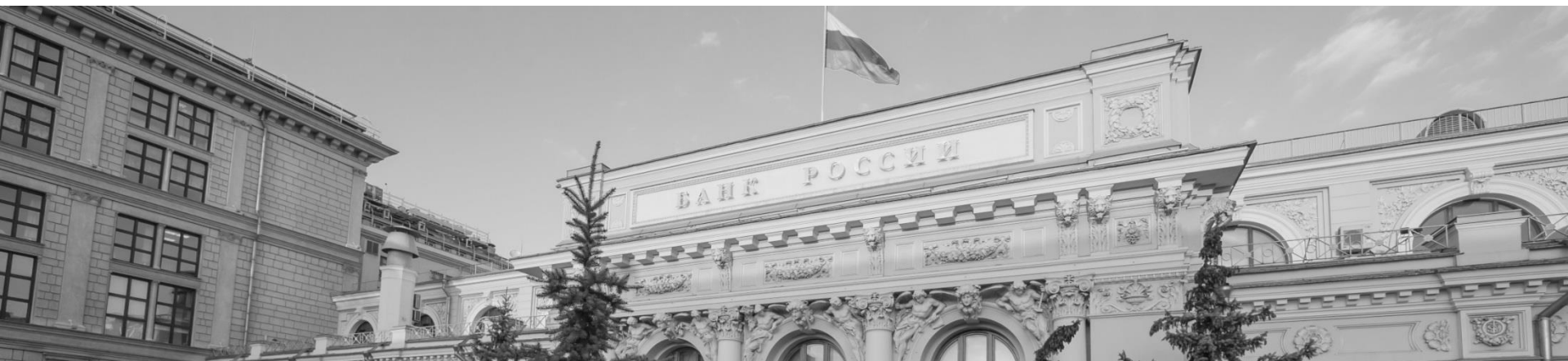




Bank of Russia

The Central Bank of the Russian Federation



RUSSIAN FINANCIAL SECTOR Investor presentation

November 2018



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Bank of Russia

The Central Bank of the Russian Federation



BANK OF RUSSIA: OVERVIEW



EVOLUTION (1)

Central Bank of Russia (CBR): founded in 1990

- 1990 – Law on banks and banking activities
– Law on Central bank of RSFSR
- 1992 – Russia becomes an IMF member
- 1995 – Law on Central bank of RSFSR: amendments
- 1996 – CBR becomes a BIS member

- 2001 – Law on AML/CFT
- 2002 – Law on the Central Bank of the Russian Federation
- 2003 – Russia becomes a FATF member
– Start of the IFRS reporting project
– Law on deposit insurance
- 2005 – Introduction of corridor for USD&EUR basket within the exchange rate policy framework
- 2009 – CBR becomes a BCBS member
– CBR becomes a CPMI member
- 2010 – Introduction of floating exchange rate corridor
- 2011 – Law on National Payment System

- 2013 – CBR becomes an IAIS member as well as IOSCO member
- 2014 – Inflation targeting regime with 4% medium-term target rate
– Introduction of a floating exchange rate regime
– Approval of a new corporate governance code
– National Card Payment System Joint-Stock Company (AO NSPK) established
- 2015 – Signing of the IOSCO Multilateral Memorandum of Understanding
– National payment system “Mir” established and “Mir” card issue started
- 2016 – Banking regulation in Russia assessed as compliant with Basel II, Basel 2.5 and Basel III (RCAP)
- 2017 – Introduction of proportional regulation in banking sector
- 2018 – Bank of Russia joins MMoU IAIS



- 1992 – MICEX established
– Law on insurance business
- 1995 – RTS exchange established
- 1996 – Law on securities market
- 1996 – Law on joint-stock companies
- 1999 – Law on protection of rights of securities market investors

- 2002 – First edition of the Russian corporate conduct code
- 2003 – Law on mortgage-backed securities
- 2011 – Law on insider trading
– MICEX and RTS merge into the Moscow Exchange
– FISS joins FFMS and the latter becomes insurance market regulator
- 2012 – National Settlement Depository obtains status of the Central Securities Depository (CSD) of Russia
- 2013 – National Clearing Center obtains status of the first qualified Central Counterparty (CCP) in Russia

Focus on Russian financial market development

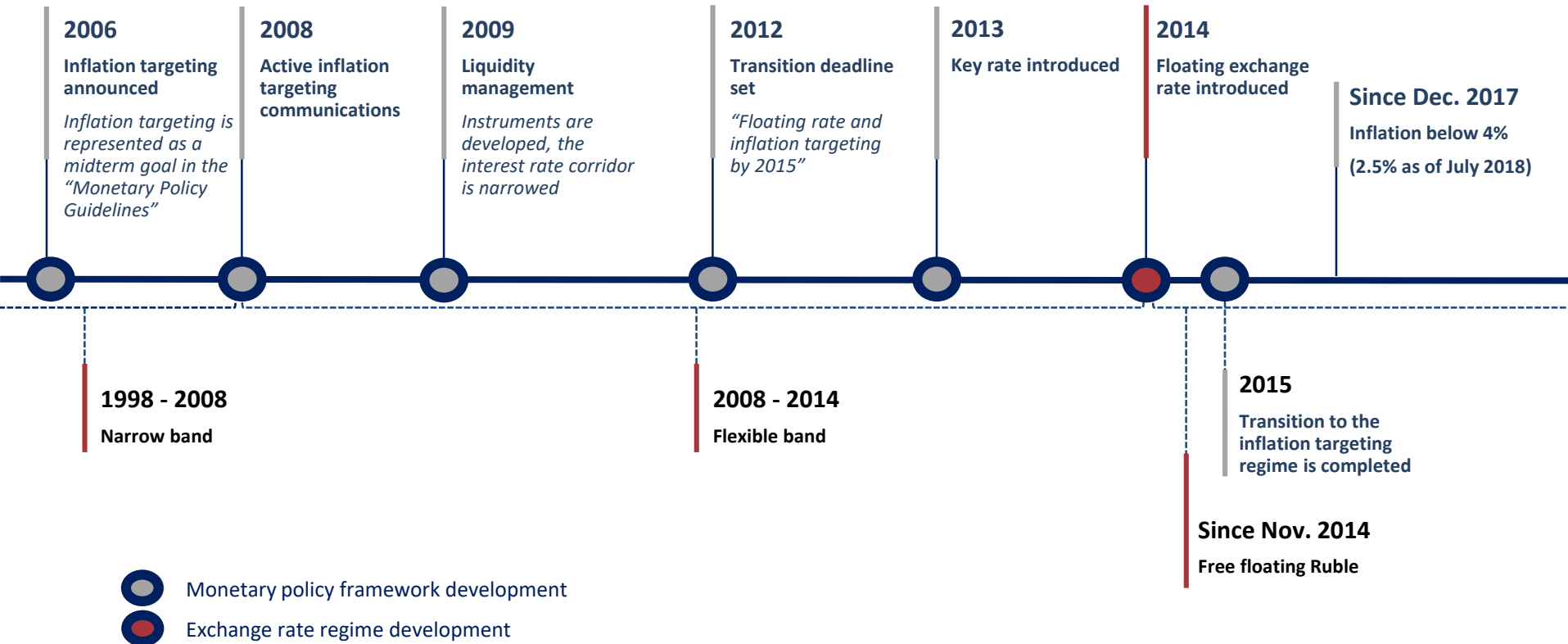
2013
CBR becomes the megaregulator of the Russian financial sector

Federal Financial Markets Service (FFMS): founded in 1993



EVOLUTION (2)

Monetary policy framework development





EVOLUTION (3)

Bank of Russia supervises the following key segments

Banking sector

Payment
infrastructure

Non-state pension
funds

Market
infrastructure,
including fair pricing

Asset managers

Securities market,
including securities
market professionals

Microfinance

Credit rating
agencies

Insurance sector



REFORMS

Promoting price and financial stability, fair competition, newest technologies and best practices



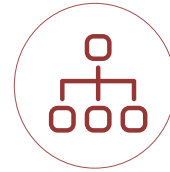
Monetary policy

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



Banking regulation and supervision

- banking sector rehabilitation in progress, new bank resolution mechanism introduced;
- proportional regulation introduced and an advanced IRB approach for the largest banks gradually phased in;
- banking regulation compliant with the Basel II, Basel 2.5 and Basel III standards, maintaining AML/CFT supervision of credit and non-credit financial institutions (according to the Regulatory Consistency Assessment Program (RCAP) 2016);
- deposit insurance with RUB 1.4 mln as a limit (in some cases – up to RUB 10 mln);
- setting up a national rating industry. Only credit ratings of Russian national agencies may be used for regulatory purposes



Market infrastructure

benefits from infrastructure put in place, tax and regulatory reforms (T+2, CSD and access of ICSDs, up-to-date CCP, Individual Investment Accounts, IIA)



Corporate governance

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



Pension system

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



Payment infrastructure

- Russian payment system infrastructure developed and currently in use by all leading international payment systems
- payment infrastructure monitoring and supervision



COMPLIANCE WITH INTERNATIONAL STANDARDS

Russia complies with or implements key international standards and best practices



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



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



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



Bank for International Settlements, IAIS and IOSCO **Principles for financial market infrastructures (PFMI)** are being implemented
Upon monitoring the implementation of the **PFMI**, the CPMI gave Russia the highest-possible **'4' rating**



Russia 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**



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



INTERNATIONAL COOPERATION

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



BANK FOR INTERNATIONAL SETTLEMENTS



THE WORLD BANK
IBRD • IDA

WORLD TRADE ORGANIZATION



INTERNATIONAL ORGANISATION OF PENSION SUPERVISORS

G20



EAEU
Eurasian Economic Union



COUNCIL OF EUROPE
CONSEIL DE L'EUROPE

COMMITTEE OF EXPERTS ON THE EVALUATION OF ANTI-MONEY LAUNDERING MEASURES AND THE FINANCING OF TERRORISM (MONEYVAL)

FSB

FINANCIAL STABILITY BOARD



Monetary Authority of Singapore



BRICS



ISDA
Safe, Efficient Markets



European Securities and Markets Authority



International Capital Market Association



INTERNATIONAL ACTUARIAL ASSOCIATION
ASSOCIATION ACTUARIELLE INTERNATIONALE



IAIS
INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS



BETTER POLICIES FOR BETTER LIVES



FINANCIAL MARKET DEVELOPMENT STRATEGY

Guidelines for the Development of the Russian Financial Market in 2016 - 2018



GUIDELINES FOR THE
DEVELOPMENT
of the Russian Financial Market
in 2016–2018

Moscow

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.

Currently the Bank of Russia is working on the new Guidelines for the Development of the Russian Financial Market in 2019 – 2021.

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



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)

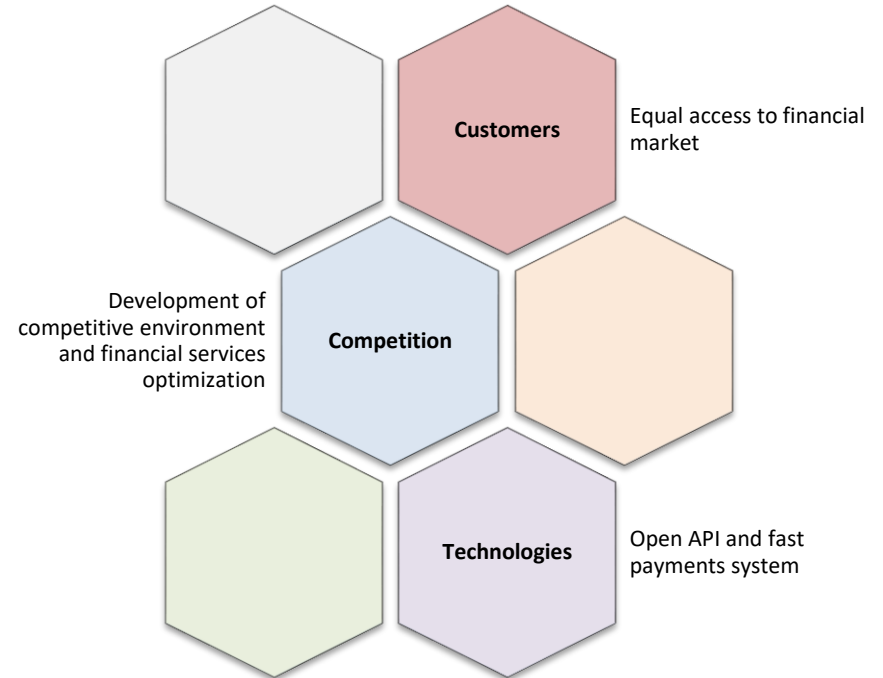
- ☑ Digital identification
- ☑ Distributed ledger technology
- ☑ Fast payment system
- ☑ Open API
- ☑ Big Data



MARKET PLACE

Shaping future of financial services experience in Russia

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





NEWSLETTER (1)

Key news from Russian financial market

29 October 2018	The Bank of Russia to introduce new procedure for assessing interest rate risk on bank portfolio.
5 October 2018	The Bank of Russia has approved the list of systematically important credit institutions.
1 October 2018	<ul style="list-style-type: none">✓ The Bank of Russia Board of Directors decided to set buffers to risk ratios for calculating capital adequacy requirements by credit institutions, effective from 8 October 2018. The values of risk ratios for assets subject to buffers are brought to standard values in line with Basel III.✓ The countercyclical capital buffer rate for Russian credit institutions is retained at 0% of risk-weighted assets.✓ Buffers to the risk ratios for mortgage loans and loans for financing under equity construction with LTV > 80% are set at the level of 1.0 (100%). As a result, risk ratio of 200% (instead of 150%) will be applicable to such loans extended after 1 January 2019.
14 September 2018	The Bank of Russia raises the key rate by 0.25 pp to 7.50% p.a.
10 August 2018	The Bank of Russia approved basic standards for consumer rights protection in insurance and insurer operations on financial market.
3 August 2018	<ul style="list-style-type: none">✓ Law on credit histories was amended.✓ Law on the insurance of household deposits with Russian banks was amended.✓ Law on countering the illegal use of insider information and market manipulation was amended.
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 companies offering life insurance, RUB 300 mln for personal and property insurers and RUB 600 mln for reinsurers.



