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

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

- **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

**Focus on Russian financial market development**

- **1990** – Law on banks and banking activities
- **1992** – Law on insurance business
- **1995** – Law on securities market
- **1996** – Law on joint-stock companies
- **1999** – Law on protection of rights of securities market investors

- **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
- **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
**Monetary policy framework development**

- **1998 - 2008**
  Narrow band

- **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

**Exchange rate regime development**

- **2008 - 2014**
  Flexible band

- **2015**
  Transition to the inflation targeting regime is completed
  *Medium-term inflation target is around 4%*

**Since Nov. 2014**

- **2017**
  Inflation below 4%
  *2.5% - all-time low in July 2018*

- **2018**
  Floating exchange rate introduced
  *Free floating Ruble*
Bank of Russia supervises the following key segments:

- Banking sector
- Payment infrastructure
- Non-state pension funds
- Market infrastructure, including fair pricing
- Asset managers
- Securities market, including securities market professionals
- Microfinance
- Credit rating agencies
- Insurance sector
REFORMS
Promoting price and financial stability, fair competition, newest technologies and best practices

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

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

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

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

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

Pension system
- Guarantee fund mechanism introduced
- Investment horizon for non-state pension funds extended to 5 years
- Individual pension capital (IPC) accounts legislation is under development
COMPLIANCE WITH INTERNATIONAL STANDARDS
Russia complies with or implements key international standards and best practices

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

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 2019 – 2021 cover the following key areas and activities:

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

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

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

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

### 6 February 2019
Daily amount of **regular foreign currency purchases** in the domestic market as part of the fiscal rule is set at **RUB 9.7 bn** from 7 February until 6 March 2019.

### 28 January 2019
**The Faster Payments System launched** and is set to enable individuals to make instant transfers to each other 24/7 using only a mobile phone number – regardless of in which banks the sender and recipient have their accounts.

### 25 January 2019
The Bank of Russia decided to commence from 1 February 2019 **deferred foreign currency purchases** in the domestic market as part of the fiscal rule that were suspended in 2018. These purchases will be carried out gradually in the 36 months since the launch date with the daily amount of **RUB 2.8 bn**.

### 1 January 2019
- **Capital conservation buffer** will be raised in accordance with the schedule approved by the Bank of Russia – it will stand at 1.875% from 1 January 2019, 2.0% from 1 April 2019, 2.125% from 1 July 2019, 2.25% from 1 October 2019, and 2.5% from 1 January 2020.
- The **systemic importance capital buffer** (applied to 11 systemically important Russian banks) will remain at 0.65% throughout 2019.
- The **minimum LCR requirements for SIFI raised from 90% to 100%** in accordance with the Basel III implementation schedule.
- The **deposit insurance system will cover small enterprises’ funds up RUB to 1.4 mln** deposited with Russian banks that have joined the deposit insurance system.
- Systemically important banks are currently calculating the **maximum exposure per borrower or group of related borrowers**. After monitoring this indicator, the Bank of Russia will make a decision regarding the terms and specifics for establishing it as a required risk concentration ratio.

### 28 December 2018
The Bank of Russia has permitted **JSC Raiffeisenbank to use internal ratings-based (IRB) approach** for the purpose of calculating regulatory capital (effective 1 Feb 2019).

### 21 December 2018
Introduction of **individual investment advisor as a new class of market players**. Investment advisory services are subject to regulation. Services shall be provided on the basis of a contract and customer investment profile, taking into account the customer’s investment experience, targets and risk appetite.
## Key news from Russian financial market

