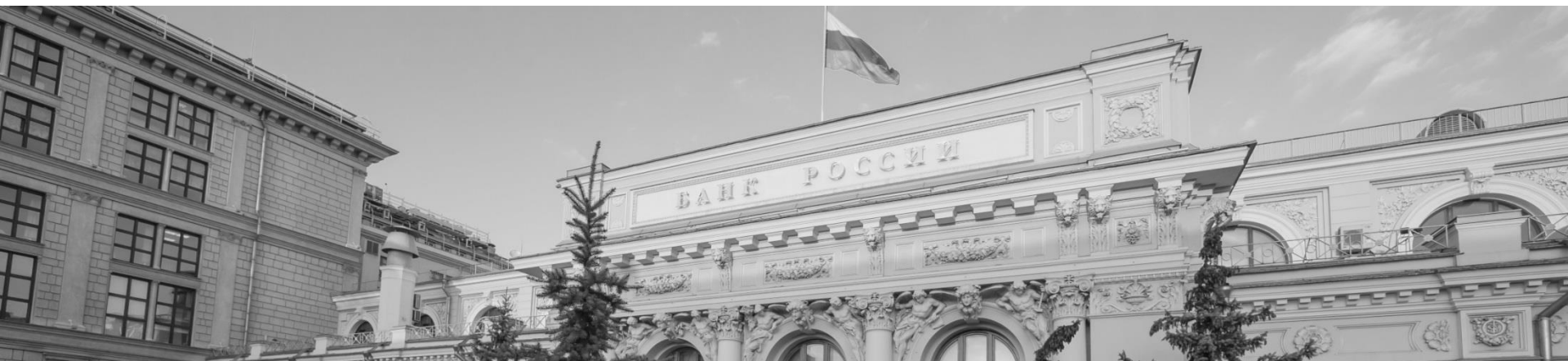




# Bank of Russia

The Central Bank of the Russian Federation



## RUSSIAN FINANCIAL SECTOR Investor presentation

July 2019



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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  
– Introduction of new financial rehabilitation mechanism
- 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

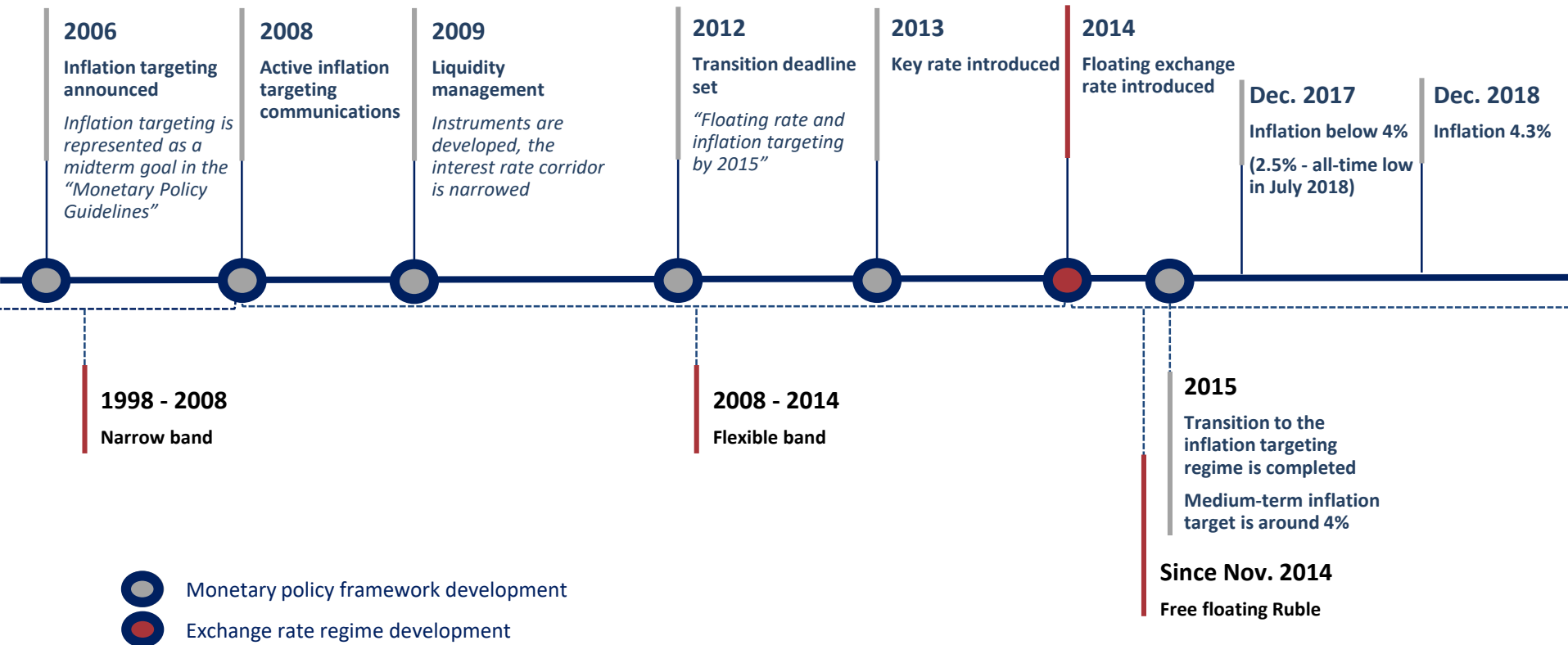
2013  
CBR becomes the megaregulator of the Russian financial sector

## 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



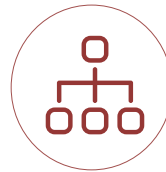
### Monetary policy

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)
- New macroprudential regulation mechanism in force – add-ons to risk ratios are introduced and set by the Bank of Russia Board of Directors
- Setting up a national rating industry - only credit ratings of Russian national agencies may be used for regulatory purposes



### Market infrastructure

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



### Corporate governance

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



### Payment infrastructure

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



### Pension system

- Guarantee fund mechanism introduced
- Investment horizon for non-state pension funds extended to 5 years
- Individual pension capital (IPC) accounts legislation is under development



## COMPLIANCE WITH INTERNATIONAL STANDARDS

Russia complies with or implements key international standards and best practices



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



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 **#31 in DOING BUSINESS-2019**  
Ratings (#35 in 2018)



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



ICMA  
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 2019 - 2021

The Bank of Russia Guidelines for the Development of the Russian Financial Market in 2019 – 2021 cover the following key areas and activities:



#### Building reliable financial environment

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



#### Improving financial inclusion and availability of capital

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



#### Developing market competitiveness

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



#### Ensuring financial stability

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





## NEWSLETTER (2)

### Key news from the Russian financial market

28 December 2018	The Bank of Russia has permitted <b>Raiffeisenbank to use internal ratings-based (IRB) approach</b> for the purpose of calculating regulatory capital (effective 1 Feb 2019).
21 December 2018	Introduction of <b>individual investment advisor as a new class of market players</b> . Investment advisory services are subject to regulation. Services shall be provided on the basis of a contract and customer investment profile, taking into account the customer's investment experience, targets and risk appetite.
21 December 2018	<b>The Bank of Russia raises risk weights on unsecured consumer loans</b> extended after 1 April 2019 with the effective interest rate of 10% to 30%.
14 December 2018	The Bank of Russia decided to <b>resume regular foreign currency purchases</b> in the domestic market under the fiscal rule that were suspended in 2018, starting <b>15 January 2019</b> .
1 October 2018	<ul style="list-style-type: none"> <li>✓ The Bank of Russia completed transition to the new macroprudential regulation mechanism by introducing <b>risk weight add-ons for capital adequacy calculation</b> by credit institutions while bringing standard risk weights on assets in line with Basel III requirements (effective 8 Oct).</li> <li>✓ <b>Risk weight add-ons for mortgage loans and loans for construction co-funding with LTV &gt; 80%</b> were set at 100%, i.e. 200% risk-weight will be applied to such loans extended after 1 January 2019. The buffer will only be effective as long as the loan-to-value ratio exceeds 80%.</li> <li>✓ <b>The countercyclical capital buffer</b> for Russian credit institutions is retained at 0% of risk-weighted assets.</li> </ul>
25 July 2018	The Bank of Russia introduces <b>16 criteria of economic relations between related party-borrowers</b> to calculate N6.
24 July 2018	<b>Higher requirements introduced to the minimum authorized capital for insurers:</b> RUB 450 mln for life insurers, RUB 300 mln for personal and property insurers and RUB 600 mln for reinsurers.
23 May 2018	The Bank of Russia <b>raises risk weights on FX loans and securities</b> , effective from July 1, 2018 to: 110% (from 100%) for exporters, 150% (from 130%) for real estate purchase, 130% (from 110%) for other FX corporate loans.



# 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 in 2016 (YoY, %)

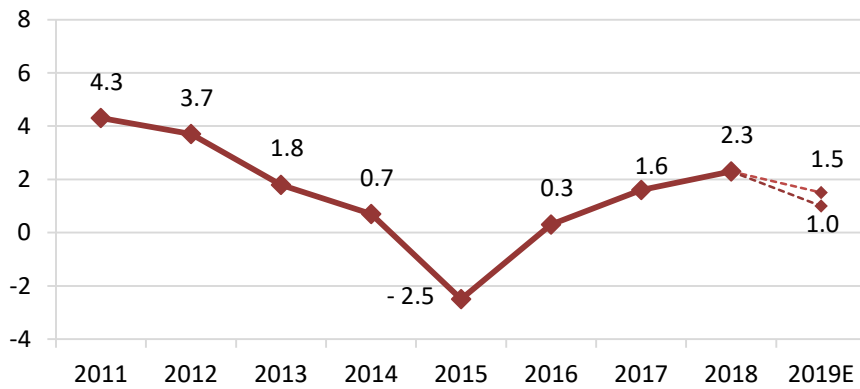


Figure 2: Private consumption and investment dynamics (YoY, %)

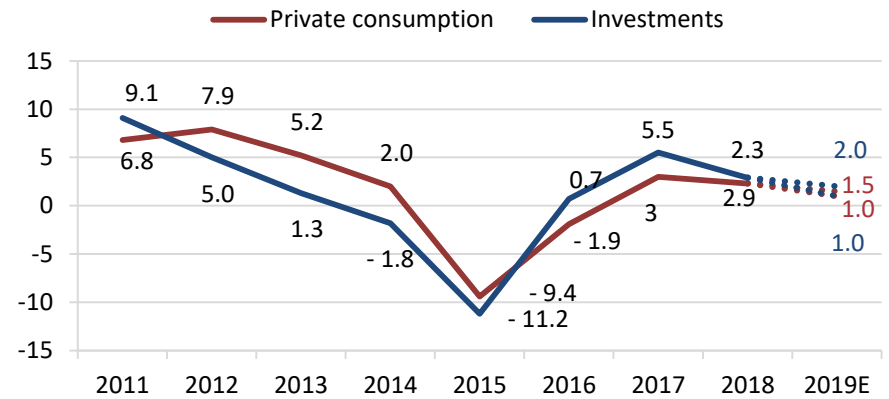
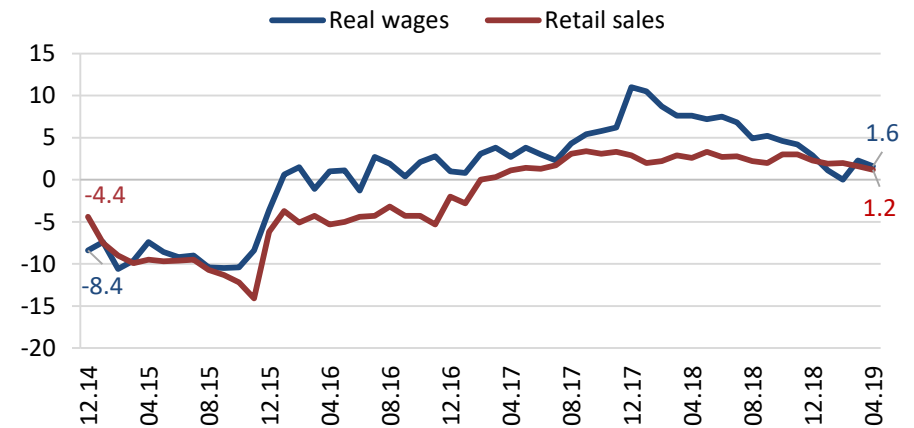