NEWSLETTER (2)

Key news from Russian financial market

20 July 2018	The Bank of Russia raises risk weights on unsecured consumer loans extended after 1 September 2018 with the effective interest rate of 10% to 30%.
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.
21 May 2018	Launch of cross-margining across markets on the base of Unified Collateral Pool on the Moscow Exchange.
1 May 2018	The Bank of Russia tightens the regulation of unsecured consumer credits by reviewing its requirements for risk ratios.
24 April 2018	The Bank of Russia suggests introducing the principle of proportionality in non-bank financial institutions regulation .
23 April 2018	Law on rehabilitation of insurance companies was signed.
1 January 2018	<ul style="list-style-type: none"> ✓ The risk ratios for mortgage loans with LTV higher than 80% and 90% are tightened by the Bank of Russia, reaching 150% and 300% respectively. ✓ Basel III in force: Leverage ratio (except for banks with basic license), NSFR – for D-SIBs ✓ Unification of personal income tax regimes for Ruble bonds and bank deposits ✓ Bank of Russia switches to proportional regulation of the banking system ✓ Capital buffers under Basel III are increased: capital conservation buffer is 1.875%; countercyclical capital buffer is 0%; buffers for systemically important banks are at 0.65% ✓ Banks are required to introduce IFRS 9, which supersedes IAS 39



Bank of Russia

The Central Bank of the Russian Federation



RUSSIAN MACRO UPDATE



KEY INDICATORS

Clear signs of macro stabilization across the board

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

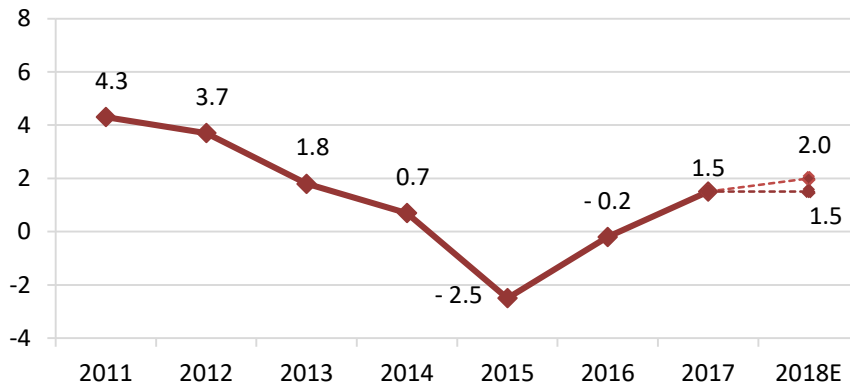


Figure 2: Retail trade turnover and real wages dynamics (YoY, %)

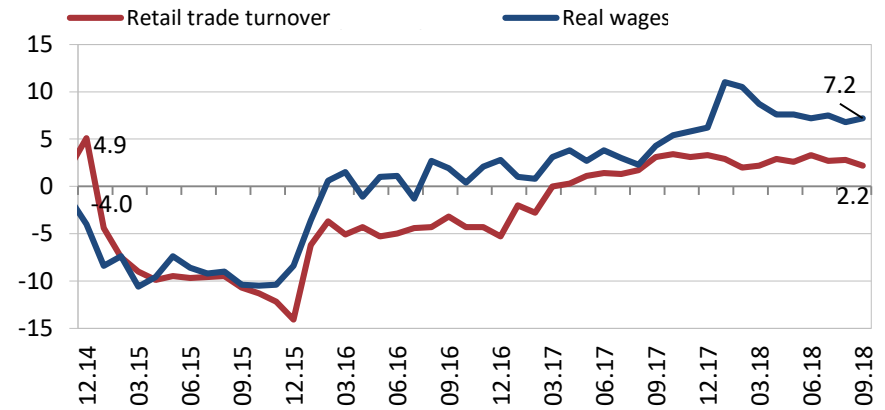


Figure 3: Russian economy recovered driven by private consumption and investment (YoY, %)

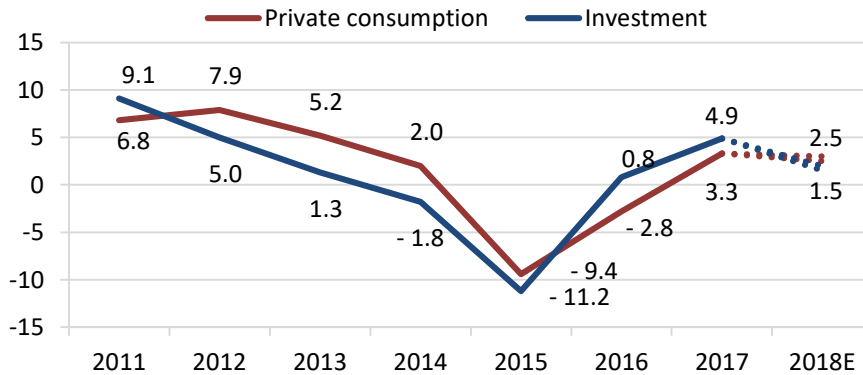


Figure 4: Russian Ruble volatility remains low while in free-floating





MACROFINANCE

Solid fiscal and external positions

Figure 5: Current account surplus amounted to USD 33 bn in 2017

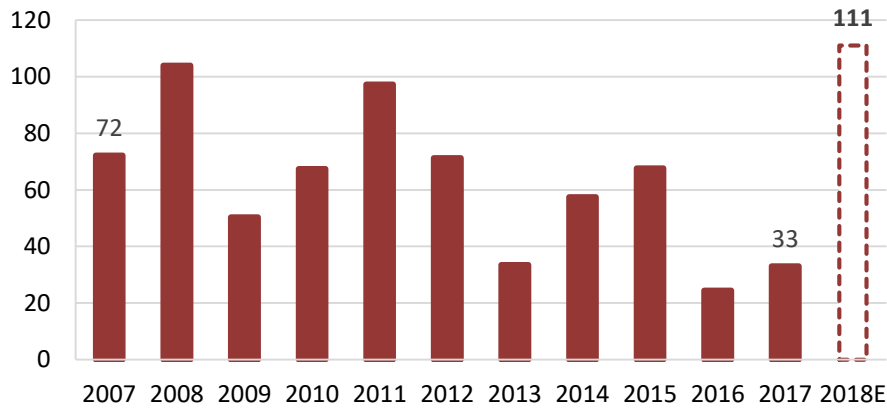


Figure 6: Strong fiscal position: budget consolidation and fiscal rule

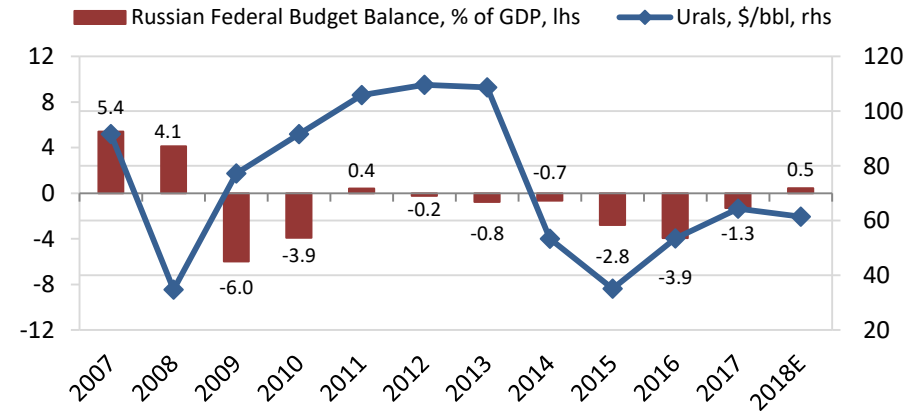


Figure 7: Significant international reserves assuring financial stability

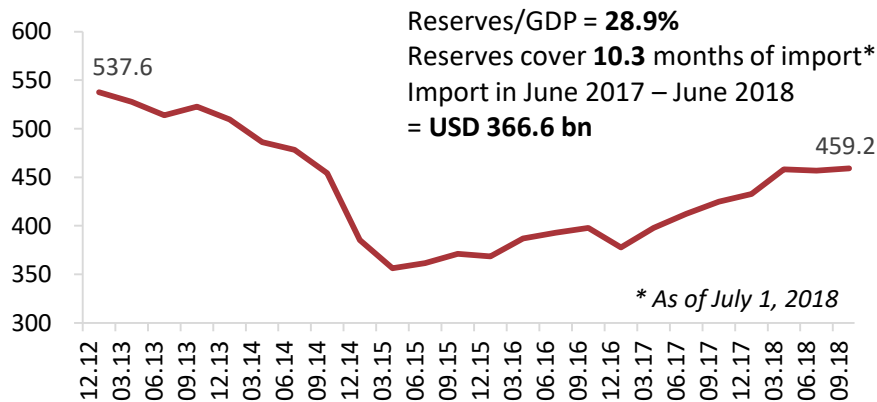
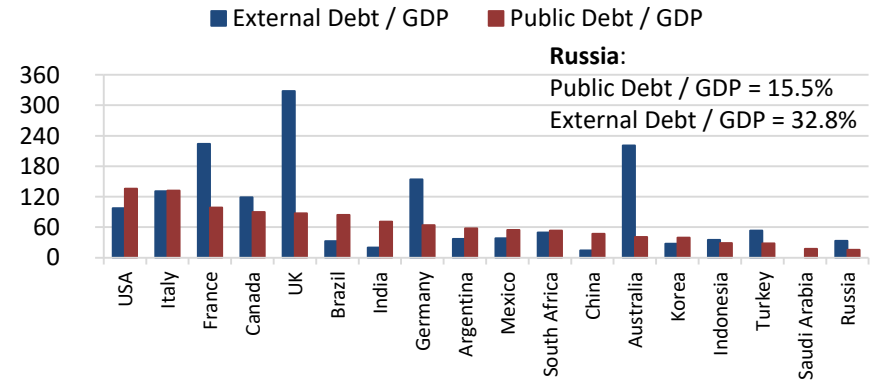


Figure 8: Public debt to GDP among the lowest in both EM and DM (2017, %)

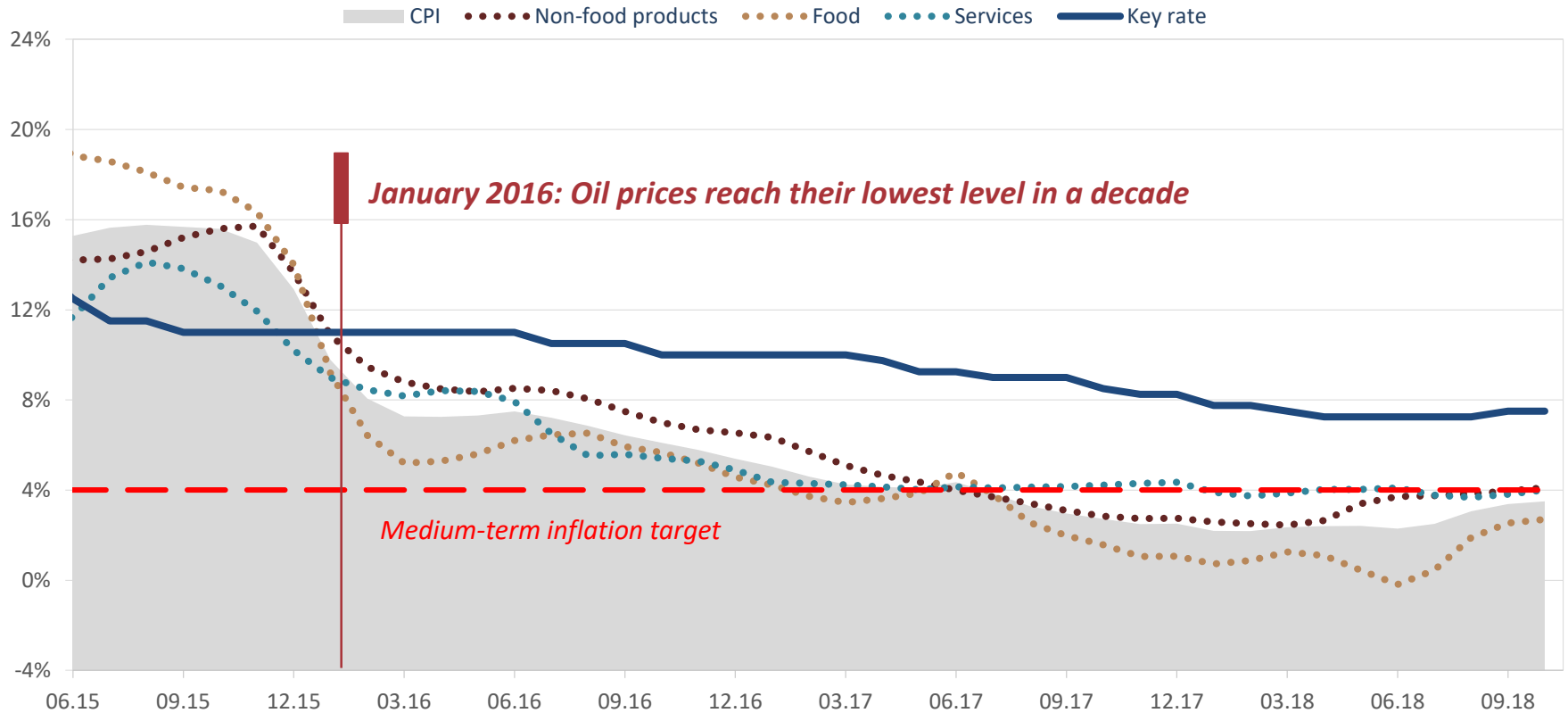




INFLATION

After two years of disinflationary policies inflation target successfully reached in 2017

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



Source: Bank of Russia, Rosstat



ECONOMIC FORECASTS (1)