<table>
<thead>
<tr>
<th>Date</th>
<th>News</th>
</tr>
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<tbody>
<tr>
<td>21 December 2018</td>
<td>The Bank of Russia raises risk weights on unsecured consumer loans extended after 1 April 2019 with the effective interest rate of 10% to 30%.</td>
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<td>14 December 2018</td>
<td>The Bank of Russia decided to resume regular foreign currency purchases in the domestic market from 15 January 2019. Daily purchase amount will be RUB 15.56 bn until 6 February 2019.</td>
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<tr>
<td>5 October 2018</td>
<td>The Bank of Russia has approved the list of 11 systematically important credit institutions.</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 buffer will only be effective as long as the loan-to-value ratio exceeds 80%.  
 ✓ 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. |
RUSSIAN MACRO UPDATE
KEY INDICATORS
Clear signs of macro stabilization across the board

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

Figure 2: Retail sales 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 112 bn in 2018

Figure 6: Strong fiscal position: budget consolidation and fiscal rule
Russian Federal Budget Balance, % of GDP, lhs
Urals, $/bbl, rhs

Figure 7: Significant international reserves assuring financial stability
External debt, $bn, lhs
Reserves, $bn, rhs

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

* As of October 01, 2018

Source: Bank of Russia, International Monetary Fund, Thomson Reuters, Ministry of Finance
INFLATION
Medium-term inflation target successfully met in 2017-2018

Figure 9: Inflation (YoY, %)

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

Medium-term inflation target

Source: Bank of Russia, Rosstat
### 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>
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<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>
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<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>
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<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>
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<tr>
<td>Final Consumption Expenditure</td>
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<tr>
<td>- households</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>
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<td></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>
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<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>
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<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>
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<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>
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<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>
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<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>
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<tr>
<td>Lending to non-financial organizations and households in rubles and foreign currency</td>
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<tr>
<td>- lending to non-financial and financial organizations 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>
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<td>- lending to households 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>
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<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
## 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>
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<tr>
<td><strong>Current account</strong></td>
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<tr>
<td>Trade balance</td>
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<tr>
<td>Export</td>
<td>354</td>
<td>441</td>
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<tr>
<td>Import</td>
<td>-238</td>
<td>-250</td>
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<tr>
<td>Balance of services</td>
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<tr>
<td>Export</td>
<td>58</td>
<td>65</td>
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<tr>
<td>Import</td>
<td>-89</td>
<td>-96</td>
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<tr>
<td>Balance of primary and secondary income</td>
<td></td>
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<tr>
<td></td>
<td>-51</td>
<td>-49</td>
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<tr>
<td>Capital account</td>
<td>0</td>
<td>0</td>
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<tr>
<td><strong>Financial transactions account (reserve assets excluded)</strong></td>
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<tr>
<td>Public administration and central banks</td>
<td>-14</td>
<td>-72</td>
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<tr>
<td>Private sector</td>
<td>-28</td>
<td>-67</td>
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<tr>
<td><strong>Net errors and omissions</strong></td>
<td>4</td>
<td>0</td>
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<tr>
<td><strong>Change in FX reserves (+ is for decrease, - is for growth)</strong></td>
<td>-23</td>
<td>-39</td>
</tr>
</tbody>
</table>

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

Source: Bank of Russia
Uncertainty persists over the subsequent movements of inflation expectations