Figure 3: Russian Ruble volatility remains low while in free-floating



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





# MACROFINANCE

## Solid fiscal and external positions

Figure 5: Current account surplus amounted to USD 114 bn in 2018

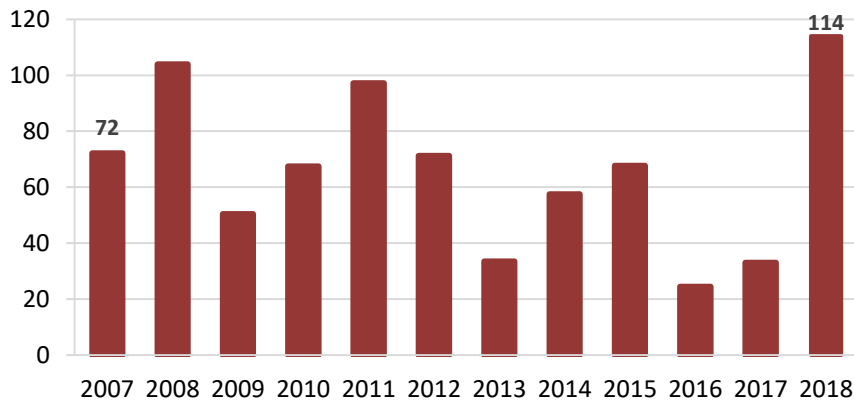


Figure 6: Strong fiscal position: budget consolidation and fiscal rule

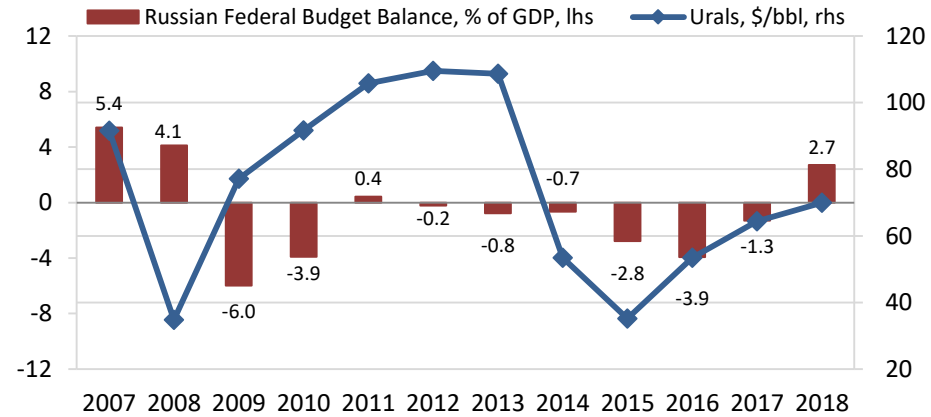


Figure 7: Significant international reserves assuring financial stability

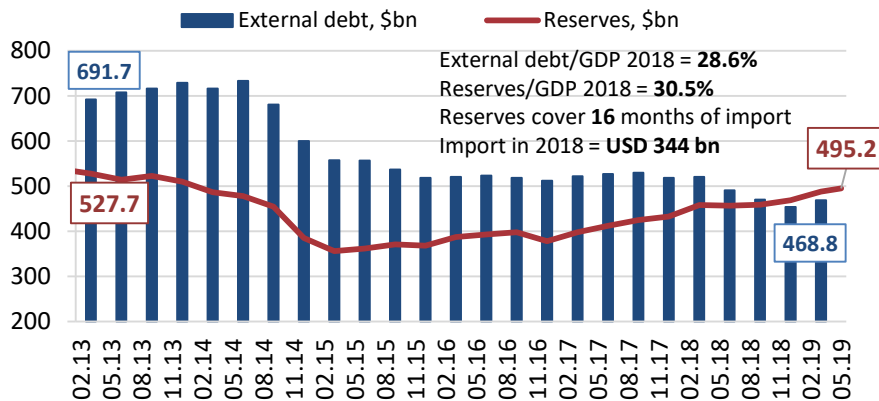
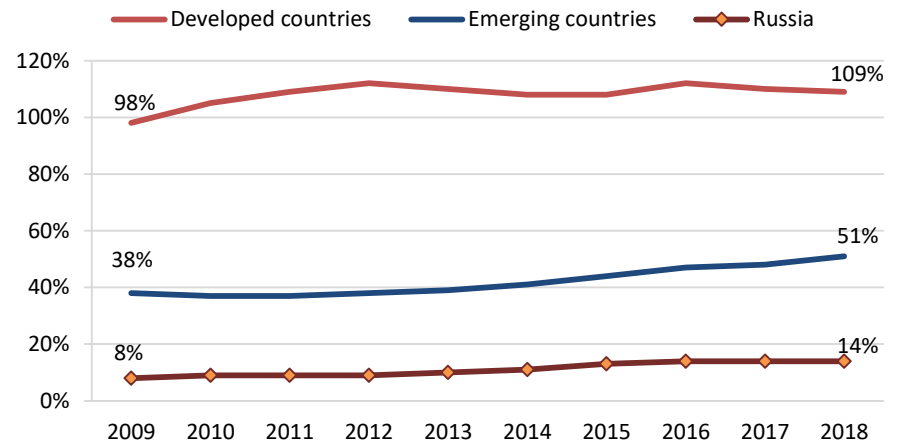


Figure 8: Sovereign debt to GDP lowest in both EM and DM spaces

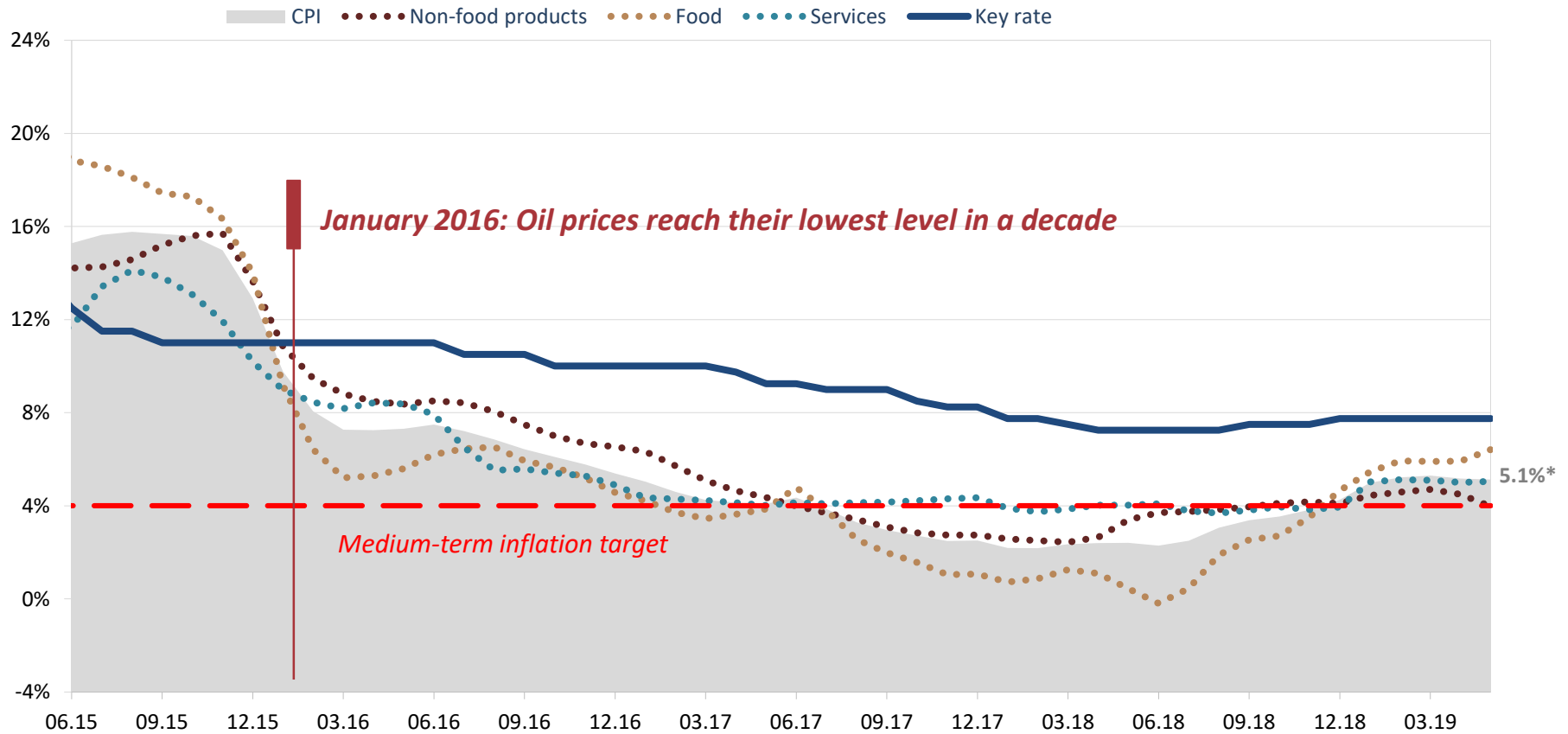




# INFLATION

## Medium-term inflation target successfully met in 2017-2018

Figure 9: Inflation (YoY, %)



Source: Bank of Russia, Rosstat

\* As of May 31, 2019





# INFLATION EXPECTATIONS

## Households and businesses inflation expectations remain elevated

Horizon		2017				2018												2019				
		I	II	III	IV	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
<b>Inflation expectations (absolute numbers), %</b>																						
<b>Households</b>																						
FOM	Next 12 months	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	9.8	10.2	10.4	10.1	9.1	9.4	9.3
FOM (observed inflation)	Prev. 12 months	14.0	12.4	11.2	10.0	9.9	9.4	9.2	8.3	9.2	10.6	10.3	10.4	10.2	10.1	10.1	10.2	10.1	10.6	10.0	10.5	10.4
FOM (Bank of Russia calculations)	Next 12 months	4.0	4.0	2.8	2.5	2.1	2.1	2.2	2.2	2.2	2.6	2.8	3.5	3.8	3.8	4.4	5.4	6.2	5.9	5.7	5.5	5.4
<b>Professional analysts</b>																						
Bloomberg	2019									4.0	4.0	4.2	4.4	4.7	4.5	4.6	4.5	4.7	4.6	4.7	4.5	4.5
Interfax	2019					3.6	3.7	3.8	4.1	4.0	4.1	4.3	4.4	4.3	4.2	4.4	4.7	4.8	4.7	4.6	4.5	4.5
Reuters	2019								3.9	3.9	4.0	4.3	4.5	4.5	4.5	4.7	5.0	4.8	4.8	4.8	4.8	4.6
<b>Financial markets</b>																						
OFZ IN (option not subtracted)	2023	4.9	4.6	4.2	5.1	4.0	3.9	3.8	4.1	4.2	4.5	4.6	5.2	5.3	5.1	5.1	5.1	5.1	5.0	4.9	4.6	4.3
OFZ IN (option not subtracted)	2028									4.3	4.6	4.6	5.0	5.4	5.2	5.2	5.1	4.9	4.9	4.8	4.7	4.3
<b>Inflation expectations (balanced index*)</b>																						
<b>Households</b>																						
FOM	Next 12 months	0.0	-1.3	-5.5	-5.3	-5.6	-0.5	-0.4	1.0	3.7	10.3	8.2	10.2	6.3	8.9	11.6	14.8	14.5	11.9	9.2	13.0	13.3
FOM	Next month	-12.2	-12.3	-16.1	-16.1	-23.0	-18.0	-14.6	-16.5	-11.7	-3.4	-8.4	-4.9	-4.8	-5.5	-5.9	-3.3	1.6	-6.6	-7.9	-6.7	-8.9
<b>Businesses</b>																						
Bank of Russia monitoring	Next 3 months	7.9	8.6	7.5	7.3	6.8	6.3	7.0	8.8	10.1	10.3	11.0	11.2	12.5	13.0	13.7	16.1	18.1	12.7	11.0	9.9	9.5
PMI input prices	Next month	7.8	9.0	12.2	10.6	9.2	11.4	12.2	27.4	27.2	28.4	21.6	22.8	24.2	23.4	22.6	22.0	35.0	26.8	23.6	19.8	14.2
PMI output prices	Next month	1.0	3.4	6.8	3.0	2.8	2.8	4.0	13.6	6.4	6.6	8.2	6.6	5.8	7.6	7.6	5.6	20.4	14.4	10.0	8.8	5.6
Retail prices (Rosstat)	Next quarter	27	24	24	22	-	-	20	-	-	20	-	-	20	-	-	19	-	-	21	-	-
Tariffs (Rosstat)	Next quarter	4	3	0	0	-	-	5	-	-	5	-	-	0	-	-	1	-	-	...	-	-