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

<i>as % of previous year (unless indicated otherwise)</i>	2017	2018	2019	2020	2021
	(actual)	Baseline*			
Urals price (annual average), US dollars per barrel	53	72	63	55	55
Inflation, % in December year-on-year	2.5	3.8-4.2	5.0-5.5	4.0	4.0
Inflation, yearly average	3.5	2.9-3.1	5.0-5.5	4.0	4.0
Gross domestic product	1.8	1.5-2.0	1.2-1.7	1.8-2.3	2.0-3.0
Final Consumption Expenditure	2.5	2.0-2.5	1.0-1.5	1.5-2.0	2.0-2.5
- households	3.3	2.5-3.0	1.0-1.5	1.5-2.0	2.5-3.0
Gross formation	9.3	(-1.5-0.5)	1.5-2.5	2.5-3.5	3,5-4,5
- gross fixed capital formation	4.9	1.5-2.0	1.8-2.3	3.0-3.5	3.5-4.5
Exports	6.0	5.5-6.0	3.2-3.7	2.7-3.2	2.3-3.2
Imports	17.4	4.0-4.5	2.5-3.0	3.5-4.0	4.5-5.0
Money supply in national definition	10.5	12-15	7-11	7-12	7-12
Lending to non-financial organizations and households in rubles and foreign currency	8.2	13-15	7-11	7-12	7-12
- lending to non-financial and financial organizations in rubles and foreign currency	7.1	10-12	7-10	6-10	6-10
- lending to households in rubles and foreign currency	12	21-24	12-17	10-15	10-15

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



ECONOMIC FORECASTS (2)

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

<i>USD billions</i>	2017 (estimate)	Baseline*			
		2018	2019	2020	2021
Current account:	33	111	95	60	53
Trade balance	115	193	175	143	138
<i>Exports</i>	<i>354</i>	<i>444</i>	<i>423</i>	<i>403</i>	<i>416</i>
<i>Imports</i>	<i>-238</i>	<i>-251</i>	<i>-249</i>	<i>-259</i>	<i>-277</i>
Balance of services	-31	-31	-30	-30	-31
<i>Exports</i>	<i>58</i>	<i>65</i>	<i>65</i>	<i>67</i>	<i>69</i>
<i>Imports</i>	<i>-89</i>	<i>-96</i>	<i>-95</i>	<i>-96</i>	<i>-100</i>
Balance of primary and secondary income	-51	-51	-51	-53	-55
Capital account	0	0	0	0	0
Financial transactions account (reserve assets excluded)	-14	-72	-24	-14	-11
<i>Public administration and central banks</i>	<i>13</i>	<i>-6</i>	<i>1</i>	<i>2</i>	<i>3</i>
<i>Private sector</i>	<i>-28</i>	<i>-66</i>	<i>-25</i>	<i>-15</i>	<i>-14</i>
Net errors and omissions	4	0	0	0	0
Change in FX reserves (+ is for decrease, - is for growth)	-23	-38	-70	-46	-41



INFLATION EXPECTATIONS

Inflation expectations are at historical lows but uncertainty persists over its subsequent movements

Horizon		2016				2017				2018									
		I	II	III	IV	I	II	III	IV	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Inflation expectations (absolute numbers), %																			
Households																			
FOM	Next 12 months	14.7	14.2	14.2	12.4	11.2	10.3	9.6	8.7	8.9	8.4	8.5	7.8	8.6	9.8	9.7	9.9	10.1	9.3
FOM (Bank of Russia calculations)	Next 12 months	7.4	6.7	5.9	5.1	4.0	4.0	2.8	2.4	2.1	2.1	2.2	2.2	2.2	2.6	2.8	3.5	3.8	3.8
Professional analysts																			
Bloomberg	2018						4.0	4.0	4.0	4.0	3.8	3.6	3.6	3.7	3.8	3.8	3.7	3.9	
Interfax	2018					4.2	4.1	4.1	3.9	3.8	3.8	3.7	4.0	3.8	3.8	4.0	4.0	3.9	
Reuters	2018						4.1	4.0	4.1	3.8	3.8	3.6	3.8	3.7	3.8	3.8	3.9	3.9	
Bloomberg	2019													4.0	4.0	4.2	4.4	4.7	
Interfax	2019									3.6	3.7	3.8	4.1	4.0	4.1	4.3	4.4	4.3	
Reuters	2019												3.9	3.9	4.0	4.1	4.2	4.4	
Financial markets																			
OFZ IN (option not subtracted)	Next 5 years	6.9	6.0	5.3	5.4	4.9	4.7	4.3	4.1	4.1	4.0	3.9	4.1	4.2	4.5	4.6	5.2	5.3	
Bond market	Next quarter	12.0	6.9	7.2	6.6	5.2	4.4	4.4	3.0	-	-	2.7	-	-	2.7	-	-	2.6	
Interbank market	Next quarter	9.9	5.3	5.4	5.6	4.6	3.7	3.3	2.3	-	-	1.8	-	-	2.0	-	-	2.6	
Inflation expectations (balanced index*)																			
Households																			
FOM	след. 12 месяцев	84	78	82	80	79	80	82	78	78	75	74	76	76	79	82	82	82	77
FOM	след. месяц	72	68	70	76	68	68	73	73	69	61	62	63	63	71	69	71	70	69
Businesses																			
REB	Next 3 months	14	38	36	46	22	20	14	52	22	24	32	0	14	28	16			
Bank of Russia monitoring (SA)	Next 3 months	13.6	12.2	11.3	9.4	7.4	9.5	7.2	7.2	6.4	6.8	8.5	9.9	10.3	11.2	10.8	12.0		
Retail prices (Rosstat)	Next quarter	32	29	28	27	27	24	24	22	-	-	20	-	-	20	-	-	20	
Tariffs (Rosstat)	Next quarter	5	5	0	0	4	3	0	0	-	-	5	-	-	5	-	-	0	

Change:

- Inflation expectations become better (more than 1 standard deviation)
- Inflation expectations become better (less than 1 standard deviation)
- Inflation expectations unchanged ($\pm 0,2$ standard deviations)
- Inflation expectations become worse (less than 1 standard deviation)
- Inflation expectations become worse (more than 1 standard deviation)

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

Source: Bank of Russia, FOM



MONETARY POLICY

Gradual transition from moderately tight to neutral monetary policy

Inflation and inflation expectations

- Prices are adjusting to the ruble exchange rate that has weakened since the beginning of the year
- Uncertainty persists over the subsequent movements of inflation expectations
- One-off factors are expected to trigger a temporary acceleration in annual inflation, which will peak in the first six months of 2019
- Annual inflation will slow down to 4% in the first half of 2020 when the effects of the ruble's weakening and the VAT rise peter out

Monetary conditions: their certain tightening is ongoing

Economic activity

- The Bank of Russia's view of the Russian economy's mid-term growth prospects has also remained mainly unchanged
- In 2019, the forthcoming VAT increase might have a slight constraining effect on business activity (mostly in the beginning of the year)
- The following years might see higher growth rates as the planned structural measures are implemented

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

- The main risks: **(1) Continuing uncertainty over future external conditions and their impact on financial asset prices**
- Moderate risks – estimates are mostly unchanged: (2) oil price volatility, (3) wage movements, (4) possible changes in consumer behavior

Decision
as of October 26, 2018

**The Bank of Russia
keeps the key rate
at 7.50% p.a.**

Signal

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



FINANCIAL 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 grow at a high pace (19.3% YoY as of September 1, 2018). Therefore, the CBR increased risk weight for consumer credits bearing an FCC of 10 - 30% to be issued after 1 September 2018.

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 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 ratio (Basel III N1.0 ratio) for the banking sector overall decreased over 12 months from 13.3% to 12.5% as of October 1, 2018.

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.

Decision

The Bank of Russia keeps the countercyclical capital buffer rate for Russian credit institutions at 0% of risk-weighted assets as of October 1, 2018.



FINANCIAL STABILITY: FOREIGN CURRENCY LIQUIDITY

At the end of September foreign banks and non-residents FX sales helped to decrease market volatility

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

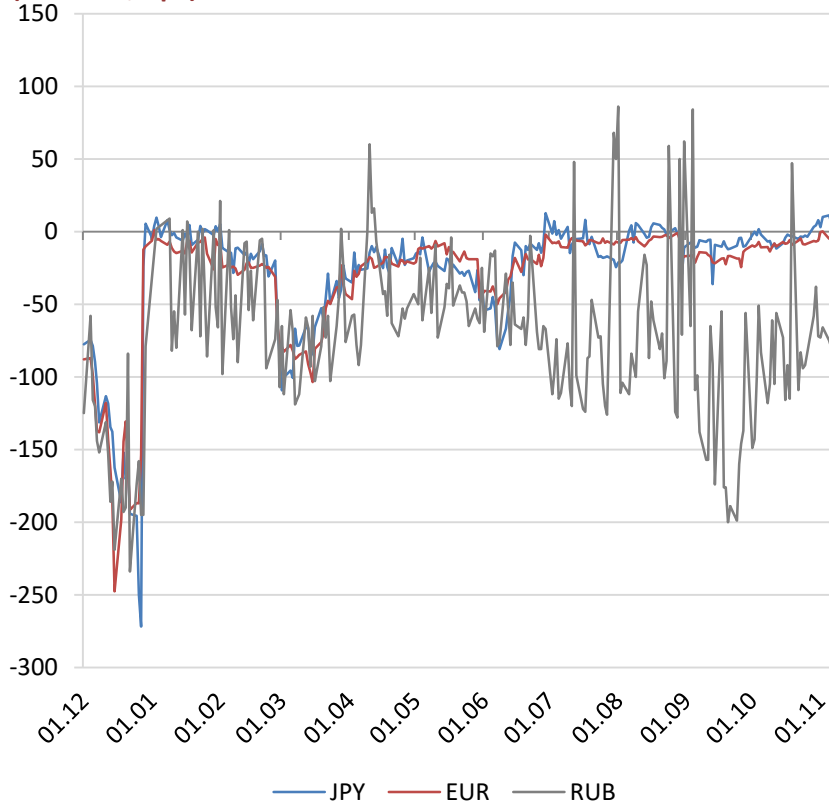
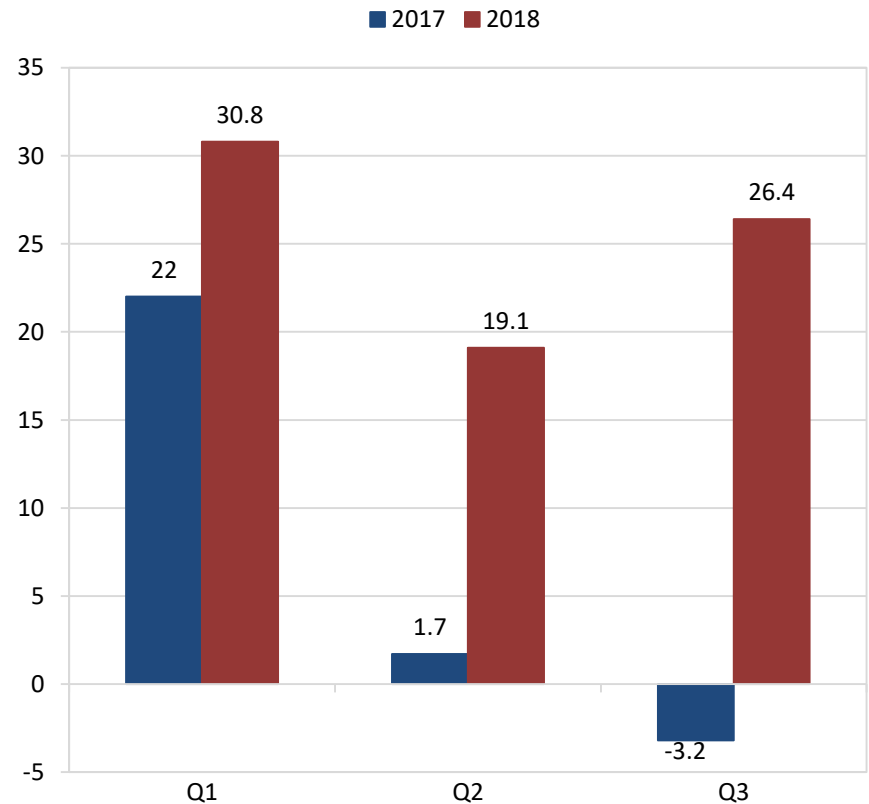


Figure 11: In January-October 2018 the current account surplus amounted to USD 87.9 bn (est.) thanks to favourable international prices for major Russia's export goods





Bank of Russia

The Central Bank of the Russian Federation



FINANCIAL SECTOR OVERVIEW



BANKING SECTOR: CURRENT AGENDA

Shaping a favourable operating environment and supporting market competition

Proportional banking regulation: differentiating regulatory burden for banks based on their size and simplifying requirements for smaller banks focused on retail and SME lending

New resolution mechanism: reducing financial costs and execution period of the resolution procedure

Imminent introduction of PTI ratio in order to affect the consumer lending market more efficiently

Development of banking supervision: introduction of the Basel Committee on Banking Supervision (BCBS) standard on capital requirements for banks' equity investment in funds (since December 16, 2017)

Consulting supervision: aiming to remedy problematic situations in banks at an early stage

Development of macroprudential regulation: streamlining the regulation, introducing countercyclical approach

New regulations to the credit history bureau: entrusting several strategic credit bureaus with the function of aggregating information on debt payments

Basel III in force: Leverage ratio (except for banks with basic license), NSFR – for D-SIBs



BANKING SECTOR: PROPORTIONAL REGULATION

Differentiating regulatory burden for banks depending on their size

BASIC LICENSE

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

UNIVERSAL LICENSE

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

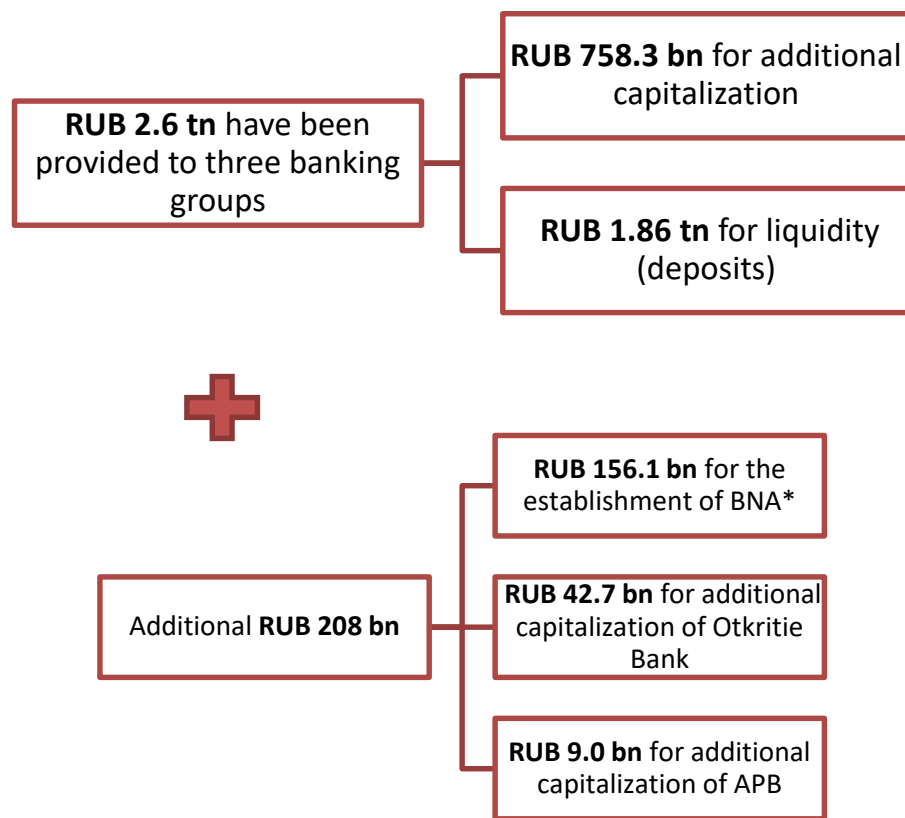
Additional requirements for systemically important credit institutions:

- Advanced approach to risk management
- Special buffer to risk ratios for calculating capital adequacy requirements



BANKING SECTOR: NEW RESOLUTION MECHANISM

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



List of banks

- Otkritie Bank
- B&N Bank
- Promsvyazbank PJSC
- National Bank TRUST
- ROST BANK
- Bank AVB
- Asian-Pacific Bank PJSC

In September 2018 the Bank of Russia approved amendments to the plan of its participation in bankruptcy prevention measures for Asian-Pacific Bank PJSC. It will be recapitalized by RUB 9.0 bn and the Bank of Russia will own over 99.9% of its ordinary shares.