<table>
<thead>
<tr>
<th></th>
<th>Horizon</th>
<th>2017</th>
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<th>2019</th>
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<td>I</td>
<td>II</td>
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<td>Jan</td>
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<td>Apr</td>
<td>May</td>
<td>Jun</td>
<td>July</td>
<td>Aug</td>
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<td><strong>Inflation expectations (absolute numbers), %</strong></td>
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<td><strong>Households</strong></td>
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<td>FOM</td>
<td>Next 12 months</td>
<td>11.2</td>
<td>10.3</td>
<td>9.6</td>
<td>8.7</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>
<td>9.7</td>
<td>9.9</td>
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<td>FOM (observed inflation)</td>
<td>Prev. 12 months</td>
<td>14.0</td>
<td>12.4</td>
<td>11.2</td>
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<td>9.9</td>
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<td>10.6</td>
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<td>10.4</td>
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<tr>
<td>FOM (Bank of Russia calculations)</td>
<td>Next 12 months</td>
<td>4.0</td>
<td>4.0</td>
<td>2.8</td>
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<td>OFZ IN (option not subtracted)</td>
<td>Next 5 years</td>
<td>4.9</td>
<td>4.6</td>
<td>4.2</td>
<td>5.1</td>
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<td>3.9</td>
<td>3.8</td>
<td>4.1</td>
<td>4.2</td>
<td>4.5</td>
<td>4.6</td>
<td>5.2</td>
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<tr>
<td>OFZ IN (option not subtracted)</td>
<td>Next 10 years</td>
<td>4.3</td>
<td>4.6</td>
<td>4.6</td>
<td>5.0</td>
<td>4.3</td>
<td>4.6</td>
<td>5.0</td>
<td>5.4</td>
<td>5.2</td>
<td>5.2</td>
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<tr>
<td><em><em>Inflation expectations (balanced index</em>)</em>*</td>
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<tr>
<td>FOM</td>
<td>Next 12 months</td>
<td>-1.1</td>
<td>-1.3</td>
<td>-5.1</td>
<td>-4.9</td>
<td>-4.8</td>
<td>-0.9</td>
<td>-1.6</td>
<td>0.8</td>
<td>3.7</td>
<td>9.9</td>
<td>7.8</td>
<td>10.3</td>
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<td>FOM</td>
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<td>-12.5</td>
<td>-13.2</td>
<td>-15.6</td>
<td>-15.0</td>
<td>-19.1</td>
<td>-18.7</td>
<td>-16.5</td>
<td>-16.6</td>
<td>-13.2</td>
<td>-7.4</td>
<td>-9.6</td>
<td>-5.6</td>
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<tr>
<td>** Businesses**</td>
<td></td>
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<td></td>
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<tr>
<td>Bank of Russia monitoring</td>
<td>Next 3 months</td>
<td>7.4</td>
<td>9.1</td>
<td>7.4</td>
<td>7.0</td>
<td>6.4</td>
<td>6.9</td>
<td>8.5</td>
<td>9.7</td>
<td>10.0</td>
<td>10.8</td>
<td>11.1</td>
<td>12.5</td>
</tr>
<tr>
<td>PMI input prices</td>
<td>Next month</td>
<td>7.8</td>
<td>9.0</td>
<td>12.2</td>
<td>10.6</td>
<td>9.2</td>
<td>11.4</td>
<td>12.2</td>
<td>27.4</td>
<td>27.2</td>
<td>28.4</td>
<td>21.6</td>
<td>22.8</td>
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<tr>
<td>PMI output prices</td>
<td>Next month</td>
<td>1.0</td>
<td>3.4</td>
<td>6.8</td>
<td>3.0</td>
<td>2.8</td>
<td>2.8</td>
<td>4.0</td>
<td>13.6</td>
<td>6.4</td>
<td>6.6</td>
<td>8.2</td>
<td>6.6</td>
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<tr>
<td>Retail prices (Rosstat)</td>
<td>Next quarter</td>
<td>27</td>
<td>24</td>
<td>24</td>
<td>22</td>
<td>-</td>
<td>-</td>
<td>20</td>
<td>-</td>
<td>-</td>
<td>20</td>
<td>-</td>
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<td>Tariffs (Rosstat)</td>
<td>Next quarter</td>
<td>4</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td>-</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>0</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*
The balance of risks remains skewed towards pro-inflationary risks, especially over a short-term horizon

- **Inflation and inflation expectations**
  - In January 2019, annual inflation held at the lower bound of the Bank of Russia expectations (5.0% YoY)
  - The contribution of the VAT increase to annual consumer price growth in January was moderate
  - The effect of the VAT increase on inflation can be fully captured not earlier than April 2019
  - Prices are completing their adjustment to the ruble’s weakening of the second half of 2018
  - In January, price expectations of businesses increased on the back of the earlier weakening of the ruble and the VAT increase. Household inflation expectations rose only slightly
  - The Bank of Russia forecasts annual inflation between 5.0 and 5.5% by the end of 2019 and return to 4% in the first half of 2020 when the effects of the ruble’s weakening and the VAT rise peter out