- 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



## ECONOMIC FORECASTS (1)

### Medium-term outlook for the Russian economy

Key parameters of the Bank of Russia's forecast scenarios (growth as % of previous year, if not indicated otherwise)	2018 (actual)	BASELINE			HIGH OIL PRICES		
		2019	2020	2021	2019	2020	2021
Urals price, average for the year, US dollars per barrel	69.8	65	60	55	70	75	75
<b>Inflation, as % in December year-on-year</b>	<b>4.3</b>	<b>4.2-4.7</b>	<b>4.0</b>	<b>4.0</b>	<b>4.2-4.7</b>	<b>4.0</b>	<b>4.0</b>
Inflation, average for the year, as % year-on-year	2.9	4.7-4.9	4.0	4.0	4.7-4.9	4.0	4.0
<b>Gross domestic product</b>	<b>2.3</b>	<b>1.0-1.5</b>	<b>1.8-2.3</b>	<b>2.0-3.0</b>	<b>1.0-1.5</b>	<b>2.0-2.5</b>	<b>2.0-3.0</b>
Final consumption expenditure	1.8	1.0-1.5	1.8-2.3	2.0-2.5	1.0-1.5	2.0-2.5	2.0-2.5
– households	2.3	1.0-1.5	1.8-2.3	2.5-3.0	1.0-1.5	2.3-2.8	2.5-3.0
Gross capital formation	0.8	0.5-1.5	3.5-4.5	3.5-4.5	0.5-1.5	3.5-4.5	3.5-4.5
– gross fixed capital formation	2.9	1.0-2.0	3.5-4.5	3.5-4.5	1.0-2.0	3.5-4.5	3.5-4.5
Exports	5.5	0.8-1.3	2.7-3.2	2.7-3.2	0.8-1.3	2.7-3.2	2.7-3.2
Imports	2.7	1.0-1.5	3.8-4.2	4.5-5.0	1.0-1.5	4.0-4.5	4.5-5.0
Money supply in national definition	11.0	8-12	7-12	7-12	9-13	8-13	8-13
<b>Claims on organisations and households in rubles and foreign currency<sup>1</sup></b>	<b>11.5</b>	<b>8-12</b>	<b>7-12</b>	<b>7-12</b>	<b>9-13</b>	<b>7-12</b>	<b>7-12</b>
– claims on non-financial and financial organisations in rubles and foreign currency, growth as % over year	8.4	7-10	6-10	6-10	8-11	6-10	6-10
– claims on households in rubles and foreign currency, growth as % over year	22.0	15-20	11-16	10-15	16-21	12-17	10-15

<sup>1</sup>Banking sector claims on organisations and households means all of the banking sector's claims on non-financial and financial institutions and households in the currency of the Russian Federation, a foreign currency and precious metals, including loans issued (including overdue loans), overdue interest on loans, credit institutions' investment in debt and equity securities and promissory notes, as well as other forms of equity interest in non-financial and financial institutions, and other accounts receivable from settlement operations involving non-financial and financial institutions and households.



## ECONOMIC FORECASTS (2)

### Medium-term outlook for the Russian economy

Russia's balance of payments indicators <sup>1</sup> (billions of US dollars)	2018 (actual)	BASELINE			HIGH OIL PRICES		
		2019	2020	2021	2019	2020	2021
<b>Current account</b>	<b>114</b>	<b>98</b>	<b>72</b>	<b>50</b>	<b>106</b>	<b>112</b>	<b>103</b>
Balance of trade	194	184	160	139	190	203	199
<i>Exports</i>	443	434	424	415	443	475	493
<i>Imports</i>	249	250	264	276	253	272	294
Balance of services	-30	-33	-37	-37	-31	-35	-40
<i>Exports</i>	65	62	63	66	66	70	73
<i>Imports</i>	95	95	100	103	97	105	113
Balance of primary and secondary income	-51	-53	-51	-52	-53	-56	-56
<b>Current and capital account balance</b>	<b>113</b>	<b>98</b>	<b>72</b>	<b>50</b>	<b>106</b>	<b>112</b>	<b>103</b>
<b>Financial account (excluding reserve assets)</b>	<b>77</b>	<b>32</b>	<b>16</b>	<b>7</b>	<b>32</b>	<b>29</b>	<b>24</b>
Government and the central bank	9	-18	-6	-6	-18	-6	-6
Private sector	68	50	22	13	50	35	30
<b>Net errors and omissions</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change in reserve assets ('+' – increase, '-' – decrease)</b>	<b>38</b>	<b>66</b>	<b>56</b>	<b>43</b>	<b>74</b>	<b>83</b>	<b>79</b>

<sup>1</sup> Using the methodology of the 6th edition of "Balance of Payments and International Investment Position Manual" (BPM6). In the Financial account "+" stands for net lending, "-" – for net borrowing. Due to rounding total results may differ from the sum of respective values.



## MONETARY POLICY

### Short-term proinflationary risks have abated compared to March

#### Inflation and inflation expectations

- Annual inflation slowdown is continuing. CPI declined in May to 5.1% YoY and stood at 5.0% YoY as of 10 June.
- Starting in February, MoM SA consumer price growth has remained close to 4% (annualised).
- In May, households' and business inflation expectations did not materially change and remain elevated.
- The Bank of Russia has lowered its end-of-year annual inflation forecast for 2019 from 4.7-5.2% to 4.2-4.7%.
- The revised forecast takes into account the completion of the VAT increase pass-through to prices (including the influence of secondary effects) and the preservation of relatively favourable external conditions and moderate dynamics of domestic demand.
- Moving on, according to the Bank of Russia's forecast, annual inflation will stay close to 4%.

#### Monetary conditions:

- Monetary conditions have somewhat eased since the last Board meeting.
- OFZ yields and deposit rates have declined. The potential for lending rates growth has mostly exhausted.
- The Bank of Russia's decision to cut the key rate and the year-to-date decline in OFZ yields create conditions for the decline of deposit and lending rates in the future.

#### Economic activity

- Economic growth in 1H 2019 is lower than the Bank of Russia's expectations.
- During the first four months of 2019, the growth in general government income outperformed the growth in expenses, which, in part, is due to the shift to 2H 2019 of the implementation of a number of national projects.
- Taking into account GDP growth statistics for 2018 — 2019 Q1 published by Rosstat, the Bank of Russia lowered its GDP growth forecast for 2019 from 1.2-1.7% to 1.0-1.5%.

#### Internal risks

- The effects of the VAT hike have fully materialised (↓)
- Elevated and unanchored inflation expectations
- Medium-term fiscal policy parameters

#### Moderate risks – estimates are mostly unchanged:

- Wage movements
- Prices of individual food products
- Possible changes in consumer behavior

#### External risks

- Risks of persistent capital outflows from emerging markets (↓)
- Slowdown in global economic growth
- Geopolitical factors
- The volatility of global oil prices

#### Decision

as of June 14, 2019

**The Bank of Russia  
cuts the key rate by 25 bp  
to 7.50% p.a.**

#### Signal

*"...If the situation develops in line with the baseline forecast, the Bank of Russia admits the possibility of further key rate reduction at one of the upcoming Board of Directors' meetings and a transition to neutral monetary policy until mid-2020.*

*In its key rate decision-making, the Bank of Russia will take into account actual and expected inflation dynamics relative to the target and economic developments over the forecast horizon, as well as risks posed by domestic and external conditions and the reaction of financial markets..."*



# 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)

**Risk-oriented supervision:** aiming to remedy problematic situations in banks at an early stage

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

**New regulations to the credit bureaus:** authorising several strategic credit bureaus with the function of aggregating information on debt payments

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



## BANKING SECTOR: PROPORTIONAL REGULATION

Differentiating regulatory burden for banks depending on their size

### Regulatory burden depending on license type



- Minimum size of capital (own funds) – RUB 300 mln
- Only 5 mandatory requirements, including H1.0, H1.2, H3, H6, H25 ratios
- Limitations on international operations
- Simplified disclosure rules - not required to disclose information on accepted risks, their assessment or management procedures, or any information on financial instruments included in the calculation of their own funds (capital)
- Technically complicated international standards are non applicable

#### BASIC LICENSE



- Minimum size of capital (own funds) – RUB 1 bln
- May carry out all banking operations set forth by the law
- All mandatory requirements set by the Bank of Russia must be met
- Must be compliant with all international standards
- Financial reporting fully compliant with RAS and IFRS

#### UNIVERSAL LICENSE



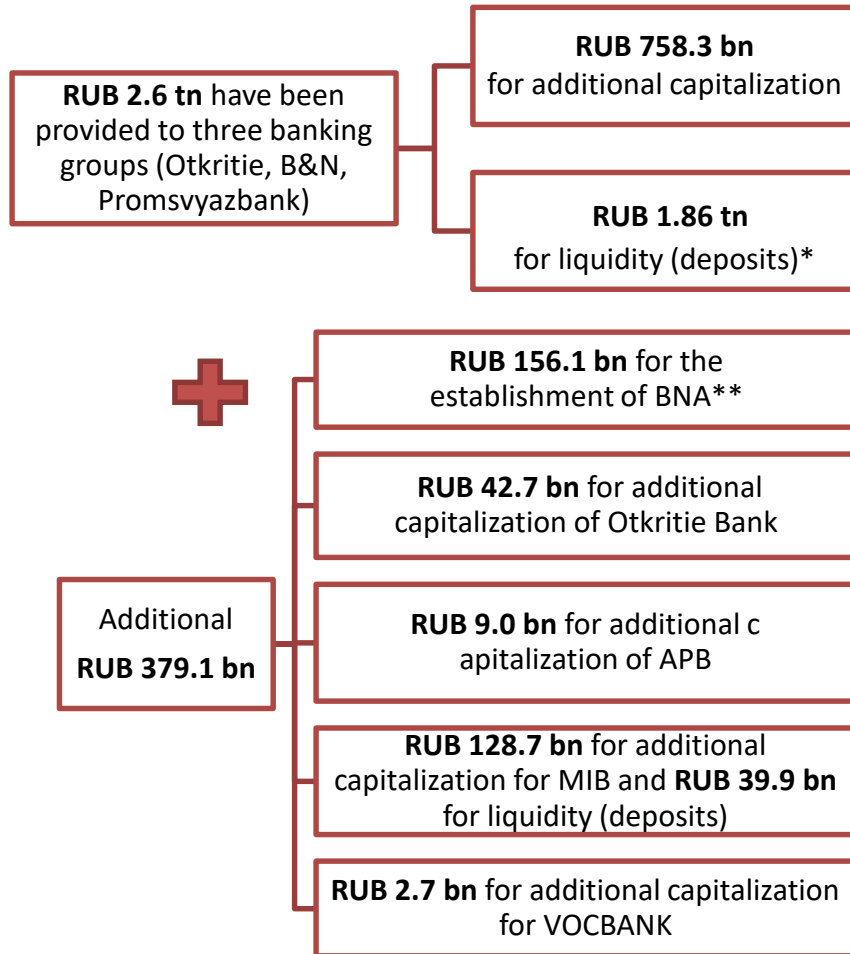
**Systemically important financial institutions (SIFI) are subject to:**

- Higher capital adequacy requirements
- Advanced risk management approach



## BANKING SECTOR: NEW RESOLUTION MECHANISM

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



### List of banks under financial rehabilitation procedure

1	Bank FC Otkritie (merged with B&N Bank)
2	Promsvyazbank
3	National Bank TRUST (with ROST Bank and AVB Bank)
4	Asian-Pacific Bank (APB)
5	Moscow Industrial Bank (MIB)
6	Volga-Oka Bank (VOVBANK)

On July 2, 2019, the Bank of Russia's Board of Directors has decided to complete the implementation of bankruptcy prevention measures for **Bank FC Otkritie**. Currently, the Bank complies with all Bank of Russia's statutory requirements for financial resilience and creditworthiness.

