- Inflation expectations become worse (less than 1 standard deviation)
- Inflation expectations become worse (more than 1 standard deviation)

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

Source: Bank of Russia, FOM, Rosstat, Bloomberg, Reuters
### Inflation and inflation expectations

- Prices continue to adjust to the rouble weakening since the beginning of the year
- Consumer price growth starts to react to the VAT increase pending on 1 January 2019
- Uncertainty persists over the subsequent movements of inflation expectations
- At the end of 2018, inflation is expected to be close to 4%, which corresponds to the Bank of Russia’s target. 2019 forecast – 5.0-5.5% (unchanged)
- The forecast takes into account the BoR’s decision to resume regular foreign currency purchases
- Annual inflation will slow down to 4% in the first half of 2020 when the effects of the rouble’s weakening and the VAT rise are out of the calculation window

### Monetary conditions: some further tightening is still ongoing

### Economic activity

- Russian economic growth slowed somewhat, but remains close to potential
- The Bank of Russia’s outlook for the mid-term growth prospects remains unchanged
- In 2019, the forthcoming VAT increase might have a slight constraining effect on business activity (mostly in the beginning of the year)
- The following years might see higher growth rates as the planned structural measures are implemented

### Pro-inflationary risks remain elevated, especially over a short-term horizon

\[ \Rightarrow \text{The decision taken is proactive in nature} \]

- **The main risks**: (1) continuing uncertainty over future external conditions and their impact on financial asset prices, (2) increased risks of supply exceeding demand in the oil market in 2019, (3) secondary effects from the VAT-induced inflation spike in 1Q19

- **Moderate risks** – estimates are mostly unchanged: (4) wage movements, (5) possible changes in consumer behavior, (5) budget expenditures

### Decision as of December 14, 2018

**The Bank of Russia raises the key rate by 25 bps to 7.75% p.a.**

**Signal**

“...The Bank of Russia will consider the necessity of further increases in the key rate, taking into account inflation and economic dynamics against the forecast, as well as risks posed by external conditions and the reaction of financial markets...”
FINANCIAL SECTOR OVERVIEW
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

**Imminent introduction of PTI ratio** in order to affect 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)

**Consulting 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 history bureau**: entrusting several strategic credit bureaus with the function of aggregating information on debt payments

**Basel III in force**: Leverage ratio (except for banks with basic license), NSFR – for D-SIBs
BANKING SECTOR: PROPORTIONAL REGULATION
Differenitatiing regulatory burden for banks depending on their size

**BASIC LICENSE**
- Charter capital of min RUB 300 mln
- Capital (own funds) may not exceed RUB 3 bn
- Simplified disclosure rules: banks holding a basic license are not required to disclose information on accepted risks, their assessment, risk and capital management procedures, or any information on financial instruments included in the calculation of their own funds (capital)
- Reduced list of banking operations:
  - may not establish branch offices or create subsidiaries in a foreign jurisdiction
  - may not open accounts with foreign banks other than accounts required for participation in a foreign payment system
  - may not perform several operations or transactions in respect of foreign legal entities
  - international transactions may be effected via accounts at the universal license banks only

**UNIVERSAL LICENSE**
- Charter capital of min RUB 1 bn
- At least RUB 1 bn of their own funds (capital)
- May carry out all banking operations set forth by the law

Additional requirements for systemically important credit institutions:
- Higher requirements to risk management
- Subject to add-ons to the standard values of risk weights for assets for calculating capital adequacy requirements

On 1 June 2017, Federal Law No. 92-FZ dated 1 May 2017 (the “Federal Law”) came into force, which amends certain provisions of Federal Law No. 395-1 dated 2 December 1990 on Banks and Banking Activity and several other federal laws. The amendments provide for distinguishing between banks holding a universal license and banks holding a basic license based on the list of permitted operations.
**BANKING SECTOR: NEW RESOLUTION MECHANISM**