- **Monetary conditions**: have seen no significant changes since the last Board meeting

- **Economic activity**
  - Rosstat’s flash estimate shows that 2018 GDP growth totalled 2.3%, which exceeds the Bank of Russia’s forecast of 1.5-2%
  - However, recent months have seen slower growth in economic activity
  - The Bank of Russia maintains its 2019 GDP growth forecast in the range of 1.2-1.7%.
  - The newly received budgetary funds will be used to raise government spending including investment as early as 2019. Subsequent years might see higher economic growth rates as the planned structural measures are implemented.

- **The balance of risks remains skewed towards pro-inflationary risks, especially over a short-term horizon**

  - **The main risks**: (1) the effects of the VAT increase, (2) price movement in individual food products, (3) continuing uncertainty over future external conditions and their impact on financial asset prices, (4) high risks of supply exceeding demand in the oil market in 2019
  - **Moderate risks** – estimates are mostly unchanged: (5) wage movements, (6) possible changes in consumer behavior, (7) budget expenditures

---

**Decision as of February 08, 2019**

The Bank of Russia keeps the key rate at 7.75% p.a.

**Signal**

“In its key rate decision-making, the Bank of Russia will determine if the increases of the key rate in September and December 2018 were sufficient to bring annual inflation back to the target in 2020, taking into account inflation and economic performance against the forecast, as well as the risks associated with external conditions and financial markets’ response to them…”
FINANCIAL SECTOR OVERVIEW
## BANKING SECTOR: CURRENT AGENDA
Shaping a favourable operating environment and supporting market competition

<table>
<thead>
<tr>
<th>Proportional banking regulation:</th>
<th>differentiating regulatory burden for banks based on their size and simplifying requirements for smaller banks focused on retail and SME lending</th>
</tr>
</thead>
<tbody>
<tr>
<td>New resolution mechanism:</td>
<td>reducing financial costs and execution period of the resolution procedure</td>
</tr>
<tr>
<td>Imminent introduction of PTI ratio:</td>
<td>in order to affect the consumer lending market more efficiently</td>
</tr>
<tr>
<td>Development of banking supervision:</td>
<td>introduction of the Basel Committee on Banking Supervision (BCBS) standard on capital requirements for banks’ equity investment in funds (since December 16, 2017)</td>
</tr>
<tr>
<td>Consulting supervision:</td>
<td>aiming to remedy problematic situations in banks at an early stage</td>
</tr>
<tr>
<td>Development of macroprudential regulation:</td>
<td>streamlining the regulation, introducing countercyclical approach</td>
</tr>
<tr>
<td>New regulations to the credit history bureau:</td>
<td>entrusting several strategic credit bureaus with the function of aggregating information on debt payments</td>
</tr>
<tr>
<td>Basel III in force:</td>
<td>Leverage ratio (except for banks with basic license), NSFR – for Domestic-SIBs</td>
</tr>
</tbody>
</table>
BANKING SECTOR: PROPORTIONAL REGULATION
Differentiating regulatory burden for banks depending on their size

Regulatory burden depending on license type

**BASIC LICENSE**
- 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

**UNIVERSAL 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
- 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. 149 banks hold basic license, as of December 2018.
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></th>
<th>Bank Name</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>

* Paid back to the Bank of Russia by end 2018

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

In December 2018, 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.