**Promsvyazbank** complies with all capital adequacy and liquidity requirements and operates its business in its usual way. The bank fully repaid CBR deposits placed in the bank during resolution process.

As a result of the financial resolution measures and implementation of a new business model in the **Asian-Pacific Bank**, its financial standing has been stabilised, new capital has been formed, outflow of its clients' funds has been stopped, its solvency has been restored and the Bank's profitability has become stable. The Bank is supposed to be sold in 2020 after it discloses information about its 2019 performance to the public, including potential investors.

On 12 July 2019, the Bank of Russia approved amendments to the plan of its participation in bankruptcy prevention measures for the **Moscow Industrial bank (MIB)**. These amendments provide for the Bank of Russia to allocate 128.7 billion rubles for recapitalisation purposes.

\* Have been fully repaid by the end of 2018

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

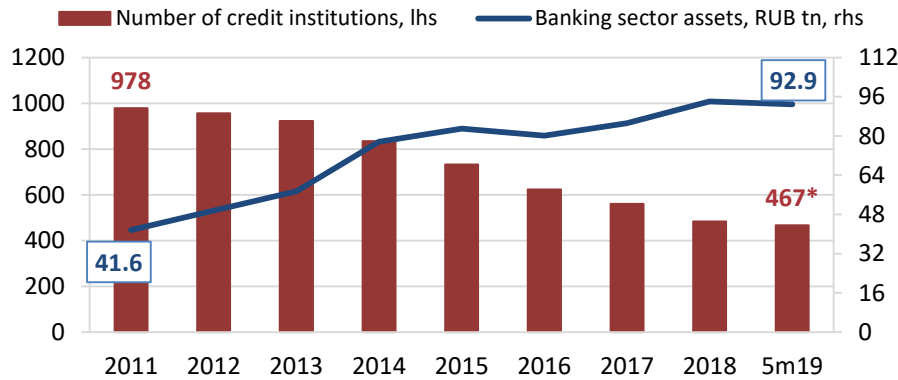




## BANKING SECTOR: KEY FIGURES

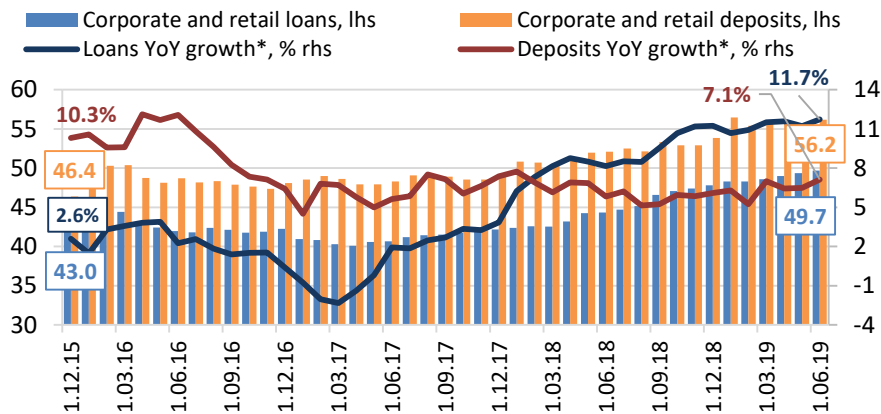
Active supervision and tighter regulation allowed to strengthen the health of the banking sector

**Figure 10: In 2013-2018 more than 400 licenses were revoked causing almost no impact on the banking sector's total assets**



\*423 banks and 44 non-banking credit organisations

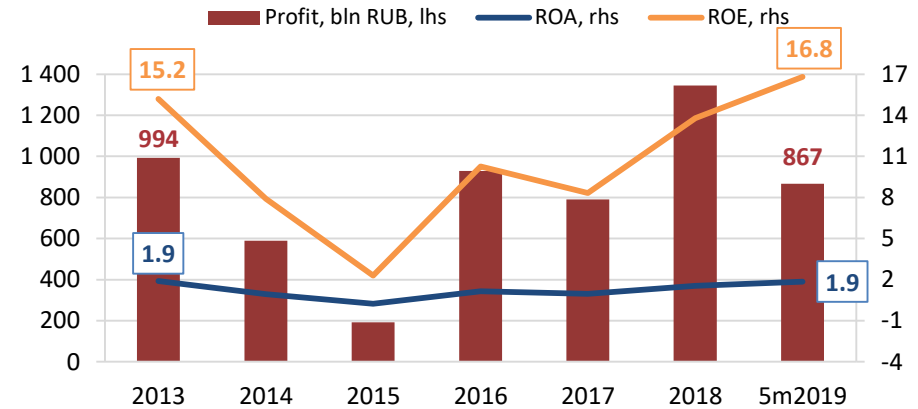
**Figure 12: Loans and deposits volume (RUB tn) and growth rates**



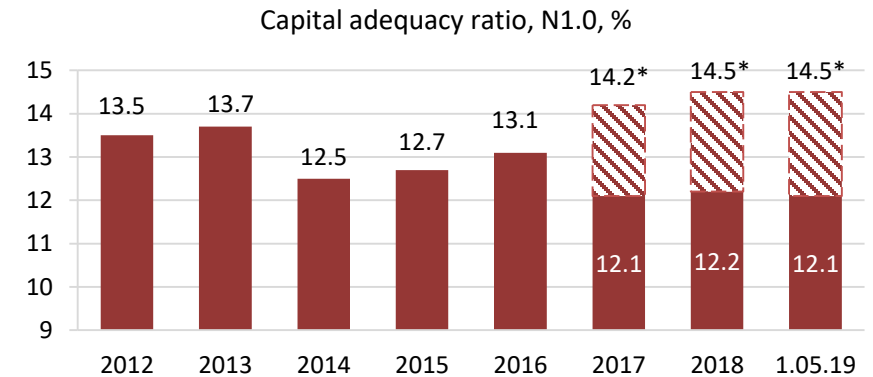
\*YoY, ccy adj. by credit institutions operating as of the reporting date

Source: Bank of Russia

**Figure 11: Banking sector profitability restored to record high levels**



**Figure 13: Banks hold an acceptable level of capital under Basel III**



\*excluding credit institutions under financial rehabilitation procedure



## BANKING SECTOR: FUNDING

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

Figure 14: In May 2019 corporate deposits grew by 6.4% YoY to RUB 27.3 tn

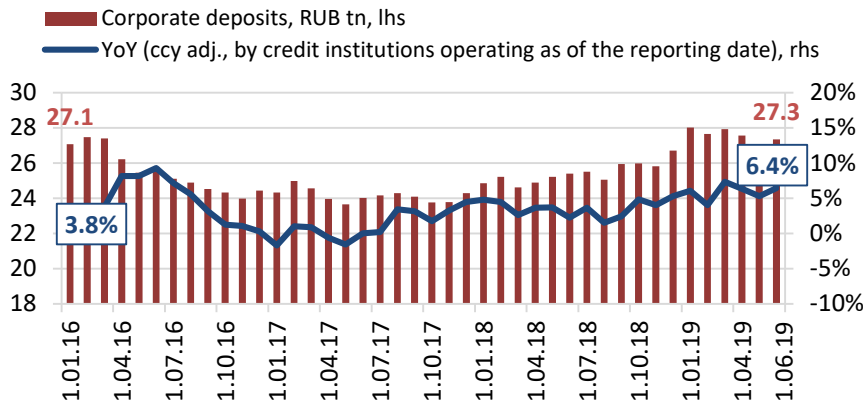


Figure 15: In May 2019 retail deposits demonstrated growth of 7.8% YoY, reaching RUB 28.8 tn

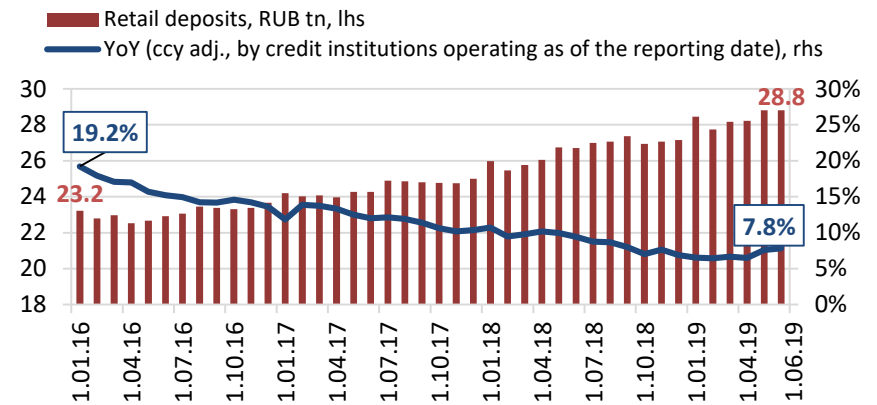


Figure 16: Operations with the Bank of Russia, tn RUB

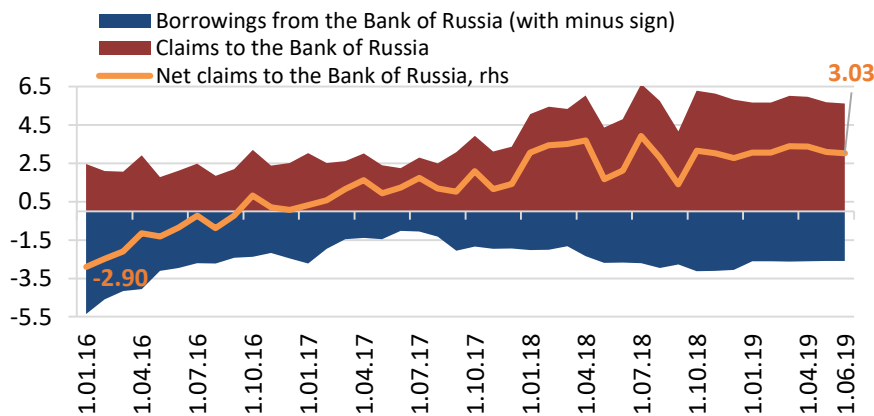
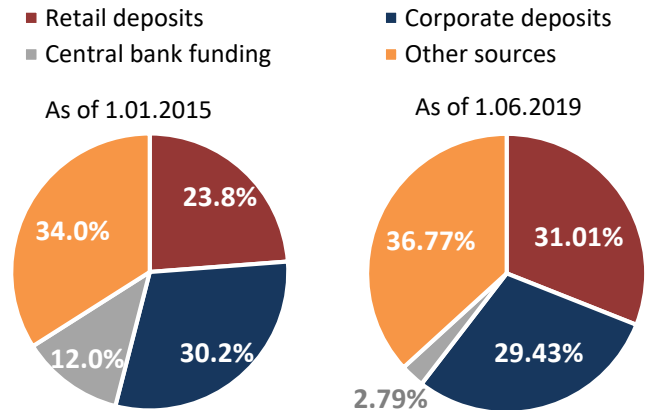


