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**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

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

**EVOLUTION (1)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tbody>
<tr>
<td>1990</td>
<td>MICEX established</td>
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<td>1992</td>
<td>RTS exchange established</td>
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<td>1995</td>
<td>Law on Central bank of RSFSR: amendments</td>
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<td>1996</td>
<td>CBR becomes a BIS member</td>
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<td>1996</td>
<td>CBR becomes a BIS member</td>
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<tr>
<td>2001</td>
<td>– Law on AML/CFT</td>
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<td>2003</td>
<td>– Russia becomes a FATF member</td>
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<td>2009</td>
<td>– CBR becomes a BCBS member</td>
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<tr>
<td>2011</td>
<td>– Law on National Payment System</td>
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<tr>
<td>2015</td>
<td>CBR becomes the megaregulator of the Russian financial sector</td>
</tr>
<tr>
<td>2013</td>
<td>– CBR becomes an IAIS member as well as IOSCO member</td>
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<td>2014</td>
<td>– Inflation targeting regime with 4% medium-term target rate</td>
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<td>2015</td>
<td>– National Card Payment System Joint-Stock Company (AO NSPK) established</td>
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<tr>
<td>2016</td>
<td>– National payment system “Mir” established and “Mir” card issue started</td>
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<tr>
<td>2017</td>
<td>– Introduction of proportional regulation in banking sector</td>
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<td>2018</td>
<td>– Bank of Russia joins MMoU IAIS</td>
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<td>2001</td>
<td>– First edition of the Russian corporate conduct code</td>
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<td>2002</td>
<td>– Law on mortgage-backed securities</td>
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<td>2011</td>
<td>– Law on insider trading</td>
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<td>2012</td>
<td>– National Settlement Depository obtains status of the Central Securities Depository (CSD) of Russia</td>
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<td>2013</td>
<td>– National Clearing Center obtains status of the first qualified Central Counterparty (CCP) in Russia</td>
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<td>2013</td>
<td>– CBR becomes an IAIS member as well as IOSCO member</td>
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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

**1998 - 2008**
Narrow band

**2008 - 2014**
Flexible band

**2015**
Transition to the inflation targeting regime is completed

**Dec. 2017**
Inflation is around 4%

**Since Nov. 2014**
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);
- deposit insurance with 1.4 ml RUB as a limit (in some cases – up to 10 ml RUB);
- 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
- Bank for International Settlements, IAIS and IOSCO Principles for financial market infrastructures (PFMI) are being implemented
- High FSAP grades in all surveyed segments, including securities market, insurance and payment infrastructure
- Upon monitoring the implementation of the PFMI, the CPMI gave Russia the highest-possible ‘4’ rating
- Russia ranks #35 in DOING BUSINESS-2018 ratings
- National Settlement Depository is eligible for custody arrangements under Rule 17f-7 of the US Investment Company Act of 1940
- Russia is a party to the Articles of Agreement of the IMF and upholds free movement of capital
- Banking regulation is compliant with Basel II, 2.5 and Basel III (RCAP 2016)
- Insurance sector has started implementing Solvency II European principles
- Russia is a party to the Articles of Agreement of the IMF and upholds free movement of capital
INTERNATIONAL COOPERATION
Bank of Russia cooperates with international financial institutions, regulators and associations
FINANCIAL MARKET DEVELOPMENT STRATEGY
Guidelines for the Development of the Russian Financial Market in 2016 - 2018

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.

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
# BANK OF RUSSIA: OVERVIEW

## NEWSLETTER
Key news from the Bank of Russia

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
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</table>
| January 1, 2018 | ✓ **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 **International Financial Reporting Standard (IFRS) 9**, which supersedes IAS 39;  
|               | ✓ **Deposit Insurance Agency increases its base rate** at which quarterly payments are made to the deposit insurance fund from 0.12 to 0.15% of the basis for calculation. |
| May 23, 2018   | The Bank of Russia raises risk ratios 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. |
| May 1, 2018    | The Bank of Russia tightens the regulation of unsecured consumer credits by reviewing its requirements for risk-weights. |
| April 24, 2018 | The Bank of Russia suggests introducing the principle of proportionality in non-bank financial institutions regulation. |
| April 23, 2018 | **Law on rehabilitation of insurance companies** was signed. |
| March 29, 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. |
| March 23, 2018 | The Bank of Russia cuts the key rate by 25 bp to 7.25% p.a. |
| June 16, 2017  | **New Banking Sector Consolidation Fund bailout** mechanism enacted. |
KEY INDICATORS
Clear signs of macro stabilization across the board