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



BANKING SECTOR: KEY FIGURES (1)

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

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

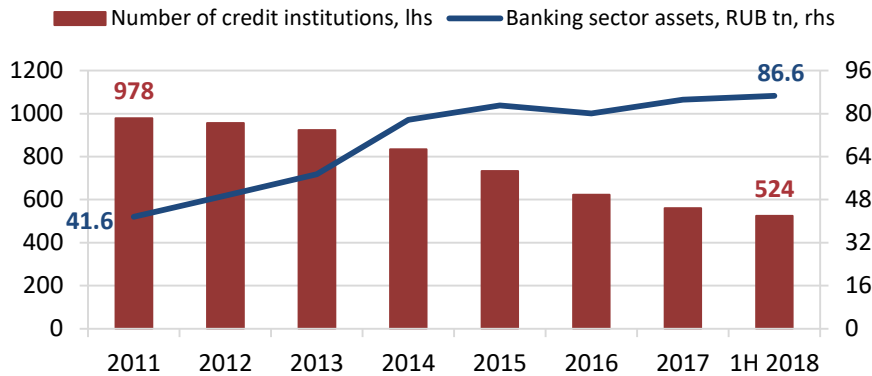


Figure 13: Mortgage lending remains key growth driver amid falling rates

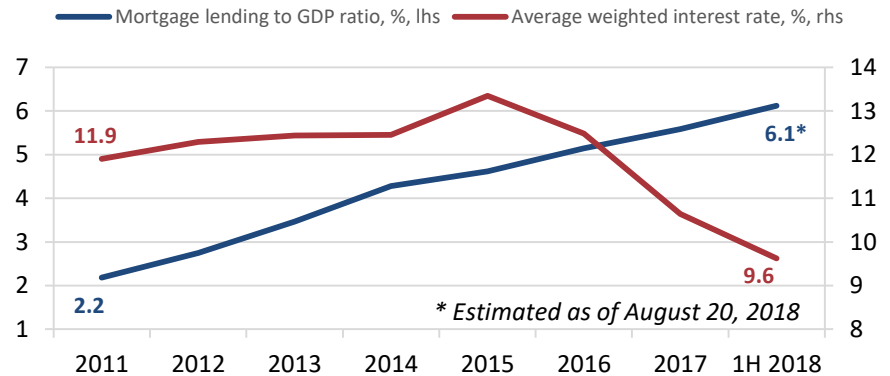


Figure 14: In September 2018 corporate deposits grew by 4.8% YoY to almost RUB 26 tn

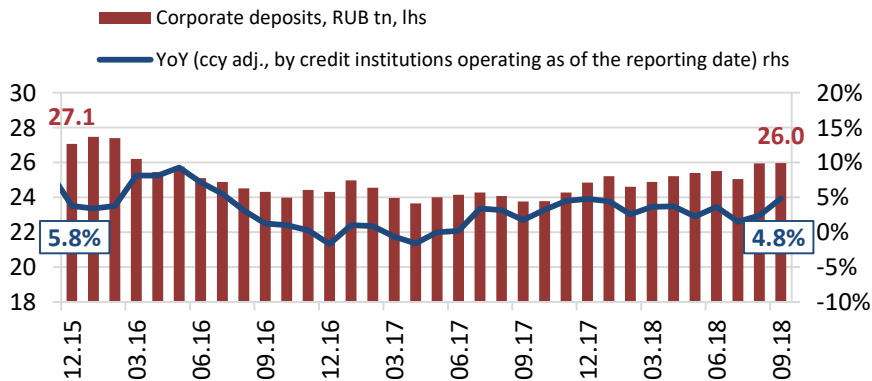
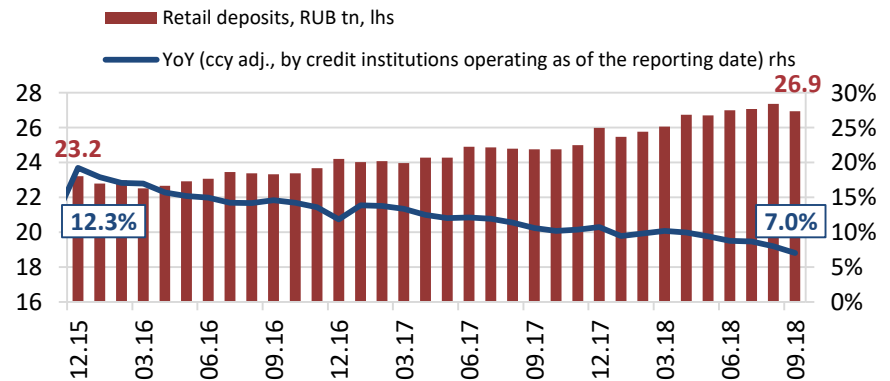


Figure 15: In September 2018 retail deposits demonstrated growth by 7.0%, reaching RUB 26.9 tn





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 early signs of recovery

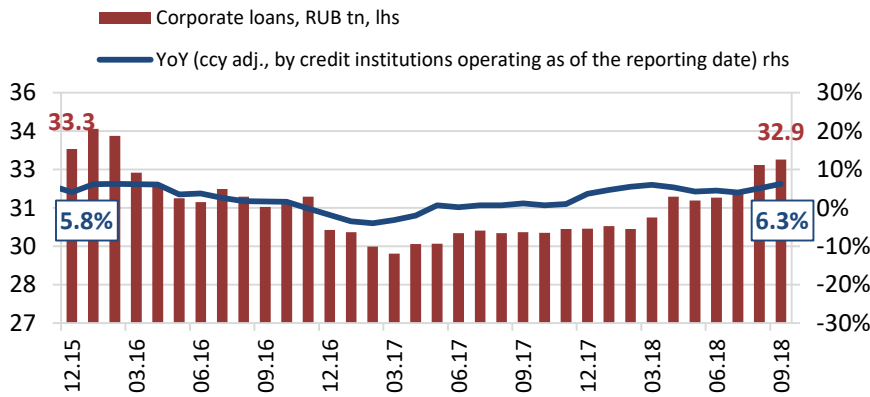
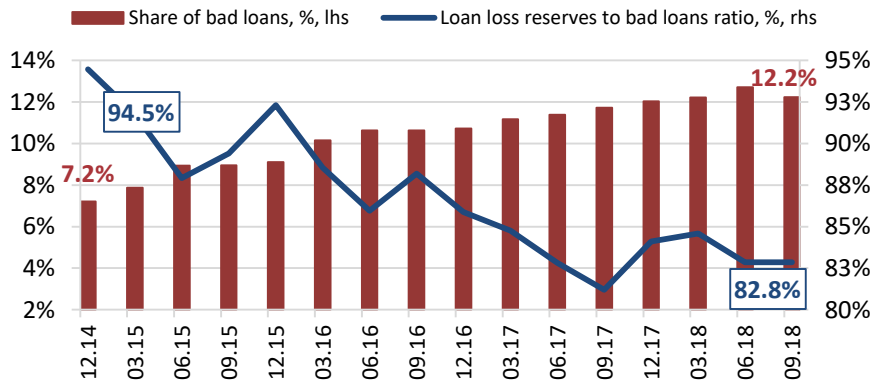


Figure 18: Share of bad corporate loans* reached 12.2% (01.10.18) while loan loss reserves to bad loans ratio amounted to 82.8%



* 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.

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

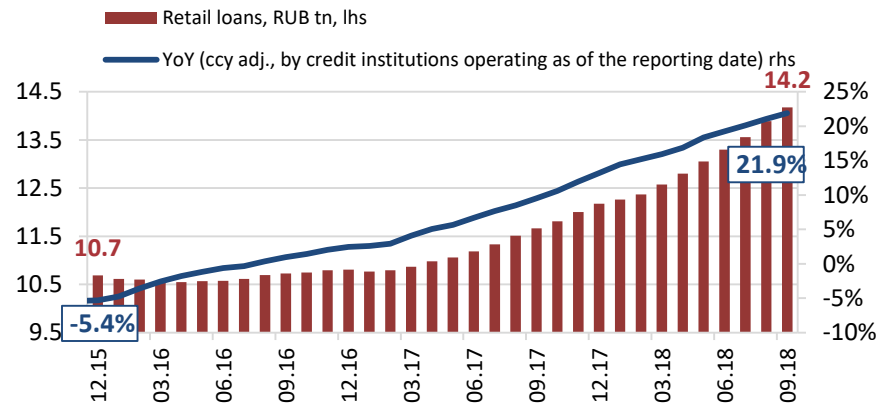
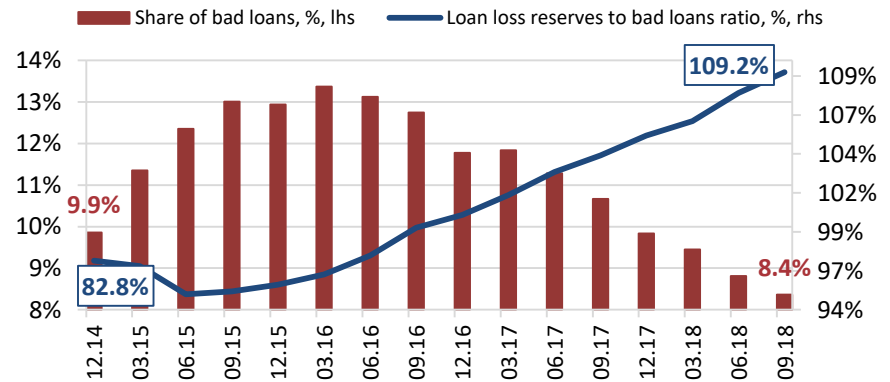


Figure 19: Retail loans portfolio demonstrates improved quality: the share of bad loans* fell to 8.4% (01.10.18)





BANKING SECTOR: CAPITAL ADEQUACY

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

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

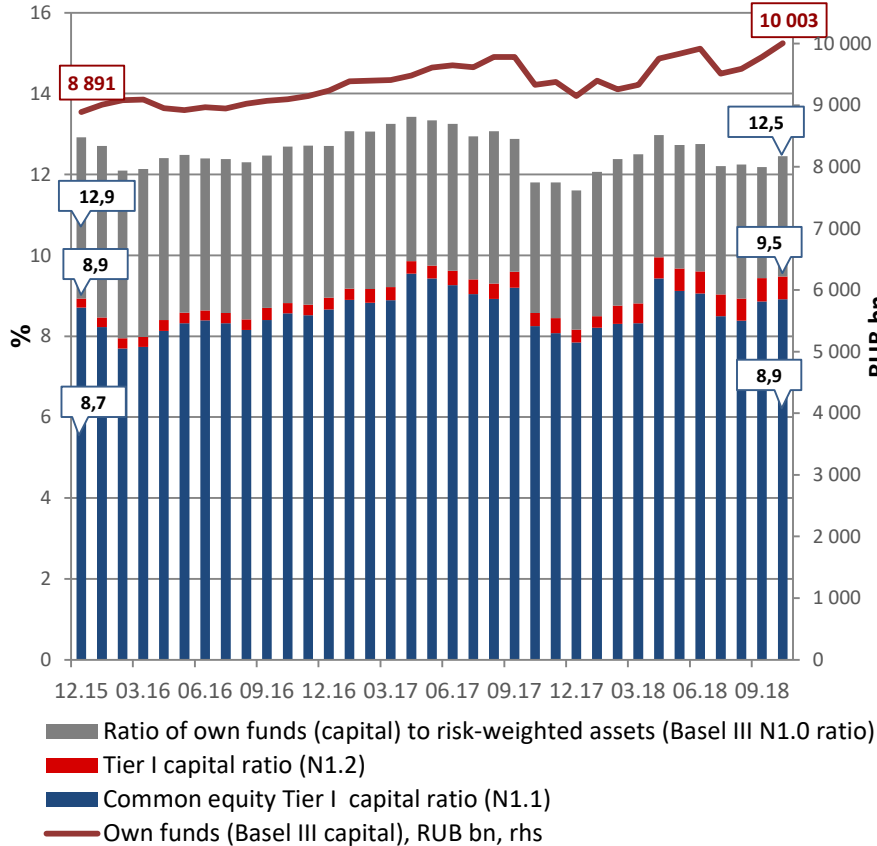
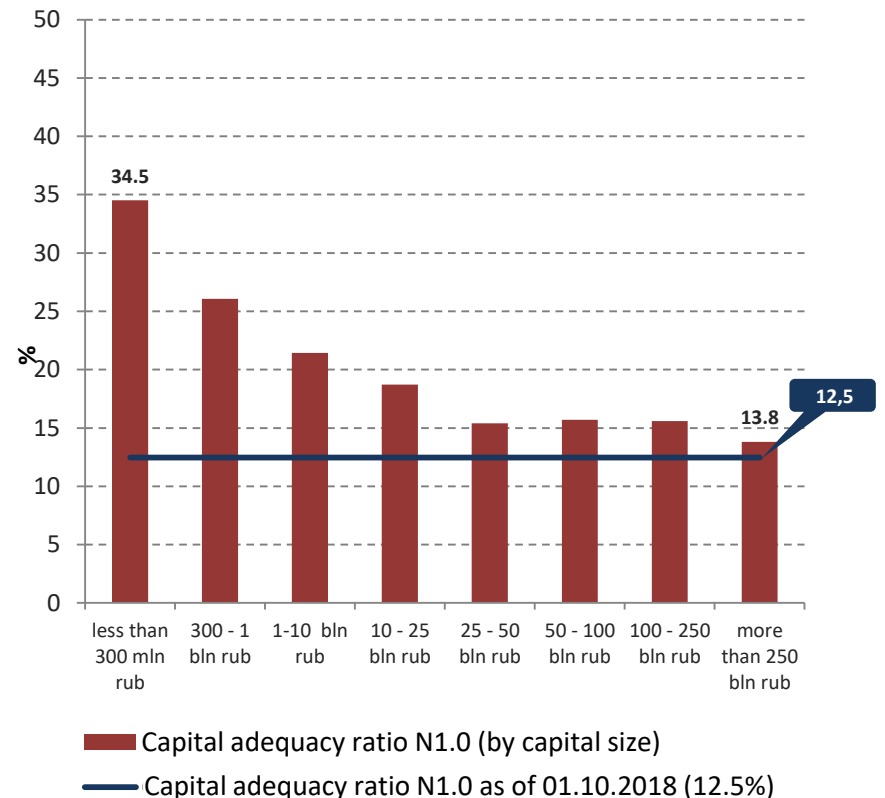