Figure 17: Sources of funding, % of total liabilities





## BANKING SECTOR: LENDING

### Retail loans remain the key driver of credit growth

Figure 18: Corporate lending has stabilized around 6.7% YoY

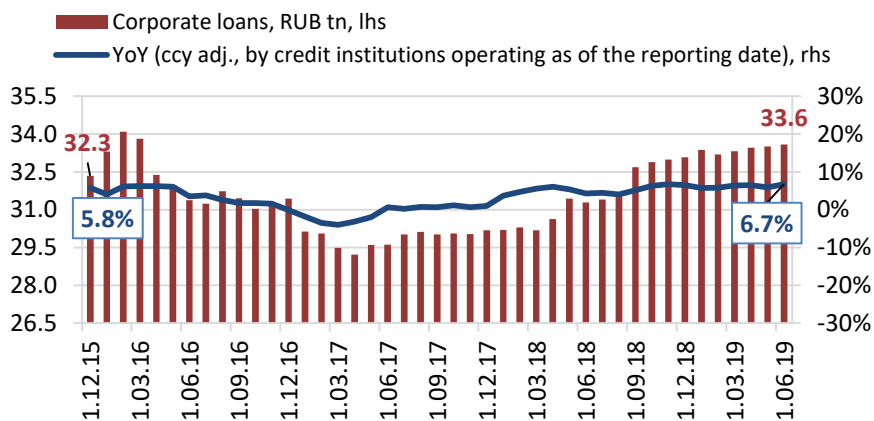


Figure 19: Retail lending increased 23.7% YoY in May 2019

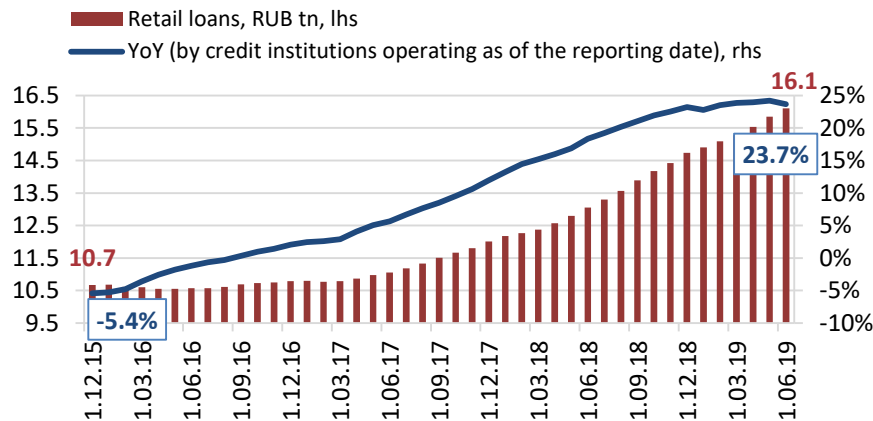


Figure 20: Share of bad corporate loans\* reached 12.4%, while the loan loss reserves to bad loans ratio amounted to 82.9%

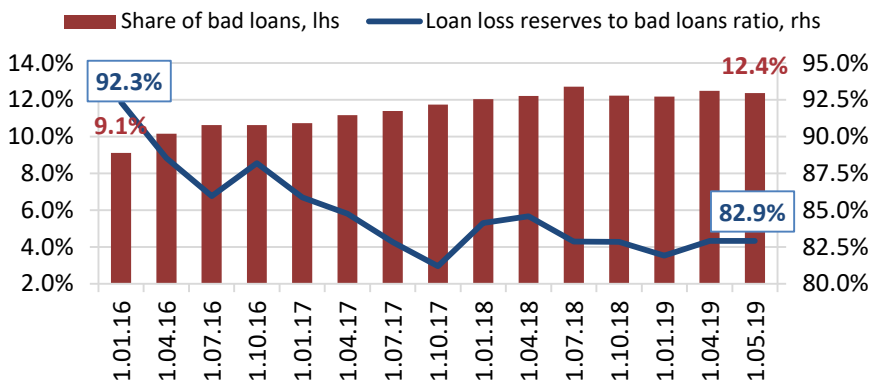
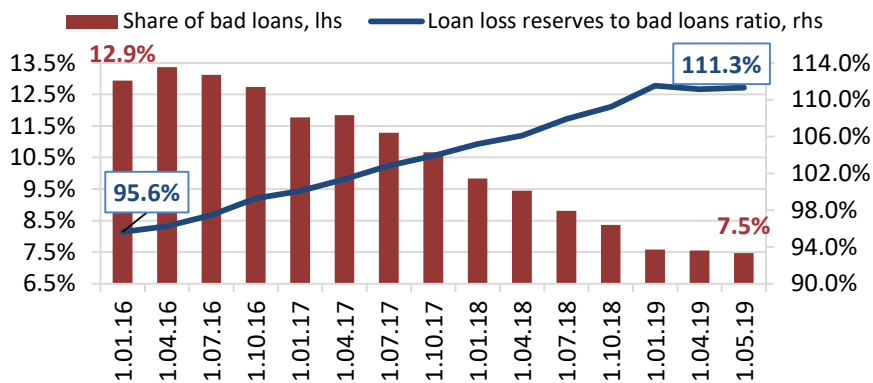


Figure 21: Retail loans portfolio demonstrates improved quality: the share of bad loans\* reached 7.5%



\* 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);

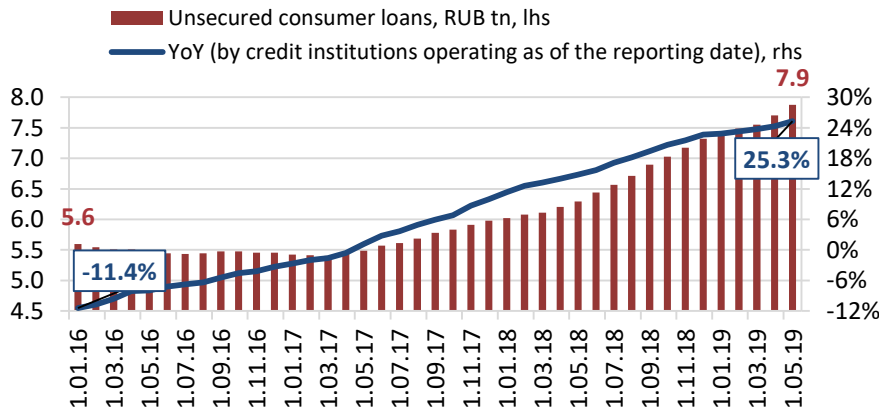
Quality category V – no possibility of loan repayment due to the borrower's inability or refusal to meet loan commitments, which requires complete (100 per cent) depreciation of the loan.



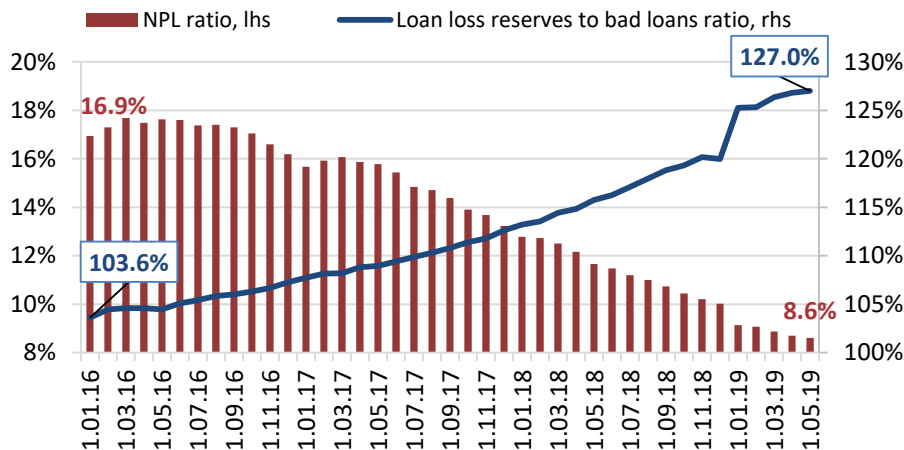
# BANKING SECTOR: UNSECURED CONSUMER LENDING

The unsecured lending market is at an ascending stage of the credit cycle

**Figure 22: Accelerated growth of the unsecured consumer lending continues**



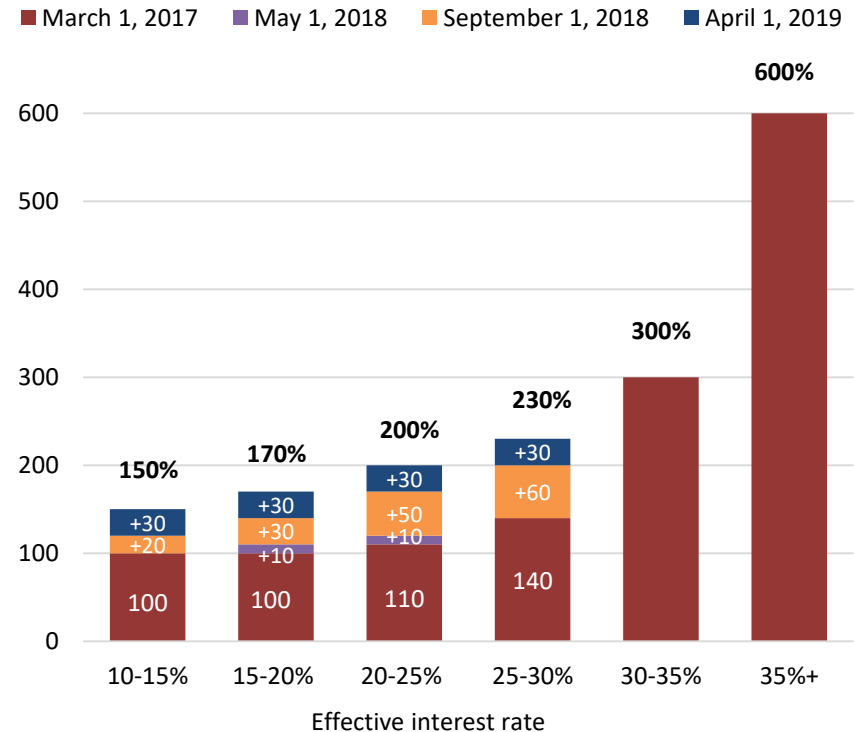
**Figure 23: Share of NPLs decreased to 8.6%**



Source: Bank of Russia

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

**Figure 24: Risk weights applied to unsecured consumer loans, %**

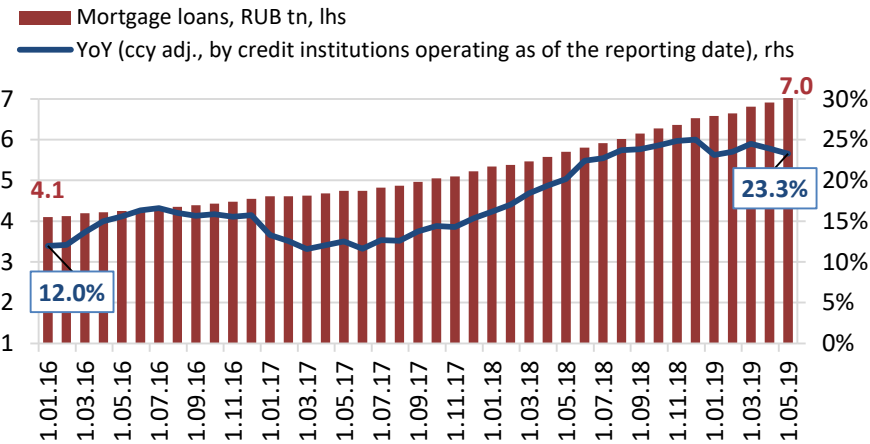




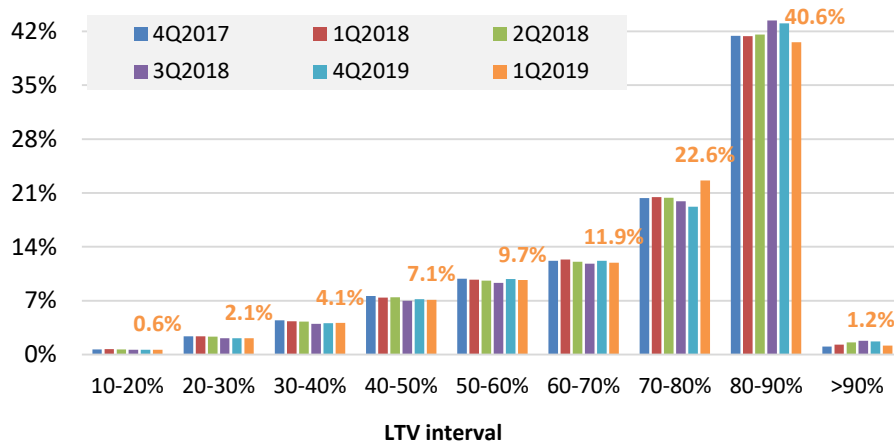
# BANKING SECTOR: MORTGAGE SEGMENT

Mortgage lending is characterised by high growth rates and decent asset quality

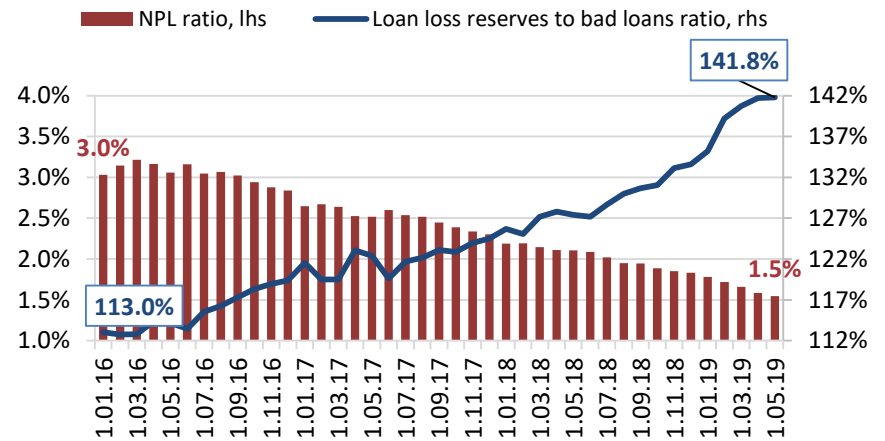
**Figure 25: Mortgage loans keep growing fast**