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

- RUB 2.6 tn have been provided to three banking groups (Otkritie, B&N, Promsvyazbank)
- RUB 758.3 bn for additional capitalization
- RUB 1.86 tn for liquidity (deposits)
- Additional RUB 208 bn
- RUB 156.1 bn for the establishment of BNA*
- RUB 42.7 bn for additional capitalization of Otkritie Bank
- RUB 9.0 bn for additional capitalization of APB

**List of banks under financial rehabilitation procedure**

<table>
<thead>
<tr>
<th>No.</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bank FC Otkritie</td>
</tr>
<tr>
<td>2</td>
<td>B&amp;N Bank</td>
</tr>
<tr>
<td>3</td>
<td>Promsvyazbank</td>
</tr>
<tr>
<td>4</td>
<td>National Bank TRUST</td>
</tr>
<tr>
<td>5</td>
<td>ROST BANK</td>
</tr>
<tr>
<td>6</td>
<td>Bank AVB</td>
</tr>
<tr>
<td>7</td>
<td>Asian-Pacific Bank</td>
</tr>
</tbody>
</table>

In December, the **Bank of Russia has decided to sell its shares of Asian-Pacific Bank** through conducting an open electronic auction with lowering of the initial sales price (the Dutch auction) on 14 March 2019 via the Sberbank-AST.

As a result of the financial resolution measures and implementation of a new business model in the 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.

* BNA – Bank of non-core assets based on NB TRUST, ROST BANK and Bank AVB
BANKING SECTOR: KEY FIGURES (1)
Active supervision and tighter regulation allowed to strengthen the health of the banking sector

Figure 12: In 2013-2017 more than 300 licenses were revoked causing almost no impact on the banking sector’s total assets

Figure 13: Mortgage lending remains key growth driver amid lower rates

Figure 14: In September 2018 corporate deposits grew by 4.8% YoY to almost RUB 26 tn

Figure 15: In September 2018 retail deposits demonstrated growth by 7.0%, reaching RUB 26.9 tn

Source: Bank of Russia
BANKING SECTOR: KEY FIGURES (2)
Active supervision and tighter regulation allowed to strengthen the health of the banking sector

Figure 16: Corporate lending has stabilized and shows signs of recovery

Figure 17: Retail loans remain the key driver of credit growth

Figure 18: Share of bad corporate loans* reached 12.2% (01.10.18) while loan loss reserves to bad loans ratio amounted to 82.8%

Figure 19: Retail loans portfolio demonstrates improved quality: the share of bad loans* fell to 8.4% (01.10.18)

* 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.

Source: Bank of Russia
FINANCIAL SECTOR OVERVIEW

BANKING SECTOR: CAPITAL ADEQUACY
High quality capital base and solid capital adequacy levels under Basel III standards

Figure 20: Capital adequacy ratio for the banking sector decreased over from 13.1% (01.01.17) to 12.5% (01.10.18) mostly due to the procedures of financial rehabilitation of the large credit institutions.

Figure 21: Credit organizations with capital exceeding RUB 25 bn have lower buffer vs N1.0 minimum requirement due to 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

<table>
<thead>
<tr>
<th>№</th>
<th>Company name</th>
<th>Assets, RUB tn</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sberbank</td>
<td>26.9</td>
</tr>
<tr>
<td>2</td>
<td>VTB Bank</td>
<td>13.7</td>
</tr>
<tr>
<td>3</td>
<td>Gazprombank</td>
<td>6.3</td>
</tr>
<tr>
<td>4</td>
<td>Alfa-Bank</td>
<td>3.2</td>
</tr>
<tr>
<td>5</td>
<td>Russian Agricultural Bank</td>
<td>3.2</td>
</tr>
<tr>
<td>6</td>
<td>Credit Bank of Moscow</td>
<td>2.1</td>
</tr>
<tr>
<td>7</td>
<td>Bank FC Otkritie</td>
<td>1.9</td>
</tr>
<tr>
<td>8</td>
<td>Promsvyazbank</td>
<td>1.6</td>
</tr>
<tr>
<td>9</td>
<td>UniCredit Bank</td>
<td>1.3</td>
</tr>
<tr>
<td>10</td>
<td>Raiffeisenbank</td>
<td>1.1</td>
</tr>
<tr>
<td>11</td>
<td>Rosbank</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Systemically important financial institutions account for over 60% 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**
- Capital conservation buffer 2017: 1.25% 2018: 1.875% 2019: 2.50%
- SIFI buffer 2017: 0.35% 2018: 0.65% 2019: 0.65%
- Countercyclical buffer 2017: 0% 2018: 0% 2019: 0%