Figure 21: Credit organizations with capital exceeding RUB 25 bn have lower buffer vs N1.0 minimum requirement due to economies of scale





MICROFINANCE

Microfinance is a vital part of financial system complementing banks to provide better financial inclusion

MFIs

- ✓ **Microfinance organizations (MFOs)**
- ✓ **Consumer credit cooperatives**
- ✓ **Credit Housing communities**
- ✓ **Pawnbrokers**
- ✓ **Agricultural credit cooperatives**

Microfinance institutions (MFIs) provide financial services for customers with no access to banking products, service regions with an insufficient bank presence, offer financial products missing from bank product lines, boost financial awareness and help clients build their credit histories.

CBR keeps a state register of MFIs and supervises MFIs directly and via SROs. Currently there are about 15 600 MFI companies.

Roughly 25% of the entire MFO microloan portfolio are microloans to small to medium enterprises (bearing 8% interest rate thanks to state support via MFOs).

Payday Loans, i.e. small, short-term unsecured loans (up to RUB 30k for 30 days) at high rates, are not a development priority and account for some 20% of the entire MFO microloan portfolio.



SECURITIES MARKET (1)

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



Crisis-proven market infrastructure

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



Simplified market access

- Euroclear and Clearstream settlement for equities and bonds; Unified collateral pool for equities, bonds and FX markets
- International clearing system membership; Direct access to FX trading for large corporates
- Local investor base development (individual investment account system, tax incentives, etc.)
- Unified license covering both depository and registrar operations.



Upgraded corporate governance

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



Increased transparency

- Mandatory audited IFRS for all public companies
- Strengthened regulation to prevent market manipulation and insider trading
- Improved disclosure practices
- Report on Corporate Governance Code compliance in the annual report
- Requirement to have a written description of dividend policy for the top-tier Quotation list
- Development of basic standards for professional market participants activities



SECURITIES MARKET (2)

Russian equity market remains undervalued despite strong performance in recent years

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

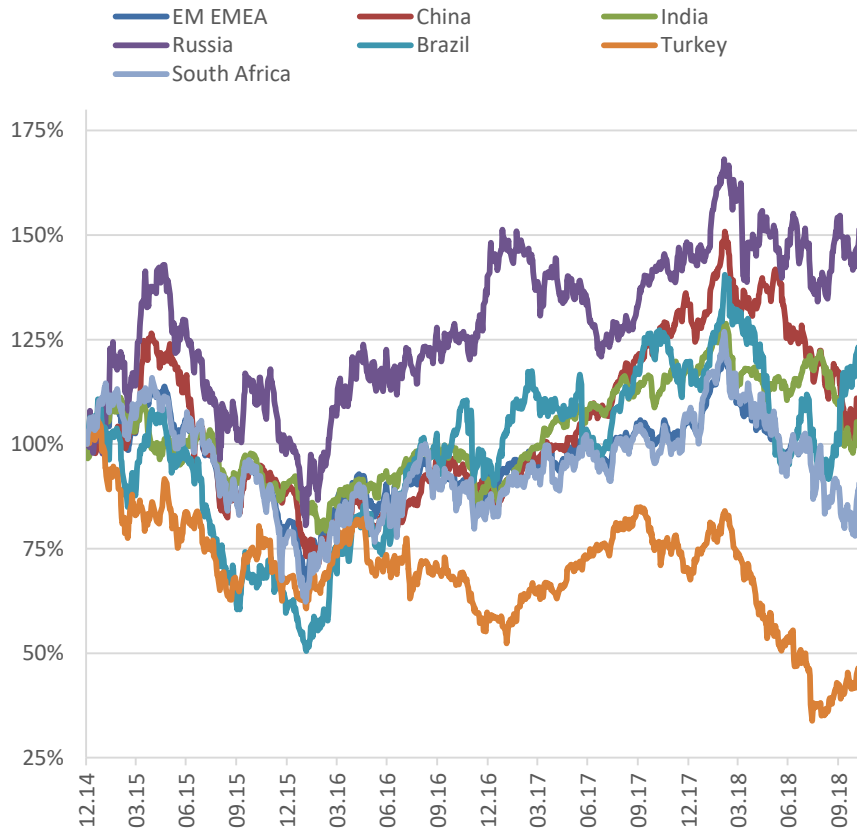
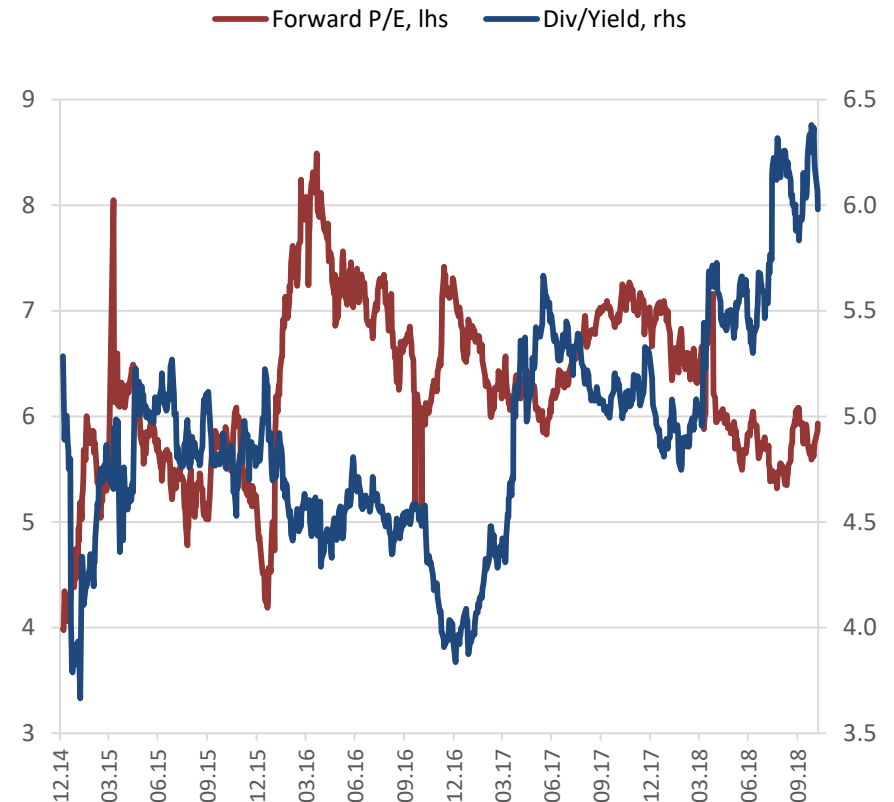


Figure 23: Forward P/E ratio of just 5.9x and a dividend yield around 6%



Source: Thomson Reuters, Moscow Exchange



SECURITIES MARKET (3)

Equity market provides strong growth potential

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

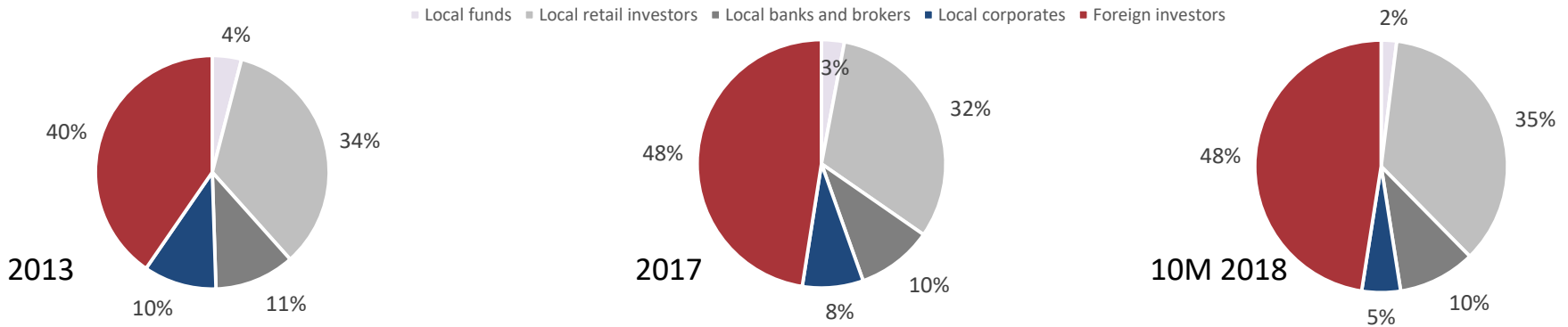


Figure 27: Russian equities market volume proves stable (RUB tn)

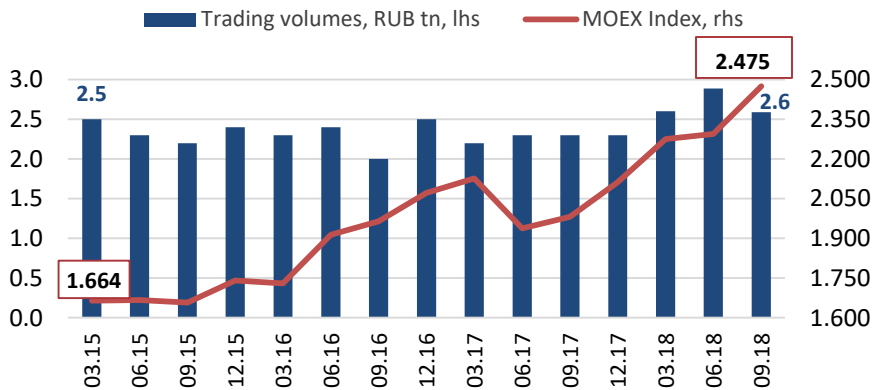
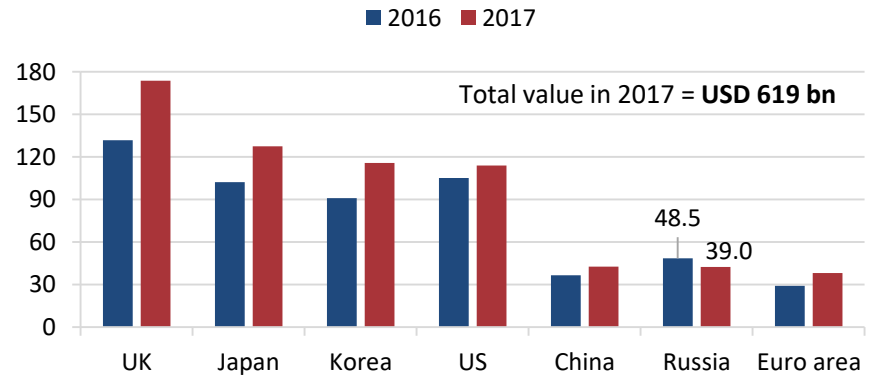


Figure 28: Domestic market capitalization to GDP ratio reflects undervalued Russian financial market (of GDP, %)





SECURITIES MARKET (4)

Growing a deeper Russian bond market with strong potential

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

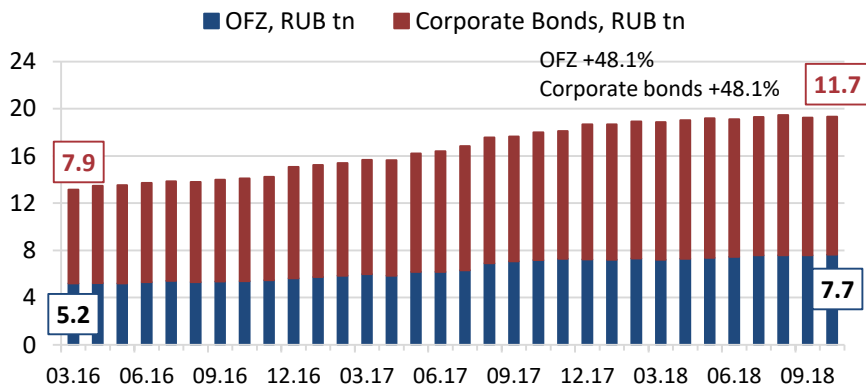


Figure 30: Debt market volume breakdown by investor type

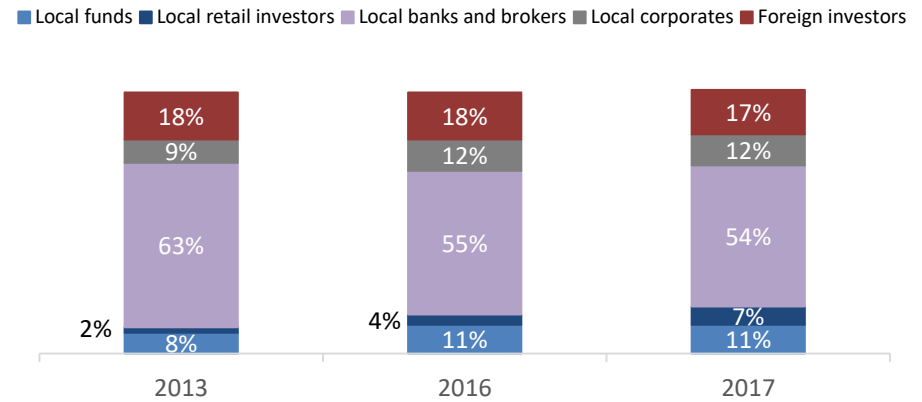


Figure 31: Bond market yields, key rate and RUONIA (%)