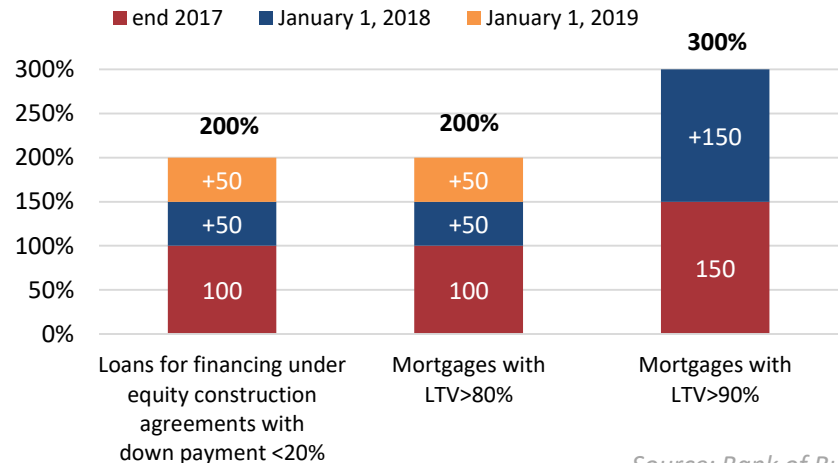
**Figure 27: Distribution of mortgage borrowers by LTV**



**Figure 26: Share of NPLs remains at historically low levels**



**Figure 28: Risk weights applied to mortgage loans**





## BANKING SECTOR: INTRODUCTION OF PTI

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

Effective from 1 October 2019, the Bank of Russia intends to set add-ons to the risk coefficients depending on the payment to income ratio (PTI) and the effective interest rate (EIR).

		PTI interval, %						
		0-30	30-40	40-50	50-60	60-70	70-80	80+
EIR interval, %	0-10	0.3	0.3	0.3	0.6	0.7	0.9	1.1
	10-15	0.5	0.5	0.5	0.7	0.8	1.0	1.2
	15-20	0.7	0.7	0.7	1.1	1.3	1.4	1.6
	20-25	1.0	1.0	1.0	1.5	1.7	1.8	2.0
	25-30	1.3	1.3	1.3	1.8	1.9	2.0	2.2
	30-35	2.0	2.0	2.0	2.1	2.2	2.3	2.5
	35+	5.0	5.0	5.0	5.0	5.0	5.0	5.0

**Values of add-ons to the risk coefficients applied to unsecured consumer loans subject to calculation of PTI**

Higher level of add-ons will be applied to loans with PTI exceeding 50%.

Banks will calculate PTI in accordance with Appendix 1 to Bank of Russia Ordinance No.4892 U when making a decision on granting a loan in the amount (total credit amount) of ₹10,000 or more or an increase in the total credit amount on a bank card.

EIR interval, %	0-10	10-15	15-20	20-25	25-30	30-35	35+
Value of add-ons	0.6	0.7	1.1	1.5	1.8	2.1	5.0

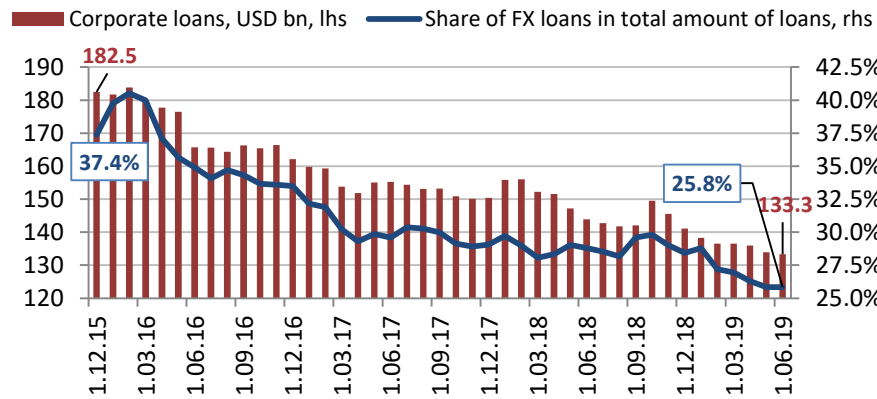
**Values of add-ons to the risk coefficients applied to unsecured consumer loans for which PTI calculation is not obligatory**



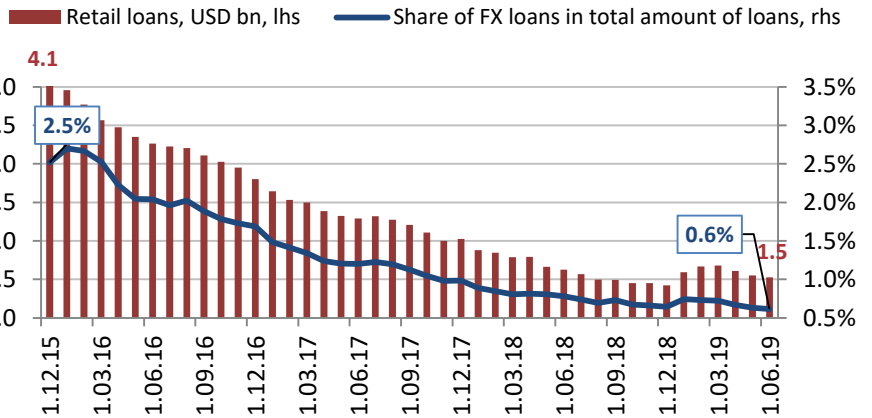
# BANKING SECTOR: DEDOLLARISATION

Dollarization of the banking sector has notably reduced over the last years

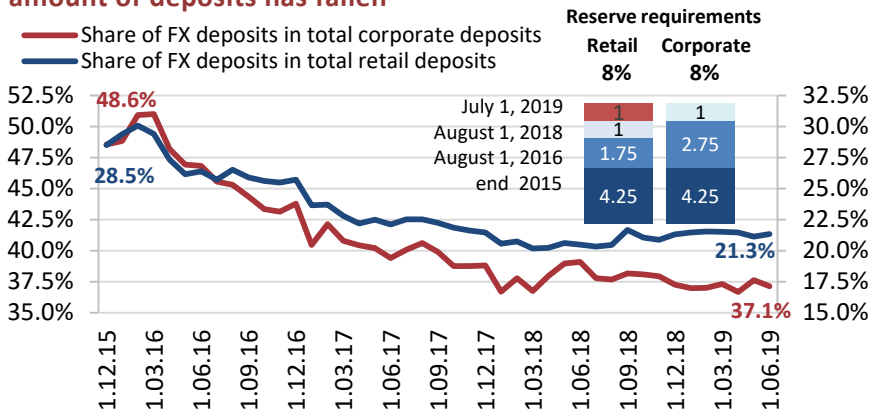
**Figure 29: Corporate FX lending declined significantly over the past few years**



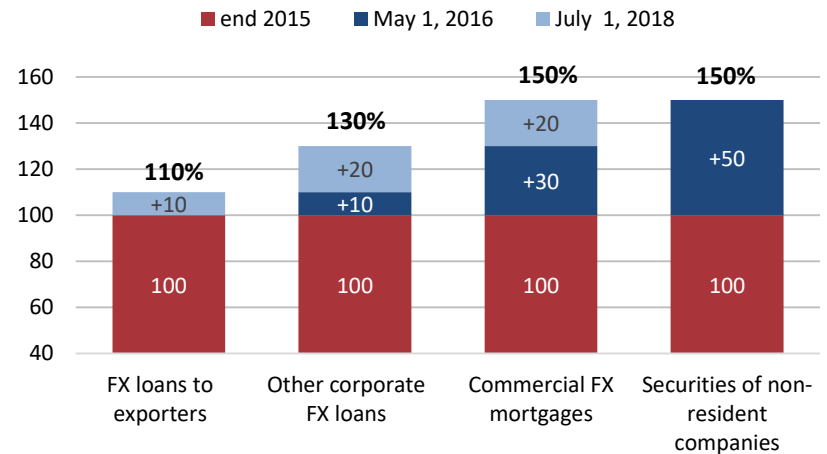
**Figure 30: Retail FX loan portfolio is insignificant in size**



**Figure 31: Share of corporate and retail FX deposits in total amount of deposits has fallen**



**Figure 32: Risk weights applied to the FX assets, %**





## BANKING SECTOR: CAPITAL ADEQUACY

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

Figure 33: Capital adequacy ratio for the banking sector decreased over from 12.9% (1.01.16) to 12.1% (1.05.19) mostly due to the procedures of financial rehabilitation of the large credit institutions

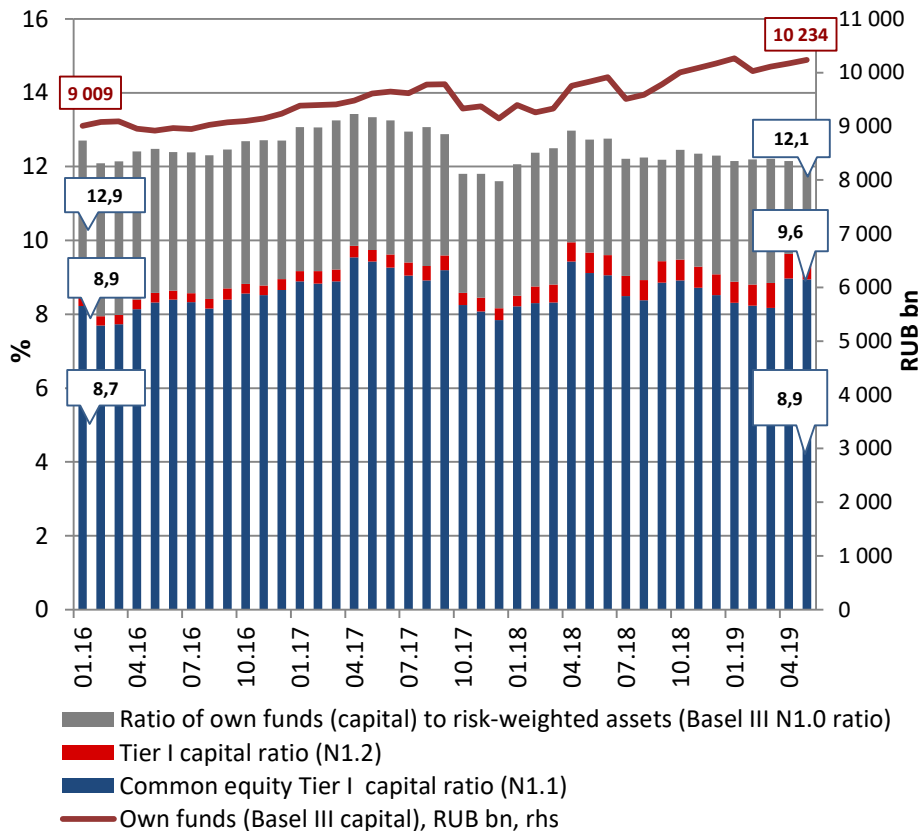
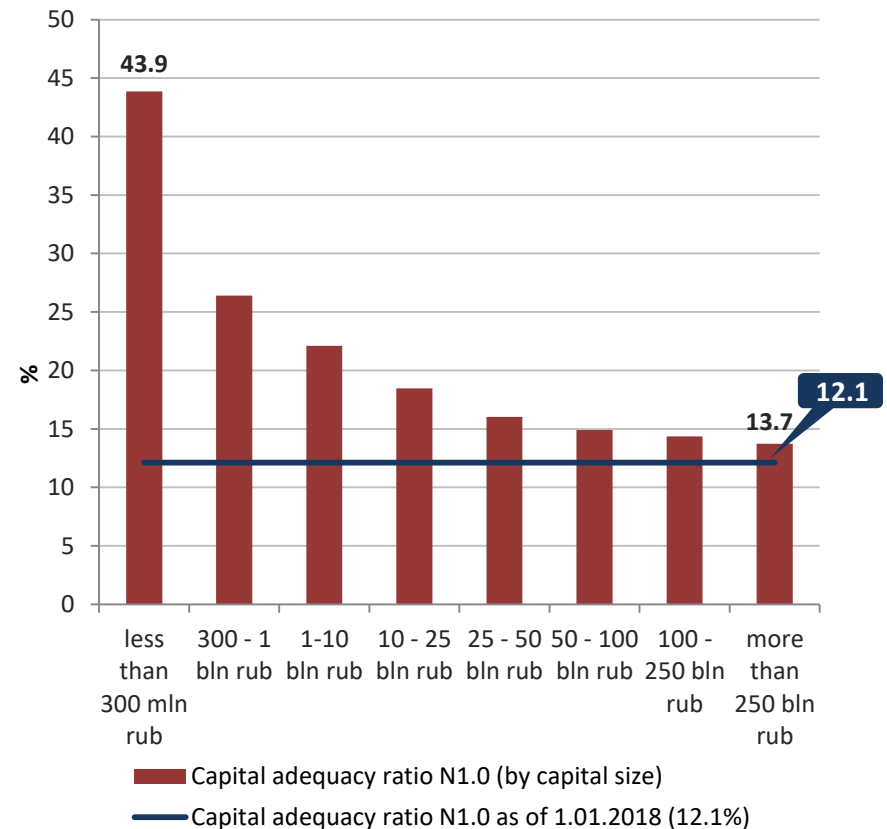