**Minimum capital adequacy ratios for SIFI**
- N1.1 2017: 6.1% 2018: 7.0% 2019: 8.0%
- N1.2 2017: 7.6% 2018: 8.5% 2019: 9.5%
- N1.0 2017: 9.6% 2018: 10.5% 2019: 11.5%

Source: Bank of Russia
FINANCIAL STABILITY
Macroprudential policy aimed at Identifying and preventing potential systemic risks

<table>
<thead>
<tr>
<th>Credit activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>As the pace of recovery remains inconsistent across lending segments in Russia, credit-to-GDP gap for both corporate and retail lending (a difference between the actual credit-to-GDP ratio adjusted to currency revaluation, and the long-run trend) is still estimated as negative. This shows that lending remains below the long-term trend.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Retail lending risks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-collateralized consumer loans</strong> grow at a high pace (19.3% YoY as of September 1, 2018). Therefore, the CBR increased risk weight for consumer credits bearing an FCC of 10 - 30% to be issued after 1 September 2018.</td>
</tr>
<tr>
<td><strong>Mortgage loans</strong> grow at a steady rate, however, borrowers’ debt burden remaining at the same level show that the current growth does not present any significant risk to the financial stability. The CBR aims to prevent the build-up of risks related to loans with a high loan-to-value ratio, thus the risk weights for such loans to be issued after 1 January 2019 were raised from 150% to 200%. These measures are aimed at sustainable development of the mortgage lending segment.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital adequacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>The capital adequacy ratio (Basel III N1.0 ratio) for the banking sector overall decreased over 12 months from 13.3% to 12.5% as of October 1, 2018.</td>
</tr>
</tbody>
</table>

Rising risk weights for specific credit requirements results in banks increasing their capital reserves to cover potential losses. Therefore considering the uneven recovery of lending, there is no need for a positive countercyclical buffer for credit institutions yet.
FINANCIAL STABILITY: FOREIGN CURRENCY LIQUIDITY
At the end of September foreign banks and non-residents FX sales helped to decrease market volatility.

Figure 10: Spreads between FX swaps implied interest rates and interbank interest rates in internal and external markets (1 month, bps)

Figure 11: In January-October 2018 the current account surplus amounted to USD 87.9 bn (est.) thanks to favourable international prices for major Russia’s export goods.

Source: Bank of Russia
SECURITIES MARKET (1)
Russia’s financial market has been aligned with best international practices

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

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

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.

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)

Russian equity market remains undervalued despite strong performance in recent years

Figure 22: Russian MSCI index vs EM peers (05.01.15 = 100%)  

Figure 23: Forward P/E ratio of just 5.9x and a dividend yield around 6%

Source: Thomson Reuters, Moscow Exchange
FINANCIAL SECTOR OVERVIEW

SECURITIES MARKET (3)
Equity market provides strong growth potential

Figures 24-26: Equities market volume breakdown by investor types as of October 1, 2018

- Local funds
- Local retail investors
- Local banks and brokers
- Local corporates
- Foreign investors

2013:
- Local funds: 4%
- Local retail investors: 10%
- Local banks and brokers: 11%
- Local corporates: 34%
- Foreign investors: 40%

2017:
- Local funds: 3%
- Local retail investors: 8%
- Local banks and brokers: 10%
- Local corporates: 32%
- Foreign investors: 48%

10M 2018:
- Local funds: 2%
- Local retail investors: 5%
- Local banks and brokers: 10%
- Local corporates: 35%
- Foreign investors: 48%