On January 1st, 2019, **Otkritie merged with B&N Bank**. By the end of 2018 their profitability has been restored and both banks were compliant with all regulatory requirements.
BANKING SECTOR: KEY FIGURES (1)
Active supervision and tighter regulation allowed to strengthen the health of the banking sector

Figure 12: In 2013-2018 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 December 2018 corporate deposits grew by 6.0% YoY to RUB 28 tn

Figure 15: In December 2018 retail deposits demonstrated growth by 6.5%, reaching RUB 28.5 tn

Source: Bank of Russia
FINANCIAL SECTOR OVERVIEW

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
- Corporate loans, RUB tn, lhs
- YoY (ccy adj., by credit institutions operating as of the reporting date), rhs

Figure 17: Retail loans remain the key driver of credit growth
- Retail loans, RUB tn, lhs
- YoY (by credit institutions operating as of the reporting date), rhs

Figure 18: Share of bad corporate loans* reached 12.2% (01.01.19) while loan loss reserves to bad loans ratio amounted to 81.9%
- Share of bad loans, lhs
- Loan loss reserves to bad loans ratio, rhs

Figure 19: Retail loans portfolio demonstrates improved quality: the share of bad loans* fell to 7.6% (01.01.19)
- Share of bad loans, lhs
- Loan loss reserves to bad loans ratio, rhs

* 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: UNSECURED CONSUMER LENDING
The unsecured lending market is at an ascending stage of the credit cycle

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

Figure 20: Accelerated growth of unsecured consumer lending continues
- Unsecured consumer loans, RUB tn, lhs
- YoY (by credit institutions operating as of the reporting date), rhs

Figure 21: Share of non-performing loans decreased as old generations of loans are replaced with new ones with a low level of risk
- NPL ratio, lhs
- Loan loss reserves to bad loans ratio, rhs

Source: Bank of Russia
BANKING SECTOR: MORTGAGE SEGMENT
Mortgage lending is characterised by accelerated growth rates and decreasing share of bad loans

Figure 23: Mortgage loans keep growing fast
- Mortgage loans, RUB tn, lhs
- YoY (ccy adj., by credit institutions operating as of the reporting date), rhs

Figure 24: Share of bad mortgage loans remains at historical lows
- NPL ratio, lhs
- Loan loss reserves to bad loans ratio, rhs

Figure 25: Distribution of mortgage borrowers by LTV
- Average LTV in 3Q2018 = 71%

Figure 26: Risk weights applied to mortgage loans
- Loans for financing under equity construction agreements with down payment <20%
- Mortgages with LTV>80%
- Mortgages with LTV>90%

Source: Bank of Russia
BANKING SECTOR: DEDOLLARISATION
The Bank of Russia continues to take measures in order to reduce dollarization of the banking sector

Figure 27: Corporate FX lending declined significantly over the past few years

- Corporate loans, USD bn, lhs
- Share of FX loans in total amount of loans, rhs

Figure 28: FX retail loan portfolio is insignificant in size

- Retail loans, USD bn, lhs
- Share of FX loans in total loan portfolio, rhs

Figure 29: Share of corporate and retail FX deposits in total amount of deposits has also fallen

- Share of FX deposits in total corporate deposits, lhs
- Share of FX deposits in total household's deposits, rhs

Figure 30: Risk weights applied to FX assets, %

Reserve requirements

- August 1, 2018: 7%
- August 1, 2016: 8%
- 2015: 4.25%

FX loans to exporters, Other corporate FX loans, Commercial FX mortgages, Securities of non-resident companies
**BANKING SECTOR: CAPITAL ADEQUACY**

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

**Figure 31:** Capital adequacy ratio for the banking sector decreased over from 13.1% (01.01.17) to 12.2% (01.01.19) mostly due to the procedures of financial rehabilitation of the large credit institutions

**Figure 32:** Credit organizations with capital exceeding RUB 25 bn have lower buffer vs N1.0 minimum requirement due to economies of scale

*Source: Bank of Russia*
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 7.65%
- N1.2 2017 7.6%  2018 8.5%  2019 9.15%
- N1.0 2017 9.6%  2018 10.5%  2019 11.15%

*Capital conservation buffer* will be raised in accordance with the schedule approved by the Bank of Russia – it will stand at 1.875% from 1 January 2019, 2.0% from 1 April 2019, 2.125% from 1 July 2019, 2.25% from 1 October 2019, and 2.5% from 1 January 2020.
FINANCIAL STABILITY
Macroprudential policy aimed at Identifying and preventing potential systemic risks

Credit activity
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.