Figure 34: Credit organizations with capital exceeding RUB 25 bln have lower buffer vs N1.0 minimum requirement due to the economies of scale







## BANKING SECTOR: SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS

The Bank of Russia has approved the list of SIFI and buffers for capital adequacy ratios

### List of systemically important financial institutions

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

Systemically important financial institutions account for over 60% of total assets of the Russian banking sector

### Capital adequacy requirements

#### Minimum Bank of Russia requirements for capital adequacy ratios

Common equity Tier 1 capital ratio (N1.1)	4.50%
Tier 1 capital (N1.2)	6.00%
Total capital adequacy ratio (N1.0)	8.00%

#### Values of capital buffers

	2017	2018	2019
Capital conservation buffer	1.25%	1.875%	2.50%*
SIFI buffer	0.35%	0.65%	0.65%
Countercyclical buffer	0%	0%	0%

#### Minimum capital adequacy ratios for SIFI

	2017	2018	2019
N1.1	6.1%	7.0%	7.65%
N1.2	7.6%	8.5%	9.15%
N1.0	9.6%	10.5%	11.15%

\*Capital conservation buffer will be raised in accordance with the schedule approved by the Bank of Russia – it will stand at 1.875% from 1 January 2019, 2.0% from 1 April 2019, 2.125% from 1 July 2019, 2.25% from 1 October 2019, and 2.5% from 1 January 2020.



## FINANCIAL STABILITY

### Macroprudential policy aimed at Identifying and preventing potential systemic risks

#### Credit activity

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

#### Retail lending risks

**Unsecured consumer lending** continued to grow at a high pace. Outstanding loans increased 25.3% in year-on-year terms in April 2019 to the amount of RUB 7.9tn. The Bank of Russia's Board of Directors has decided to increase add-ons to the risk weights for unsecured consumer loans bearing an effective interest rate of 10-30% by 30bps for loans extended from 1 April 2019.

**Mortgage loans** grow at a steady rate, however, borrowers' debt burden remaining at the same level shows that the current growth does not present any significant risk to the financial stability. The Bank of Russia 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 issued after 1 January 2019 were raised from 150% to 200%. These measures are aimed at sustainable development of the mortgage lending segment.

#### Capital adequacy

The capital adequacy (Basel III N1.0 ratio) for the banking sector remains at comfortable level of 12.1% as of 1 May, 2019.

**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's Board of Directors has decided to keep the countercyclical capital buffer (CCB) rate for Russian credit institutions at 0% of risk weighted assets



## 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)

Growing a deeper Russian bond market with strong potential

Figure 35 : Volume of the Russian local bond market, RUB tn

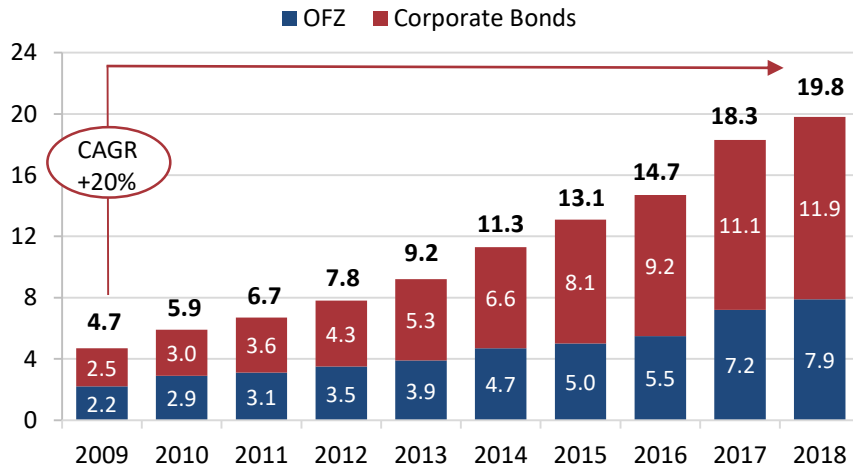


Figure 36: Volume of the Russian corporate bond market, RUB tn

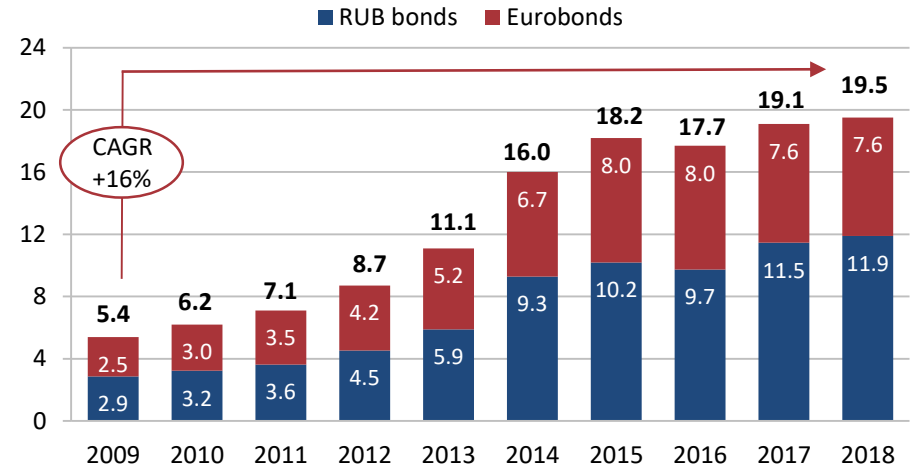


Figure 37: "Bondization" of the Russian financial market

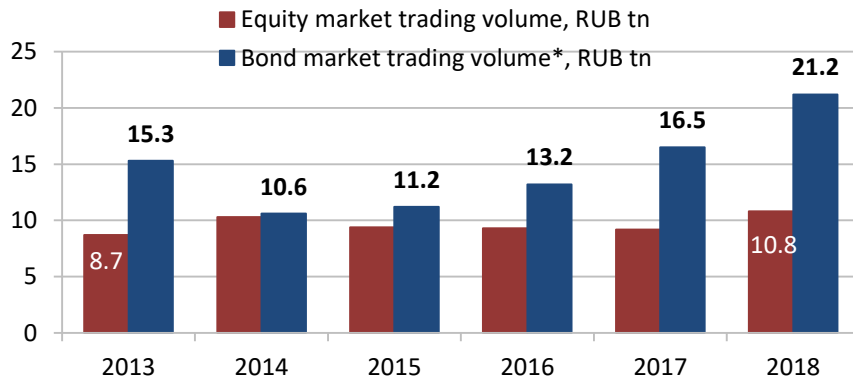
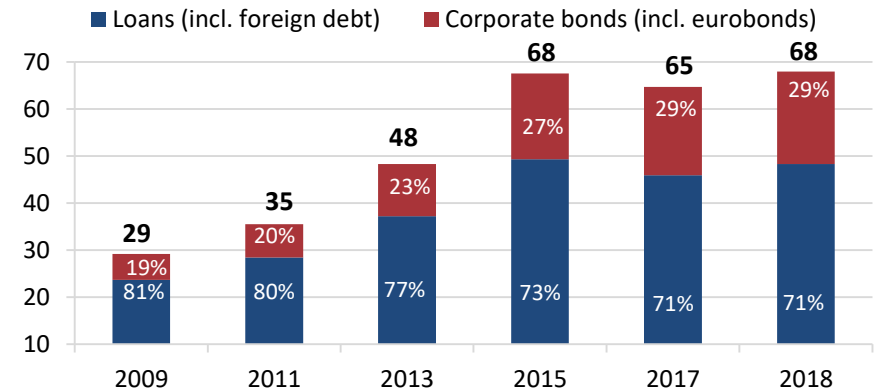


Figure 38: Corporate loans vs corporate bonds in Russia, RUB tn



\* Except overnight bonds

Source: Cbonds, Moscow Exchange



## SECURITIES MARKET (3)

Russian OFZ market provides relatively high yields amid investment grade reliability

Figure 39: Russian OFZ market volume keeps growing

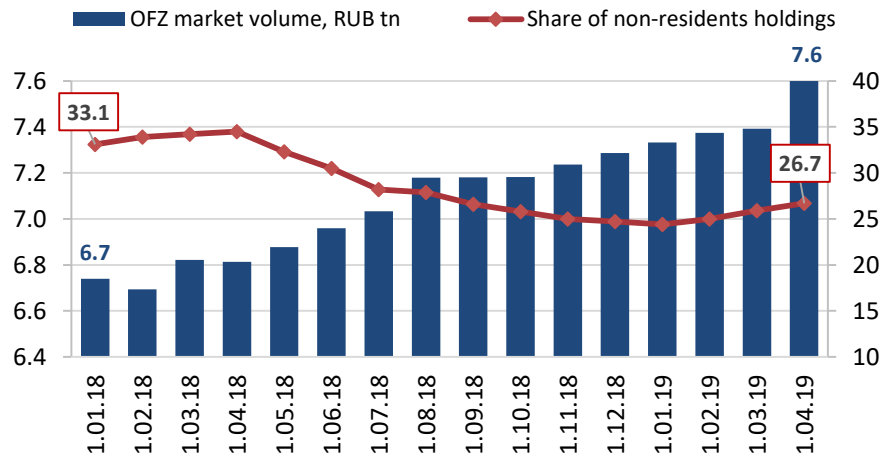


Figure 40: Zero-coupon OFZ yield curve, %

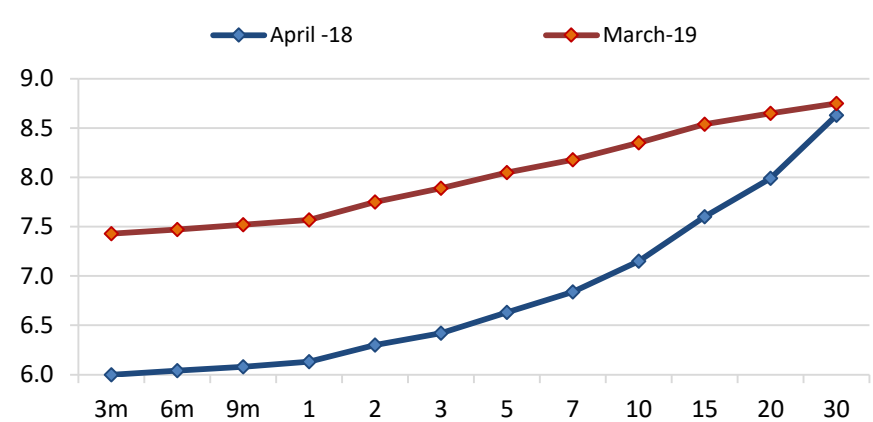


Figure 41: Bond market yields, key rate and RUONIA (% RUB)