Figure 27: Russian equities market volume proves stable (RUB tn)

Trading volumes, RUB tn, lhs
MOEX Index, rhs

Figure 28: Domestic market capitalization to GDP ratio reflects undervalued Russian financial market (of GDP, %)

Total value in 2017 = USD 619 bn

Source: Thomson Reuters, Moscow Exchange, International Monetary Fund and World Federation of Exchanges
SEcurities Market (4)
Growing a deeper Russian bond market with strong potential

Figure 29: Russian debt market volume (outstanding) keeps growing

Figure 30: Debt market volume breakdown by investor type

Figure 31: Bond market yields, key rate and RUONIA (%)

Figure 32: EM 10Y bond yields on the background of credit ratings

Source: Thomson Reuters, Moscow Exchange, IMF and World Federation of Exchanges
SECURITIES MARKET (5)
In January-September 2018 non-residents share in the OFZs reduced from 33.9% to 25.8%

Figure 33: After the CBR decision to raise the key rate (14.09.18) the OFZ yield curve moved down (by 28 bps on average, %)

Figure 34: Non-residents’ holdings of OFZs (%)
Demand for OFZs placements remained sustainably high in 2018

Figure 35: Russian Government Zero Coupon Yield Curve (%)

Figure 36: OFZ placement dynamics in 2018 (RUB bn)

Source: Bank of Russia
SECURITIES MARKET (7)
Growing a deeper Russian bond market with strong potential

Figure 37: Ageing fixed assets require long-term investments

Figure 38: Breakdown of bond issuers by industry, as of January 1, 2018

Figure 39: Corporate loans vs corporate bonds in Russia (RUB tn)

Figure 40: “Bondization” of Russian financial market

Source: Thomson Reuters, Moscow Exchange
SECURITIES MARKET (8)
Moscow Exchange group offers the best infrastructure in its class

- **TRADING**
  - **Moscow Exchange**
    - listing and electronic trading, including DMA services

- **CLEARING**
  - **National Clearing Centre**
    - CCP, risk and collateral management, clearing, risk netting

- **SETTLEMENT**
  - **National Settlement Depository**
    - CSD, settlement, depository, safekeeping, repository

- 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 **DMA and ICM services** at their disposal.

*Source: Moscow Exchange*
SECURITIES MARKET (9)
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 (10)
Rapidly developing retail market with strong tax incentives and accelerating FinTech

- 2.4 million retail investors were registered with the Moscow Exchange at the end of October 2018.
- Around 260,000 retail investors were reported as “active” traders.

Recent regulatory changes:

- **Individual Investment Accounts** for private investors since 2015. RUB 1 mln – max sum to invest in a year.
- **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.

*Source: Moscow Exchange*
**CORPORATE GOVERNANCE**

New corporate governance standards reflect best international practices

<table>
<thead>
<tr>
<th>Listing reform on Moscow Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Simplified listing structure: 2 quotation lists and 1 non-quotation list instead of a 6-tier system</td>
</tr>
<tr>
<td>✓ Stricter corporate governance criteria for inclusion in the top-tier list</td>
</tr>
<tr>
<td>✓ Stricter requirements for Directors to be considered independent</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Corporate actions reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Information on corporate actions cascaded to shareholders from issuer through CSD and nominees</td>
</tr>
<tr>
<td>✓ E-proxy voting and E-voting platform for shareholders has been developed</td>
</tr>
<tr>
<td>✓ A number of Russian companies have already implemented an online voting system in 2017</td>
</tr>
<tr>
<td>✓ E-voting for bondholders has been implemented and successfully tested</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Next stage 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Only ratings by approved Russian rating agencies will be considered valid for listing requirements for Russian issuers’ bonds</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Blockchain technology</th>
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</thead>
<tbody>
<tr>
<td>NSD used a blockchain-based settlement platform to complete an inaugural placement of a RUB 500 mln bond issue in 2017</td>
</tr>
</tbody>
</table>

**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

- Bank of Russia has implemented an effective system for countering malpractice including market manipulation and insider trading, aimed at ensuring investors’ equality and fair pricing.