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

Figure 2: Unemployment rate in Russia remains low (%)

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
Russian economy has adapted to lower oil prices

Figure 5: Current account surplus amounted to 35.2 USD bn in 2017

Reserves/GDP = 27.41%
Reserves cover 10.9 months of import*
Import in Jan 2017 – Jan 2018
= 254.1 USD bn

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

Figure 7: Significant international reserves assuring financial stability

As of March 26, 2018

Figure 8: Public debt to GDP among the lowest in both EM and DM (2016, %)

Russia:
Public Debt / GDP = 16%
External Debt / GDP = 40%

Source: Bank of Russia, International Monetary Fund, Thomson Reuters, Ministry of Finance
INFLATION
After two years of disinflationary policies inflation target successfully reached in 2017

**Figure 9: Inflation is around 4% (YoY, %)**

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

*Medium-term inflation target*

*Source: Bank of Russia, Rosstat*
**ECONOMIC FORECASTS (1)**  
Baseline scenario*: medium-term outlook for the Russian economy

<table>
<thead>
<tr>
<th><strong>as % of previous year (unless indicated otherwise)</strong></th>
<th>2017 (actual)</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Urals price (annual average), US dollars per barrel</strong></td>
<td>53</td>
<td>67</td>
<td>55</td>
<td>50</td>
</tr>
<tr>
<td><strong>Inflation, % in December year-on-year</strong></td>
<td>2.5</td>
<td>3.5-4.0</td>
<td>4.0-4.5</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Inflation, yearly average</strong></td>
<td>3.5</td>
<td>2.5-3.5</td>
<td>4.0-4.5</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Gross domestic product</strong></td>
<td>1.5</td>
<td>1.5-2.0</td>
<td>1.5-2.0</td>
<td>1.5-2.0</td>
</tr>
<tr>
<td><strong>Final Consumption Expenditure</strong></td>
<td>2.6</td>
<td>2.5-3.0</td>
<td>2.3-2.8</td>
<td>2.0-2.5</td>
</tr>
<tr>
<td>- <strong>households</strong></td>
<td>3.4</td>
<td>3.3-3.8</td>
<td>2.8-3.3</td>
<td>2.5-3.0</td>
</tr>
<tr>
<td><strong>Gross formation</strong></td>
<td>7.4</td>
<td>0.5-1.5</td>
<td>2.2-3.2</td>
<td>1.7-2.7</td>
</tr>
<tr>
<td>- <strong>gross fixed capital formation</strong></td>
<td>4.3</td>
<td>2.7-3.2</td>
<td>2.2-2.7</td>
<td>2.2-2.7</td>
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<tr>
<td><strong>Exports</strong></td>
<td>5.1</td>
<td>3.3-3.7</td>
<td>1.7-2.2</td>
<td>1.7-2.2</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td>17.4</td>
<td>7.4-7.9</td>
<td>4.7-5.2</td>
<td>5.3-5.8</td>
</tr>
<tr>
<td><strong>Money supply in national definition</strong></td>
<td>10.5</td>
<td>10-13</td>
<td>8-11</td>
<td>8-11</td>
</tr>
<tr>
<td><strong>Lending to non-financial organisations and households in rubles and foreign currency</strong></td>
<td>8.2</td>
<td>10-13</td>
<td>7-11</td>
<td>7-12</td>
</tr>
<tr>
<td>- <strong>lending to non-financial and financial organisations in rubles and foreign currency</strong></td>
<td>7.1</td>
<td>9-11</td>
<td>6-9</td>
<td>6-10</td>
</tr>
<tr>
<td>- <strong>lending to households in rubles and foreign currency</strong></td>
<td>12</td>
<td>13-18</td>
<td>10-13</td>
<td>10-13</td>
</tr>
</tbody>
</table>