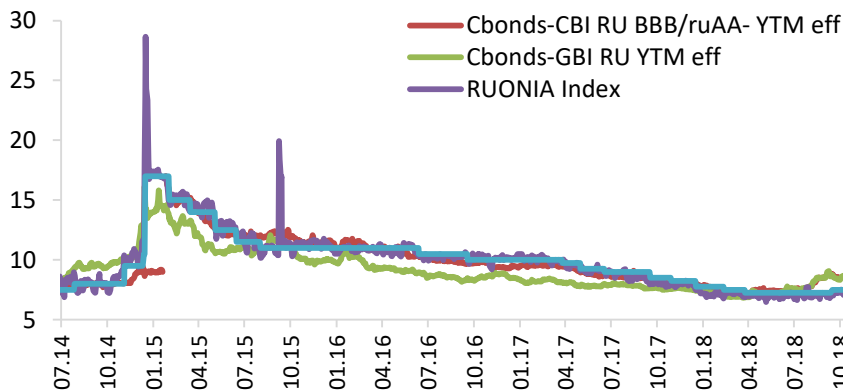
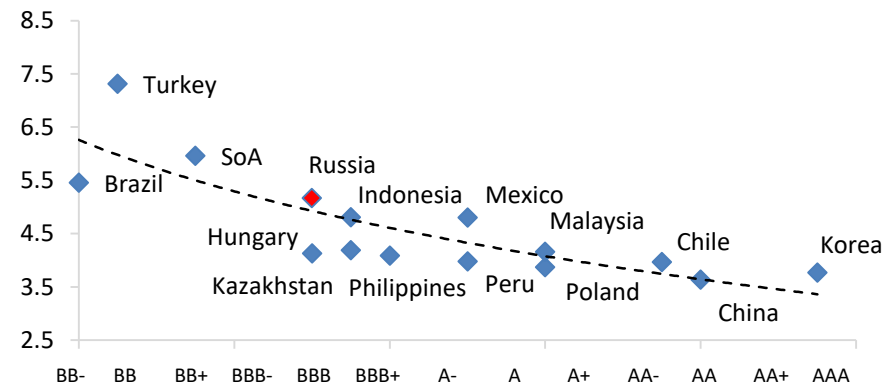


Figure 32: EM 10Y bond yields on the background of credit ratings



Source: Thomson Reuters, Moscow Exchange, IMF and World Federation of Exchanges



SECURITIES MARKET (5)

In January-September 2018 non-residents share in the OFZs reduced from 33.9% to 25.8%

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

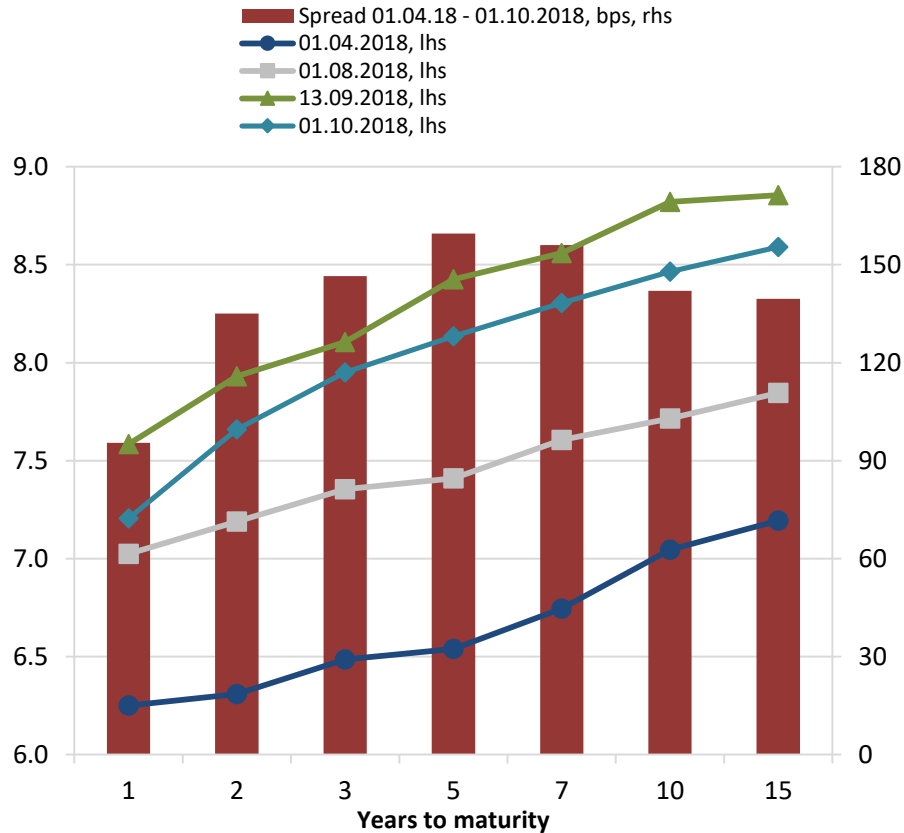
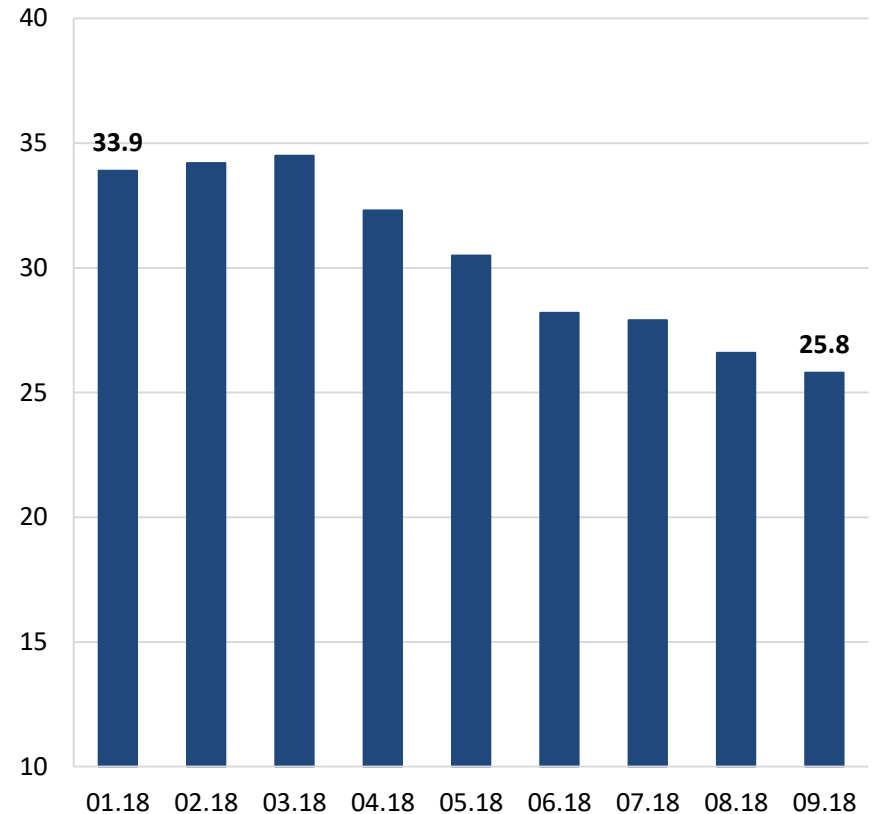


Figure 34: Non-residents' holdings of OFZs (%)





SECURITIES MARKET (6)

In January-September 2018 non-residents share in the OFZs reduced from 33.9% to 25.8%

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

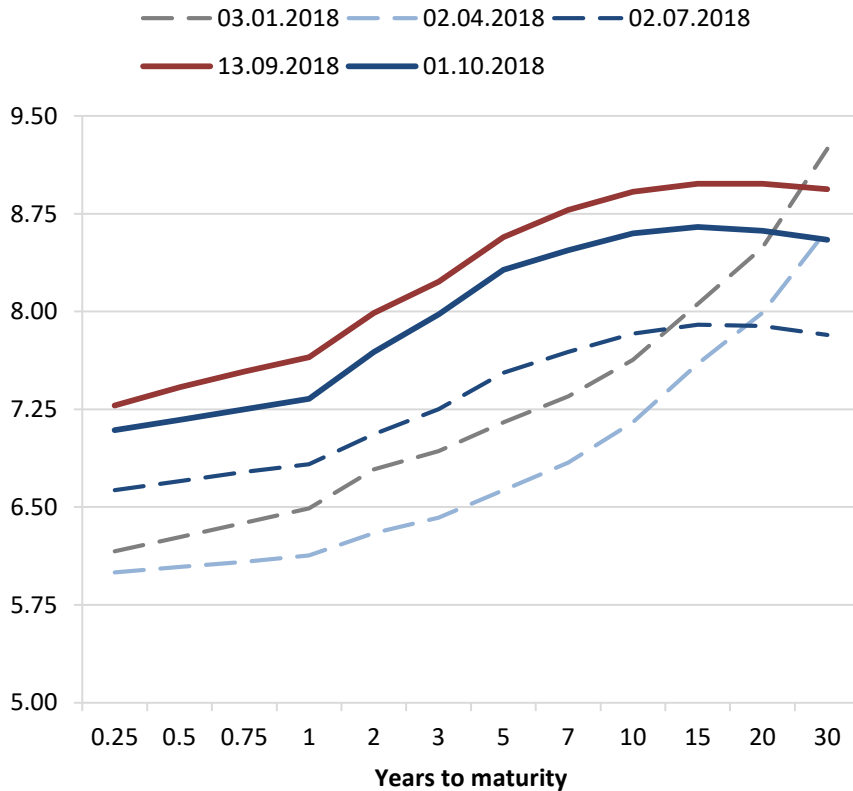
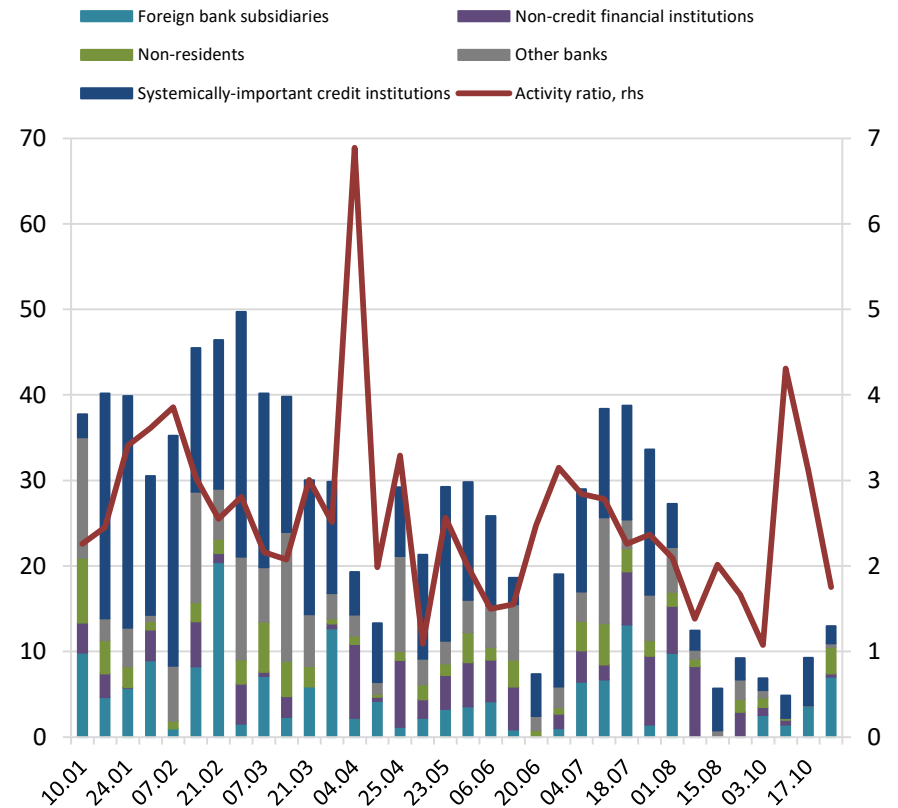


Figure 36: OFZ placement dynamics in 2018 (RUB bn)





SECURITIES MARKET (7)

Growing a deeper Russian bond market with strong potential

Figure 37: Ageing fixed assets require long-term investments

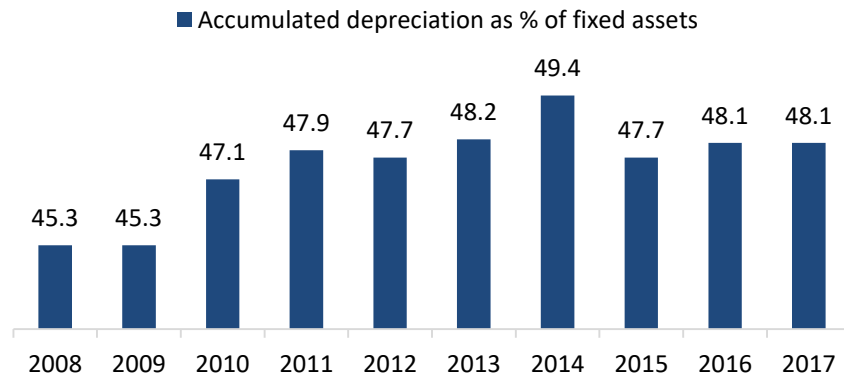


Figure 38: Breakdown of bond issuers by industry, as of January 1, 2018

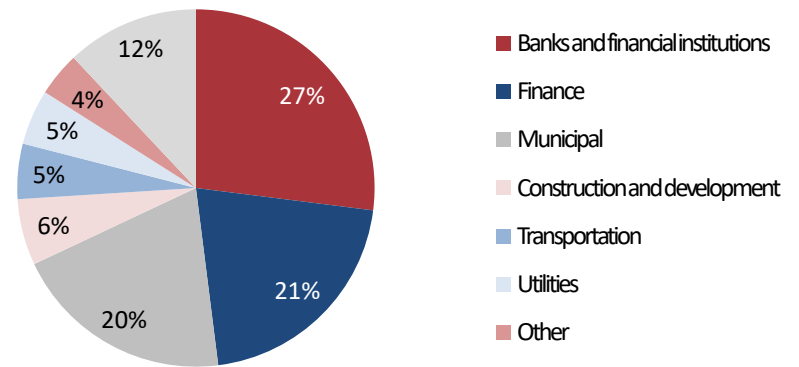


Figure 39: Corporate loans vs corporate bonds in Russia (RUB tn)