Retail lending risks
Non-collateralized consumer loans continued to grow at a high pace. Outstanding loans increased 21.8% in January-November 2018 (to the amount of RUB 7.3tn) and 22.7% in year-on-year terms (as of 1 December 2018). The Bank of Russia Board of Directors has decided to increase add-ons by 30bps to the risk weights for consumer loans bearing an FCC of 10-30% extended from 1 April 2019.

Mortgage loans grow at a steady rate, however, borrowers’ debt burden remaining at the same level shows 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.

Capital adequacy
The capital adequacy (Basel III N1.0 ratio) for the banking sector remains at comfortable level of 12.2% as of 1 January, 2019.

Decision
The Bank of Russia keeps the countercyclical capital buffer rate for Russian credit institutions at 0% of risk-weighted assets.

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.
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
Growing a deeper Russian bond market with strong potential

Figure 33: Ageing fixed assets require long-term investments

Figure 34: Breakdown of bond issuers by industry, as of January 1, 2018

Figure 35: Corporate loans vs corporate bonds in Russia (RUB tn)

Figure 36: “Bondization” of Russian financial market

Source: Thomson Reuters, Moscow Exchange
SECURITIES MARKET (3)
Russian bond market volume and yields

Figure 37: Russian debt market volume (outstanding) keeps growing

Figure 38: Debt market volume breakdown by investor type

Figure 39: Bond market yields, key rate and RUONIA (%)

Figure 40: EM 10Y bond yields on the background of credit ratings

Source: Thomson Reuters, Moscow Exchange, IMF and World Federation of Exchanges
SECURITIES MARKET (4)

Demand for OFZs placements remained sustainably high in 2018

Figure 41: OFZ placement dynamics in 2018 (RUB bn)

Figure 42: Following CBR decision to raise the key rate (14.12.18) the OFZ yield curve moved down (by 28 bps on average, %)

Figure 43: In January-December 2018 non-residents share in the OFZs reduced from 33.9% to 24.4%

Source: Bank of Russia, National Settlement Depository
SECURITIES MARKET (5)
Equity market provides strong growth potential

Figures 44-46: Equities market volume breakdown by investor types as of October 1, 2018

Figures 47: Russian equities market volume proves stable (RUB tn)

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

Source: Thomson Reuters, Moscow Exchange, International Monetary Fund and World Federation of Exchanges
SECURITIES MARKET (6)

Russian equity market remains undervalued despite strong performance in recent years

Figure 49: Russian MSCI index vs EM peers (05.01.15 = 100%)

Figure 50: Forward P/E ratio of just 5.2x and a dividend yield around 6%

Source: Thomson Reuters, Moscow Exchange
Moscow Exchange group offers the best infrastructure in its class

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

**Source:** Moscow Exchange
SECURITIES MARKET (8)
Russian financial market has necessary infrastructure and regulation for trading OTC

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

Russia adheres to G20 decisions in respect of OTC derivatives reforms
- Trade reporting to repositories (two authorized repositories available)
- National Clearing Centre provides clearing services for OTC trades

Variety of instruments and service providers
- Non-financial counterparties have access to a broad range of hedging instruments offered by banks (including structured products)
- National Settlement Depository provides collateral management services (repo)
SEcurities marKet (9)
Rapidly developing retail market with strong tax incentives and accelerating FinTech

- **2.7 million** retail investors were registered with the Moscow Exchange at the end of December 2018
- **More than 190 000** 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.
- More than 528k accounts opened as of December 2018