*As presented in Monetary Policy Report No. 6 (June 2018)

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></td>
<td>2018</td>
</tr>
<tr>
<td><strong>Current account:</strong></td>
<td></td>
<td></td>
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<tr>
<td>Trade balance</td>
<td>115</td>
<td>166</td>
</tr>
<tr>
<td><strong>Exports</strong></td>
<td>353</td>
<td>425</td>
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<tr>
<td><strong>Imports</strong></td>
<td>-238</td>
<td>-259</td>
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<tr>
<td>Balance of services</td>
<td>-31</td>
<td>-31</td>
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<tr>
<td><strong>Exports</strong></td>
<td>58</td>
<td>65</td>
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<tr>
<td><strong>Imports</strong></td>
<td>-89</td>
<td>-96</td>
</tr>
<tr>
<td>Balance of primary and secondary income</td>
<td>-49</td>
<td>-50</td>
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<tr>
<td>Capital account</td>
<td>0</td>
<td>0</td>
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<tr>
<td><strong>Current account and capital account surplus</strong></td>
<td>35</td>
<td>85</td>
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<tr>
<td><strong>Financial transactions account (reserve assets excluded)</strong></td>
<td>-16</td>
<td>-26</td>
</tr>
<tr>
<td>Public administration and central banks</td>
<td>13</td>
<td>4</td>
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<tr>
<td>Private sector (net errors and omissions included)</td>
<td>-29</td>
<td>-30</td>
</tr>
<tr>
<td><strong>Net errors and omissions</strong></td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td><strong>Change in FX reserves (+ is for decrease, - is for growth)</strong></td>
<td>-23</td>
<td>-60</td>
</tr>
</tbody>
</table>

*As presented in Monetary Policy Report No. 6 (June 2018)

*Source: Bank of Russia*
Inflation expectations are at historical lows but their decline has yet to become sustainable and consistent.

### Inflation Expectations (absolute value),%

<table>
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<tr>
<td><strong>Households</strong></td>
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<tr>
<td>FOM</td>
<td>14.7</td>
<td>14.2</td>
<td>14.2</td>
<td>12.4</td>
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<td>9.6</td>
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<tr>
<td>FOM (Bank of Russia calculations)</td>
<td>7.4</td>
<td>6.7</td>
<td>5.9</td>
<td>5.1</td>
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<td><strong>Professional analysts</strong></td>
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<td><strong>Financial markets</strong></td>
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<td>OFZ IN</td>
<td>5.4</td>
<td>4.6</td>
<td>4.5</td>
<td>4.6</td>
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<td>3.6</td>
<td>3.5</td>
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<td>3.8</td>
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<td>OFZ IN (option not subtracted)</td>
<td>6.9</td>
<td>6.0</td>
<td>5.3</td>
<td>5.4</td>
<td>4.9</td>
<td>4.7</td>
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<td>4.0</td>
<td>3.9</td>
<td>4.2</td>
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<td>Bond market</td>
<td>12.0</td>
<td>6.9</td>
<td>7.2</td>
<td>6.6</td>
<td>5.2</td>
<td>4.4</td>
<td>4.5</td>
<td>3.1</td>
<td>-</td>
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<td>2.7</td>
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<td>Interbank market</td>
<td>9.9</td>
<td>5.3</td>
<td>5.4</td>
<td>5.6</td>
<td>4.6</td>
<td>3.7</td>
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<tr>
<td><strong>Inflation expectations (balanced index)</strong>*</td>
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<tr>
<td>FOM</td>
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<td>78</td>
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**Changes against 3MMA:**
- 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 fall.*
**MONETARY POLICY**
Gradual transition from moderately tight to neutral monetary policy

### Inflation and inflation expectations

- Annual inflation remains low and in general corresponds to the Bank of Russia’s expectations, but showed mixed dynamics for main consumer basket products (petrol ↑, food goods ↓)
- Inflation expectations of households and businesses saw a slight increase, which is primarily related to higher petrol prices
- The weakening of the ruble exchange rate in April moderately affects the dynamics of inflation and inflation expectations
- Planned tax revisions will make about a 1 percentage point contribution to inflation

### Monetary Conditions
are close to neutral

### Economic activity

- Industrial and investment activity improved after a temporary slowdown in March 2018
- Medium-term outlook on economic growth is at large the same, but might be further updated to reflect a detailed estimate of influence of the set of the proposed fiscal measures

### Inflation risks

- The main risks: (1) **tax policy measures (the risk has increased)**, (2) external factors.
- Moderate risks – estimates are mostly unchanged: (3) consumer and oil price volatility, (4) wage movements, (5) possible changes in consumer behavior.