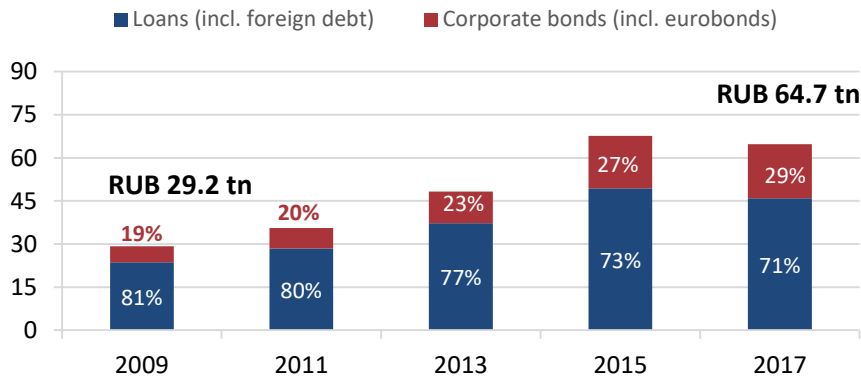
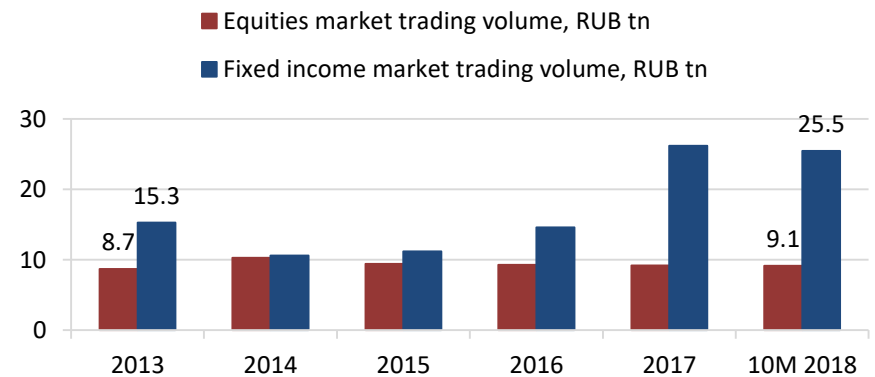


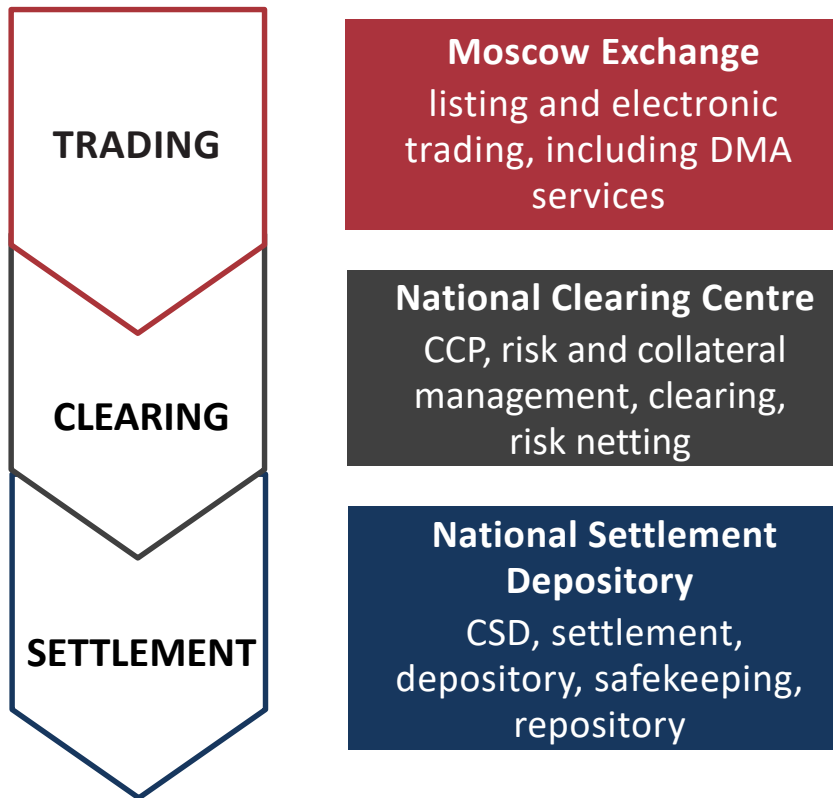
Figure 40: "Bondization" of Russian financial market





SECURITIES MARKET (8)

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



SECURITIES MARKET (9)

Russian financial market has necessary infrastructure and regulation for trading OTC

Robust legal protection in place

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

Russia adheres to G20 decisions in respect of OTC derivatives reforms

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

Variety of instruments and service providers

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

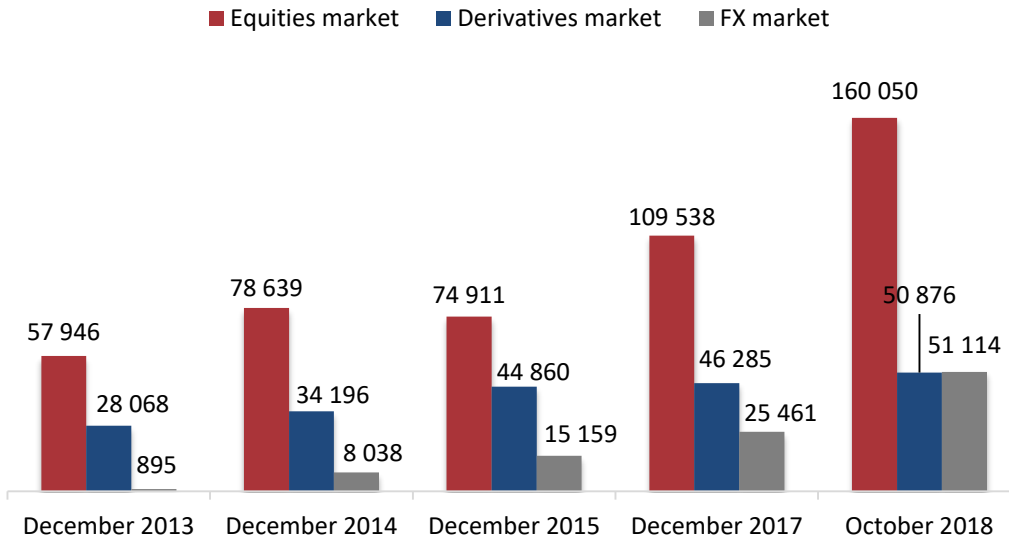


SECURITIES MARKET (10)

Rapidly developing retail market with strong tax incentives and accelerating FinTech

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

Figure 41: Number of active retail client accounts



Source: Moscow Exchange

Recent regulatory changes

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

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

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

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

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



CORPORATE GOVERNANCE

New corporate governance standards reflect best international practices

Listing reform on Moscow Exchange

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

Next stage 2018

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

Corporate actions reform

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

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 .

Insider trading
and market
manipulation

International
cooperation

- 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

Unlicensed
firms and
Pyramid
Scheme

Enhanced
consolidated
market
analysis

- 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



INSURANCE

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

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

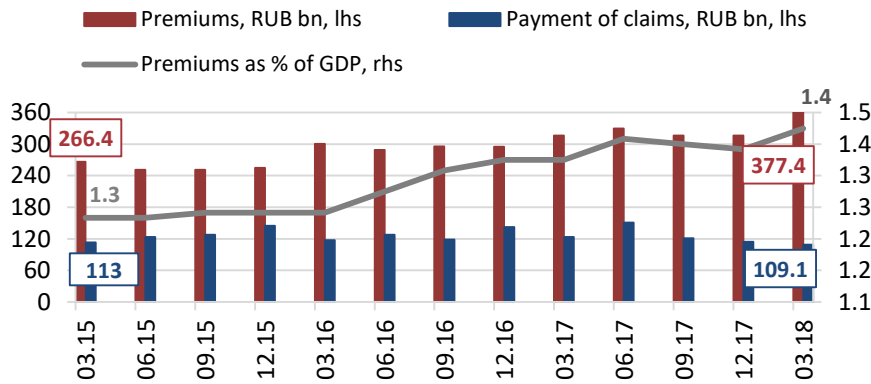


Figure 43: Assets and reserves hit 2.7% of GDP

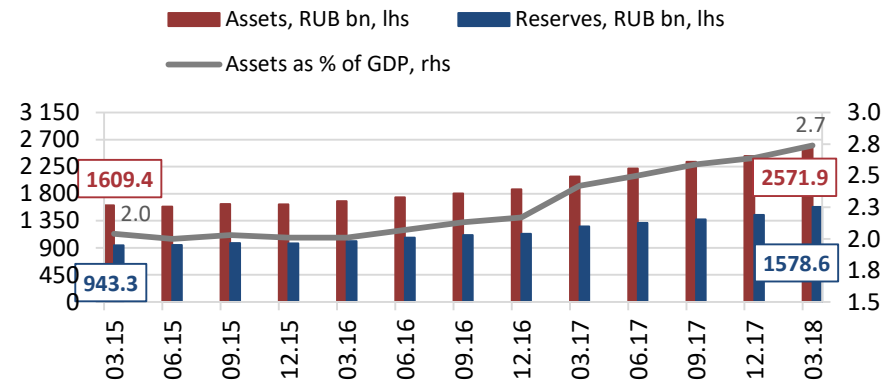


Figure 44: Premium structure shows high level of market diversification, as of Q1/2018

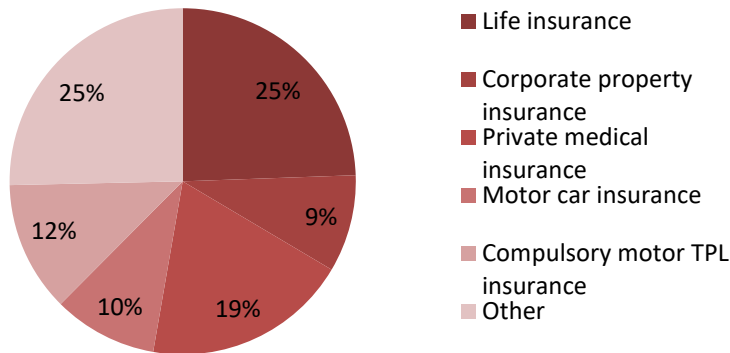
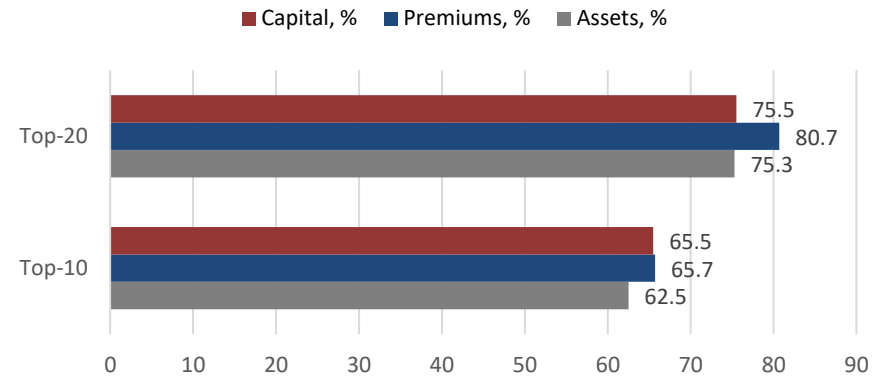


Figure 45: In Q1/2018 market remained highly competitive with the Herfindahl-Hirschman Index equal to 719.1





NON-STATE PENSION FUNDS

Bank of Russia aims to strengthen local institutional investor base: non-state pension funds

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 46: Pension assets in Russia (RUB tn)

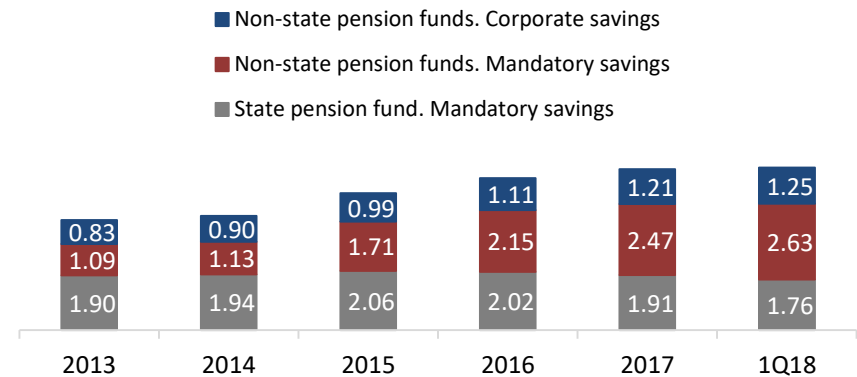
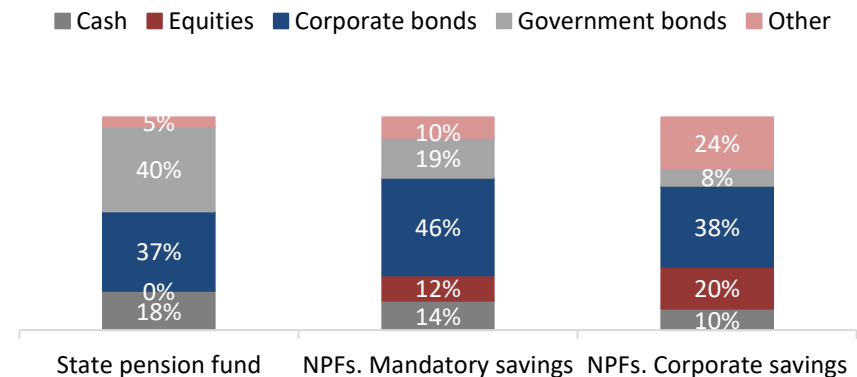