**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**

**Figure 51: Number of active retail client accounts**

<table>
<thead>
<tr>
<th></th>
<th>December 2013</th>
<th>December 2014</th>
<th>December 2015</th>
<th>December 2017</th>
<th>December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities market</td>
<td>57,946</td>
<td>78,639</td>
<td>74,911</td>
<td>109,538</td>
<td>190,235</td>
</tr>
<tr>
<td>Derivatives market</td>
<td>895</td>
<td>34,196</td>
<td>44,860</td>
<td>46,285</td>
<td>55,476</td>
</tr>
<tr>
<td>FX market</td>
<td>28,068</td>
<td>8,038</td>
<td>15,159</td>
<td>25,461</td>
<td>60,651</td>
</tr>
</tbody>
</table>

Source: Moscow Exchange
## CORPORATE GOVERNANCE

New corporate governance standards reflect best international practices

<table>
<thead>
<tr>
<th>Listing reform on Moscow Exchange</th>
<th>Corporate actions reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Simplified listing structure: 2 quotation lists and 1 non-quotation list instead of a 6-tier system</td>
<td>✓ Information on corporate actions cascaded to shareholders from issuer through CSD and nominees</td>
</tr>
<tr>
<td>✓ Stricter corporate governance criteria for inclusion in the top-tier list</td>
<td>✓ E-proxy voting and E-voting platform for shareholders has been developed</td>
</tr>
<tr>
<td>✓ Stricter requirements for Directors to be considered independent</td>
<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>
<td>✓ E-voting for bondholders has been implemented and successfully tested</td>
</tr>
</tbody>
</table>

### Next stage 2019

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

### Blockchain technology

NSD used a blockchain-based settlement platform to complete an inaugural placement of a RUB 500 mln bond issue in 2017.

In 2018 first Russian bonds via smart contracts were issued for a total sum of RUB 750 mln

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**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.

Insider trading and market manipulation
International cooperation
Unlicensed firms and Pyramid Scheme
Enhanced consolidated market analysis
INVESTMENT FUNDS
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
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
✓ corporatisation of non-governmental pension funds (NPFs) completed
✓ work on individual pension accounts reform is in progress

Source: Bank of Russia
**INSURANCE**

Risk-oriented supervision is to be exercised in compliance with the Solvency II standards

**Figure 56: Premium volume is gradually growing (≈USD 5.6 bn)**

- Premiums, RUB bn, lhs
- Payment of claims, RUB bn, lhs
- Premiums as % of GDP, rhs

**Figure 57: Assets and reserves hit 2.8% of GDP**

- Assets, RUB bn, lhs
- Reserves, RUB bn, lhs
- Assets as % of GDP, rhs

**Figure 58: Premium structure shows high level of market diversification, as of Q2/2018**

- Life insurance
- Corporate property insurance
- Private medical insurance
- Motor car insurance
- Compulsory motor TPL insurance
- Other

**Figure 59: In Q2/2018 market remained highly competitive with the Herfindahl-Hirschman Index equal to 578.7**

- Capital, %
- Premiums, %
- Assets, %

Source: Bank of Russia
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 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

Main goals

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

Main activities (2017-2018)

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

Established on 28 December 2016 by the Bank of Russia with participation of the largest financial institutions
New system for online sales of financial products

Aimed at replacing traditional sales channels with websites and smartphone apps which will enable customers to compare multiple financial product offers

CBR arranges the regulatory environment necessary for the project
PAYMENT INFRASTRUCTURE (1)
Bank of Russia Payment System

✓ Money transfer services are provided to:
  ✓ all credit institutions (financial market infrastructure included)
  ✓ Russia’s Federal Treasury and its agencies
  ✓ other Bank of Russia clients

✓ Average daily figures: **6.4 mln payments, RUB 6.9 tn**

✓ **84% of funds** are transferred via the real-time service through the RTGS system

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

✓ Transfer timeframe is adapted to Russia’s **11 time zones** - system operates 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 2018:

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

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

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

- High PFMI compliance ratings. NPS operators implement approved action plans based on the Bank of Russia recommendations.
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
2.0 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 52 mln “Mir” payment cards were issued by year end 2018 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
Strong international background helps to promote financial inclusion

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

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

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
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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