---

**Decision as of June 15, 2018**

The Bank of Russia keeps the key rate at 7.25% p.a.

**Signal**

The Bank of Russia will explore the necessity of key rate changes by assessing inflation risks, inflation dynamics and economic developments against the forecast [...]

The monetary policy stance needs to remain somewhat tight to limit the scale of secondary effects of fiscal measures and to maintain the annual consumer prices growth rate around 4%.
## 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 (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-collateralised consumer loans** grow at a high pace, and surveys among Russian banks show that they plan a higher debt growth rate for 2018. However, as the inflation rate is decreasing, the Bank of Russia key rate and the market interest rates are cut as well. Provided that the credit institutions’ funds collected are cheaper, the same effective interest rate will mean a higher credit risk for the borrower. In other words, if the credit risk ratio scale was not adjusted to the new context, the regulations would have automatically become laxer. Therefore, on 23 March 2018 the Bank of Russia Board of Directors agreed upon a draft ordinance providing for an increase in risk weight for consumer credits bearing an FCC of 15 - 25% to be issued after 1 May 2018.

**Mortgage loans** 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 Bank of Russia aims to prevent the build-up of risks related to loans with a high loan-to-value ratio and secure sustainable development of the mortgage lending segment.

### Capital adequacy

The capital adequacy ratio for the banking sector overall decreased over 12 months from 13.1% to 12.4% as of 1 February 2018.

### Decision

The Bank of Russia keeps the countercyclical capital buffer (CCyB) rate for Russian credit institutions at 0% of risk-weighted assets as of March 29, 2018.

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 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: KEY FIGURES (1)
Active supervision and tighter regulation allowed to strengthen the health of the banking sector

Figure 10: In 2013-2017 more than 300 licenses were revoked causing almost no impact on the banking sector’s total assets

Figure 11: Mortgage lending remains key growth driver amid falling rates

Figure 12: In April 2018 corporate deposits grew by 3.7% YoY to 25.2 RUB tn

Figure 13: In April 2018 retail deposits demonstrated growth by 10%, reaching 26.7 RUB 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 14: Corporate lending has stabilized and shows early signs of recovery
- Corporate loans, RUB tn, lhs
- YoY (ccy adj., by credit institutions operating as of the reporting date) rhs

Figure 15: Retail loans remain the key driver of credit growth
- Retail loans, RUB tn, lhs
- YoY (ccy adj., by credit institutions operating as of the reporting date) rhs

Figure 16: Share of bad corporate loans* reached 12.2% (01.04.18) while loan loss reserves to bad loans ratio amounted to 84.6%
- Share of bad loans, %, lhs
- Loan loss reserves to bad loans ratio, %, rhs

Figure 17: Retail loans portfolio demonstrates improved quality: the share of bad loans* fell to 9.5% (01.04.18)
- 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
Banking Sector: Capital Adequacy

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

Figure 18: Capital adequacy ratio for the banking sector slightly decreased over from 13.1% (01.01.17) to 13.0% (01.04.18) vs minimum 8.0% allowed

Figure 19: Credit organizations with capital exceeding 25 RUB bn have lower buffer vs N1.0 minimum requirement due to economies of scale

Source: Bank of Russia
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.
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.)