- Bank of Russia successfully eliminates competitive advantages of unlicensed firms by decreasing their number. Since 2015 detriment caused by financial pyramids decreased by more than 5x times.

- In 2015 Bank of Russia became a signatory to the IOSCO MMoU.
- Intense cooperation with foreign financial market regulators in terms of information exchange, including confidential information.
- Elaboration on 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.
INSURANCE
Risk-oriented supervision is to be exercised in compliance with the Solvency II standards

Figure 42: Premium volume is gradually growing (≈USD 5.8 bn)

Figure 43: Assets and reserves hit 2.7% of GDP

Figure 44: Premium structure shows high level of market diversification, as of Q1/2018

Figure 45: In Q1/2018 market remained highly competitive with the Herfindahl-Hirschman Index equal to 719.1

Source: Bank of Russia
Non-government pension system has gone through a number of changes:

✓ ‘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

Source: Bank of Russia
Bank of Russia aims to strengthen local institutional investor base: investment funds

Bank of Russia Regulation No. 572-P came into force in August 2017 and regulated activities on shareholders’ roster management.

Source: Bank of Russia
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
☑ Fast payment system
☑ Open API
☑ Big Data
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 mln payments, RUB 5.6 tn**

✓ Real-time and non-real-time payments provided through the RTGS system with **80% of the funds** transferred via the real-time service

✓ Providing tools for completing financial market infrastructure settlements in the Central Bank (RUB accounts)

✓ Transfer timeframe is adapted to Russia’s **11 time zones**. In near future it will operate from 1 a.m. to 9 p.m., Moscow time

✓ Providing settlement services and intraday settlements on fund transfers conducted within Russia through payment cards (in collaboration with NSPK – the National Payment Card System)
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 2018:

- **32 payment systems** and **550 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 CPMIIOSCO 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.
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
Strong authentication MirAccept at online payment is provided
1.0 3D-Secure standards and technologies have been developed and implemented
Co-badging projects with international payment systems: Maestro, JCB, AmEx and UnionPay
Support of mobile payment service Samsung Pay
PayPass system has been successfully implemented
Payment system “Mir” launched a loyalty program which allows card holders to receive cashback
More than 30 mln “Mir” payment cards were issued by year end 2017 in Russia
CONSUMER PROTECTION
Financial consumer and investor protection as one of priorities for 2016-2018

KEY FINANCIAL CONSUMER PROTECTION WORKSTREAMS

- Consumer and investor complaints handling
- Conduct supervision model
- Setting requirements for financial organizations in order to improve consumer and investor protection
- Dispute resolution (ombudsman)
- Differentiation of consumer protection requirements
- Financial awareness improvement
- Disclosure requirements for consumers and investors
- Disclosure requirements for information on risks
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

G20 Global Partnership for Financial Inclusion (GPFI)

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

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)

2008
The FATF placed Russian Federation in the regular follow-up process

2013
The FATF recognized that Russia could be removed from the regular follow-up process

2018 – 2019
4th round of mutual evaluation, joint FATF/MONEYVAL/EAG evaluation of Russia

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

*Source: Financial Action Task Force*
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 2019

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<tr>
<th>Date</th>
<th>Event Description</th>
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<td>February 1-8</td>
<td>Quiet period</td>
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<td>February 8</td>
<td>Board of Directors meeting on monetary policy</td>
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<td>March 15-22</td>
<td>Quiet period</td>
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<td>March 22</td>
<td>Board of Directors meeting on monetary policy Release of the Monetary Policy Report</td>
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<td>March 27</td>
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<td>April 12-14*</td>
<td>Ad-hoc meetings with investors on the sidelines of the IMF/WB meetings</td>
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<td>June 6-8</td>
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<td>June 14</td>
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<td>June 19</td>
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<td>July 19-26</td>
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<td>September 6</td>
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<td>December 18</td>
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*tbc