Figure 47: Pension system asset allocation (as of March 31, 2018, %)





INVESTMENT FUNDS

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

Figure 48: Number of investment funds by types and assets to GDP

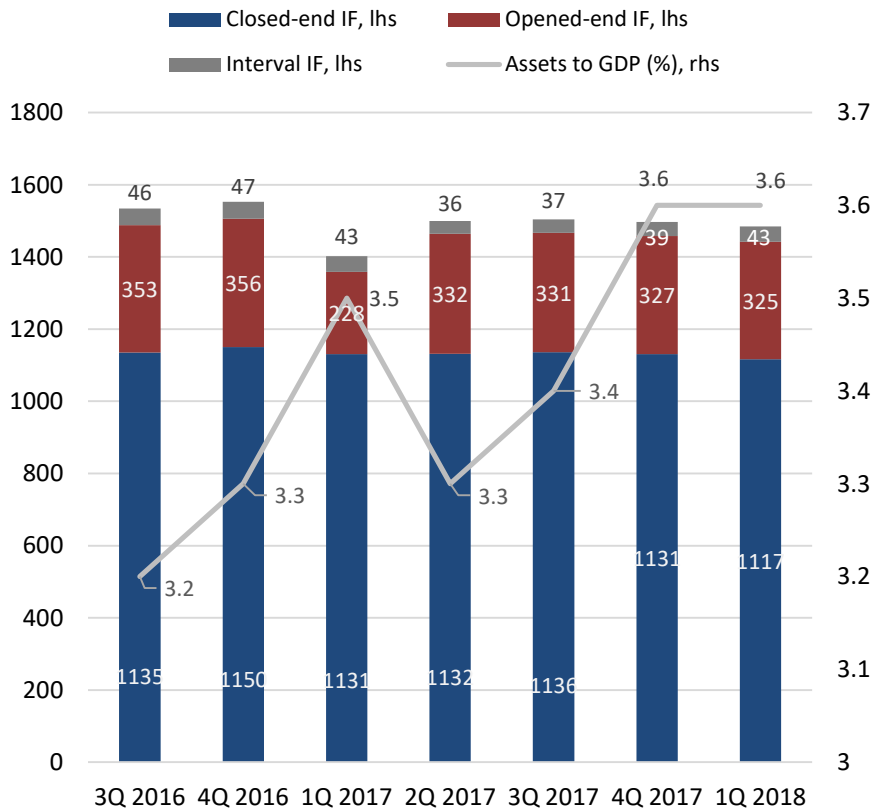
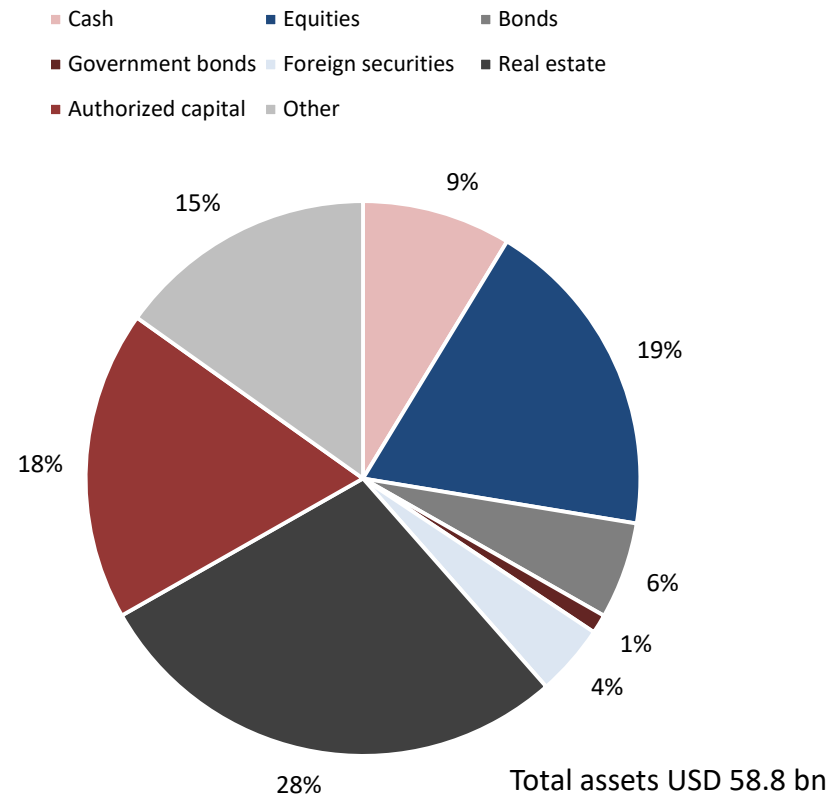


Figure 49: Breakdown of assets by type (as of March 31, 2018)

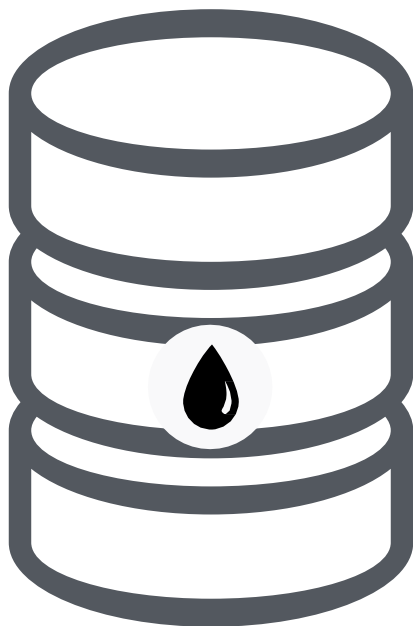


Bank of Russia Regulation No. 572-P came into force in August 2017 and regulated activities on shareholders' roster management.



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 mln payments, RUB 5.6 tn**
- ✓ Real-time and non-real-time payments provided through the RTGS system with **80% of the funds** transferred via the real-time service
- ✓ Providing tools for completing financial market infrastructure settlements in the Central Bank (RUB accounts)
- ✓ Transfer timeframe is adapted to Russia's **11 time zones**. In near future it will operate from 1 a.m. to 9 p.m., Moscow time
- ✓ Providing settlement services and intraday settlements on fund transfers conducted within Russia through payment cards (in collaboration with NSPK – the National Payment Card System)



PAYMENT INFRASTRUCTURE (2)

Advancing supervision and oversight to ensure stable development of the payment infrastructure

- ✓ Supervision of the payment infrastructure: monitoring organisations' compliance with the Russian law. Applies both to banking and non-banking institutions providing payment infrastructure and payment services
- ✓ Oversight of the payment infrastructure: improving institutions' operations following the Bank of Russia recommendations based upon international best practices
- ✓ Bank of Russia international cooperation in supervision and oversight of the payment infrastructure

Figures for early 2018:

32 payment systems and **550 institutions** supervised within the National Payment System (NPS)

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

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

High PFMI compliance ratings. NPS operators implement approved action plans based on the Bank of Russia recommendations



NATIONAL PAYMENT CARDS SYSTEM

Setting the standards for the payment industry to provide convenient and stable services



- ✓ **Russian national payment system “Mir”** was created on 23 July 2014
- ✓ Operator of Mir Card Payment System is **National Card Payment System Joint-Stock Company**, 100% of its shares belong to the Bank of Russia
- ✓ 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

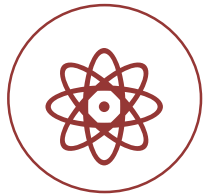
KEY FINANCIAL CONSUMER PROTECTION WORKSTREAMS



Consumer and investor
complaints handling



Differentiation of
consumer protection
requirements



Conduct supervision
model



Financial awareness
improvement



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



Disclosure requirements
for consumers and
investors



Dispute resolution
(ombudsman)



Disclosure requirements
for information on risks



FINANCIAL INCLUSION

Strong international background helps to promote financial inclusion

G20 GLOBAL PARTNERSHIP FOR FINANCIAL INCLUSION (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

Financial Inclusion Promotion by the Bank of Russia

- Improving financial inclusion for people and SMEs is one of financial market development priorities for 2016-2018
- The Bank of Russia annually publishes financial inclusion indicators and the Report on Financial Inclusion in Russia (with supply-side and demand-side data starting from 2015)
- The technical note on financial inclusion was prepared in the context of a joint WB / IMF FSAP mission in Russia during February-March 2016; the note was published in May 2016
- Early in 2018 the Bank of Russia launched the Financial Inclusion Strategy in Russia for the period of 2018-2020

ALLIANCE FOR FINANCIAL INCLUSION (AFI)

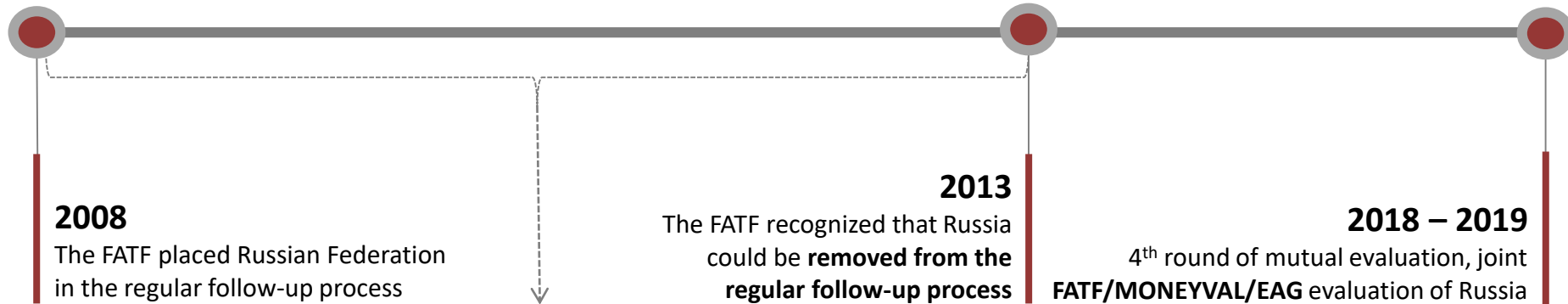
- The global knowledge exchange network empowering policymakers to increase access to quality financial services for the less well-off communities and households
- The Bank of Russia became a member of AFI in February 2014
- In September 2014 the Bank of Russia joined the Maya Declaration setting up the priorities for AFI members on financial inclusion
- In September 2015 the Bank of Russia joined the Maputo Accord to improve funding accessibility for SMEs
- The Bank of Russia and AFI co-hosted the 'Financial inclusion and shadow banking: innovation and proportional regulation for balanced growth' conference in November 2015
- In June 2016 the Bank of Russia hosted the AFI GSPWG meeting.
- CBR will host the 2018 AFI Global Policy Forum



AML/CFT

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

Russian AML/CFT law is based on International Standards on Combating Money Laundering (FATF Recommendations)



Key measures taken in 2008-2013:

- ✓ **Enhancing corporate transparency** by introducing beneficial ownership requirements to the AML/CFT Law
- ✓ **Prohibiting credit institutions** from opening and maintaining anonymous accounts or accounts in fictitious names
- ✓ **Addressing certain shortcomings** in the criminalization of terrorist financing
- ✓ **Amending legislation** to prevent criminals from becoming major shareholders in financial institutions
- ✓ **Strengthening instruments** to freeze terrorist assets domestically or on request of other countries
- ✓ **Abolishing the threshold** which decriminalized self-laundering of amounts lower than RUB 6 mln and which was not in compliance with the FATF Recommendations



CYBERSECURITY

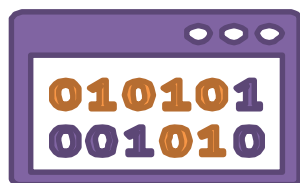
Key initiatives in information security and cybersecurity



Countering international and cross-border crime



Addressing the rise in money withdrawals via illegal cross-border transactions



Compiling a general register of most typical cyber threats and computer attack methods



Combatting fraud in financial e-services provided via websites registered in foreign DNS zones

Key avenues of cooperation in the sphere of information security

- ✓ Establishing institutional and technical framework for dynamic cooperation between the common financial market regulators and participants, building upon the Financial Sector Computer Emergency Response Team (FinCERT) of the Bank of Russia
- ✓ Enabling trusted electronic operations in the increasingly digitalised common financial market
- ✓ Formulating unified standardised approaches to information security, cyber resilience and supervising related risks
- ✓ Policy coordination and unifying the mechanisms of strong customer authentication for financial transactions and money transfers



INVESTOR CONTACTS AND REGULAR MEETINGS SCHEDULE FOR 2018

January 30	Conference call with institutional investors
February 2-9	Quiet period
February 9	Board of Directors meeting on monetary policy
March 16-23	Quiet period
March 23	Board of Directors meeting on monetary policy Release of the Monetary Policy Report
March 27	Meeting with institutional investors (Moscow) + conference call
April 18-19	Ad-hoc meetings with investors on the sidelines of the IMF/WB meetings
April 20-27	Quiet period
April 27	Board of Directors meeting on monetary policy
May 24-26	Saint Petersburg International Economic Forum
June 6-8	XXVII International Financial Congress (Saint Petersburg)
June 8-15	Quiet period
June 15	Board of Directors meeting on monetary policy Release of the Monetary Policy Report

June 19	Meeting with institutional investors (Moscow) + conference call
July 20-27	Quiet period
July 27	Board of Directors meeting on monetary policy
September 7-14	Quiet period
September 14	Board of Directors meeting on monetary policy Release of the Monetary Policy Report
September 18	Conference call with institutional investors
October 12-14	Ad-hoc meetings with investors on the sidelines of the IMF/WB meetings
October 19-26	Quiet period
October 26	Board of Directors meeting on monetary policy
December 7-14	Quiet period
December 14	Board of Directors meeting on monetary policy Release of the Monetary Policy Report
December 19	Conference call with institutional investors

International Cooperation Department

Tel.: +7 (495) 987-71-31

Email: investormeetings@mail.cbr.ru

Web-site: cbr.ru/eng/today/irp/