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

Figure 21: Forward P/E ratio of just 5.9x and a dividend yield above 5.4%

Source: Thomson Reuters, Moscow Exchange
SECURITIES MARKET (3)
Equity market provides strong growth potential

Figures 22-24: Equities market volume breakdown by investor type as of March 1, 2018

Figures 25: Russian equities market volume proves stable (RUB tn)

Figure 26: 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 (4)
Growing a deeper Russian bond market with strong potential

Figure 27: Russian debt market volume (outstanding) keeps growing

- OFZ, RUB tn
- Corporate Bonds, RUB tn

Figure 28: Debt market volume breakdown by investor type

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

Figure 29: Bond market yields, key rate and RUONIA (%)

- Cbonds-CBI RU BBB/ruAA- YTM eff
- Cbonds-GBI RU YTM eff
- RUONIA Index
- CBR Key Rate

Figure 30: EM 10Y bond yields on the background of credit ratings

Source: Thomson Reuters, Moscow Exchange, IMF and World Federation of Exchanges
SECURITIES MARKET (5)
Growing a deeper Russian bond market with strong potential

Figure 31: Ageing fixed assets require long-term investments

Figure 32: Breakdown of bond issuers by industry, as of March 1, 2018

Figure 33: Corporate loans vs corporate bonds in Russia (tn)

Figure 34: “Bondization” of Russian financial market

Source: Thomson Reuters, Moscow Exchange
SECURITIES MARKET (6)
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 **DMA and ICM services** at their disposal.

Source: Moscow Exchange
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 (8)
Rapidly developing retail market with strong tax incentives and accelerating FinTech

✓ **1.2 million** retail investors were registered with the Moscow Exchange at the end of 1H 2017
✓ Around **90 000** retail investors were reported as “active” traders

**Figure 35: Number of active retail client accounts**

- Equities market
- Derivatives market
- FX market

- December 2013: Equities 57,946, Derivatives 28,068, FX 895
- December 2014: Equities 78,639, Derivatives 34,196, FX 8,038
- December 2015: Equities 74,911, Derivatives 44,860, FX 15,159
- December 2017: Equities 109,538, Derivatives 46,285, FX 25,461

**Recent regulatory changes**

- **Individual Investment Accounts** for private investors since 2015. 1 mln RUB – max sum to invest in a year
- **Tax deductions** for IIA type A – max 52 000 RUB; 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

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

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

**Next stage 2018**
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

**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.

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

- 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
**INSURANCE**

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

**Figure 36: Premium volume is gradually growing (≈2.5 USD bn)**

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

**Figure 37: Assets and reserves hit 2.5% of GDP**

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

**Figure 38: Premium structure shows high level of market diversification**

- Life insurance (18%)
- Corporate property insurance (9%)
- Private medical insurance (27%)
- Motor car insurance (14%)
- Compulsory motor TPL insurance (20%)

**Figure 39: In Q2/2017 market remained highly competitive with the Herfindahl-Hirschman Index equal to 588.6**

- Capital
- Premiums
- Assets

*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.

![Figure 40: Pension assets in Russia (RUB tn)](image)

![Figure 41: Pension system asset allocation (as of September 30, 2017, %)](image)

**Source:** Bank of Russia
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
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.
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 million payments, 5.6 trillion rubles**

✔ 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**

Strong international background helps to promote financial inclusion

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**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

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**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 will host the 2018 AFI Global Policy Forum

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**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
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 million 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.
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<td>Teleconference with institutional investors</td>
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<td>February 2-9</td>
<td>Quiet period</td>
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<td>Board of Directors meeting on monetary policy</td>
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<td>March 16-23</td>
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<td>Release of the Monetary Policy Report</td>
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<td>Meeting with institutional investors (Moscow) + teleconference</td>
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<td>April 18-19</td>
<td>Ad-hoc meetings with investors on the sidelines of the IMF/WB meetings</td>
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<td>Board of Directors meeting on monetary policy</td>
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<td>May 24-26</td>
<td>Saint Petersburg International Economic Forum</td>
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<td>XXVII International Financial Congress (Saint Petersburg)</td>
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<td>Teleconference with institutional investors</td>
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<td>October 12-14</td>
<td>Ad-hoc meetings with investors on the sidelines of the IMF/WB meetings</td>
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<td>October 19-26</td>
<td>Quiet period</td>
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<td>October 26</td>
<td>Board of Directors meeting on monetary policy</td>
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<tr>
<td>December 7-14</td>
<td>Quiet period</td>
</tr>
<tr>
<td>December 14</td>
<td>Board of Directors meeting on monetary policy</td>
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<tr>
<td></td>
<td>Release of the Monetary Policy Report</td>
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**International Cooperation Department**

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