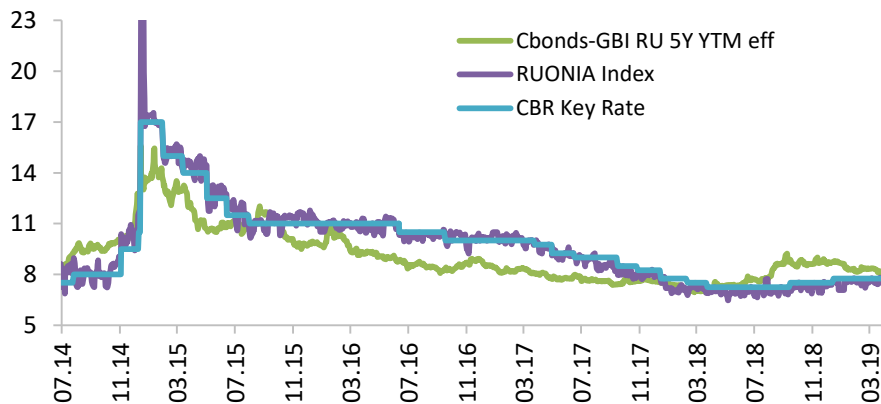
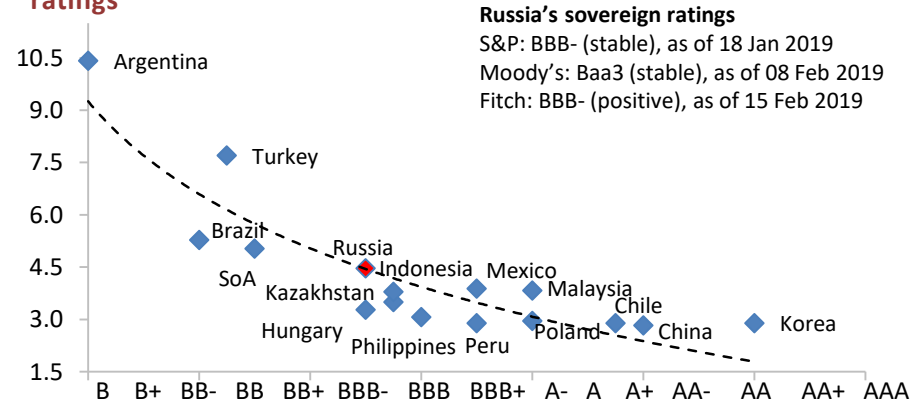


Figure 42: EM 10Y bond yields (% USD) on the background of credit ratings

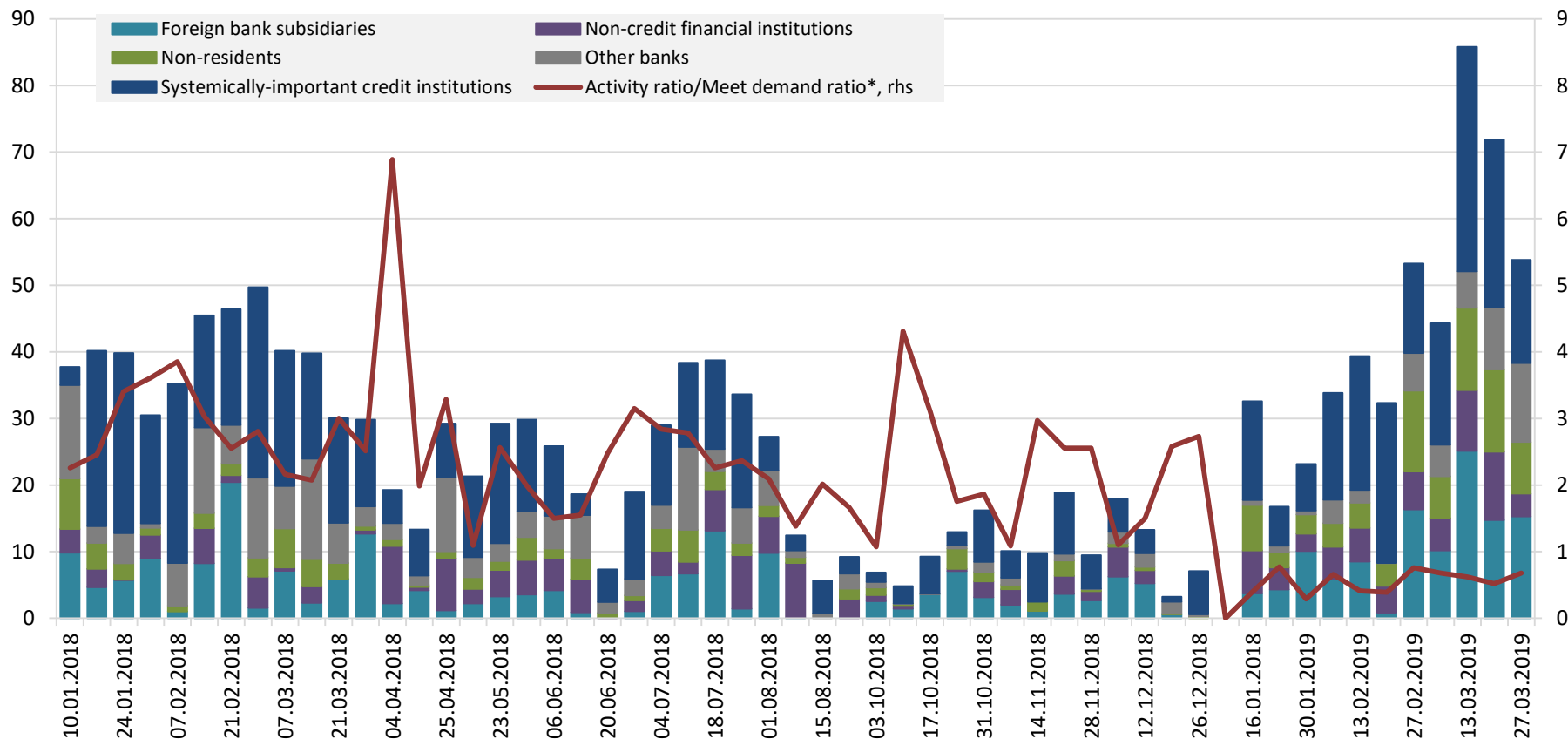




## SECURITIES MARKET (4)

### Demand for OFZs placements remains sustainably high

Figure 43: OFZ placement dynamics in 2018 and 2019 (RUB bn)



\*Starting January 1, 2019 the “activity ratio” calculated as the volume of demand for OFZ to the volume of OFZ supply announced by the Ministry of Finance was replaced by the “meet demand” ratio calculated as the volume of the placement to the volume of demand for OFZ



## SECURITIES MARKET (5)

Russian equity market provides growth potential and attractive dividend yields

Figure 44: Russian Equity market cap, bln RUB & bln USD

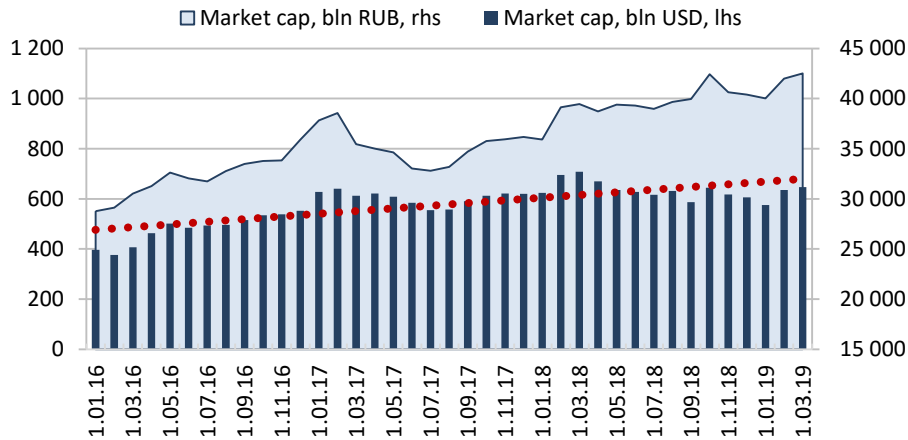
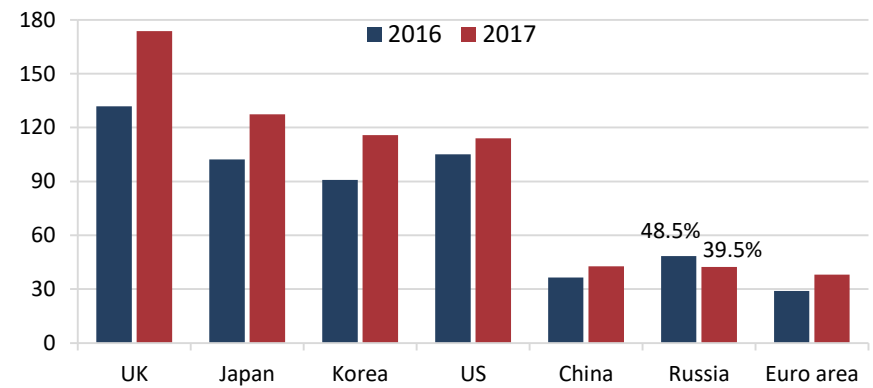


Figure 45: Domestic market capitalization to GDP ratio reflects undervalued Russian financial market (of GDP, %)



Russia's 2018 stock market capitalization to GDP = 39.5%

Figure 46: Russian equities market trading volumes proves stable

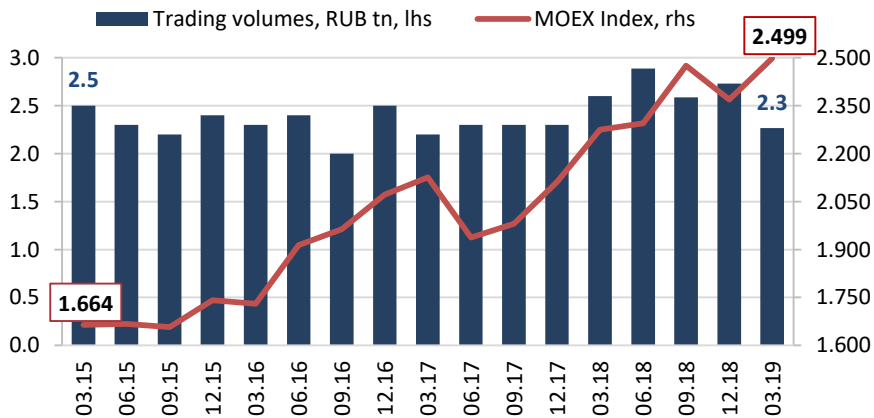
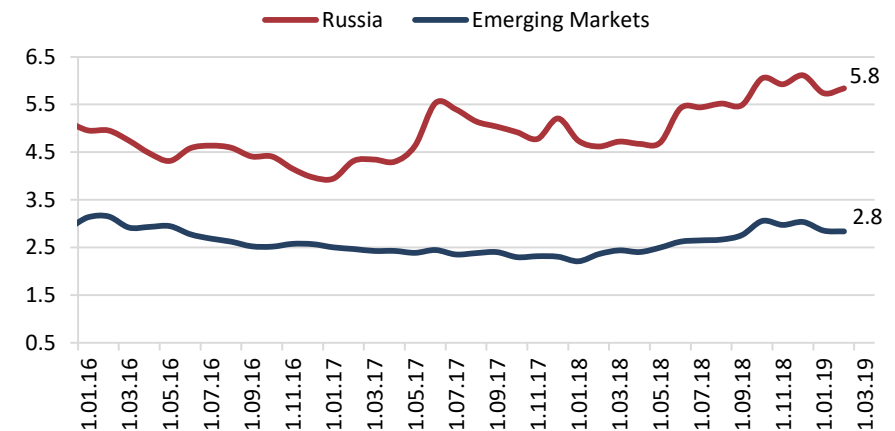


Figure 47: Dividend yield (12M): Russia vs. EM, %





# SECURITIES MARKET (6)

## Russian equity market remains undervalued despite strong performance in recent years

Figure 48: Russian MSCI index vs EM peers (05.01.15 = 100%)

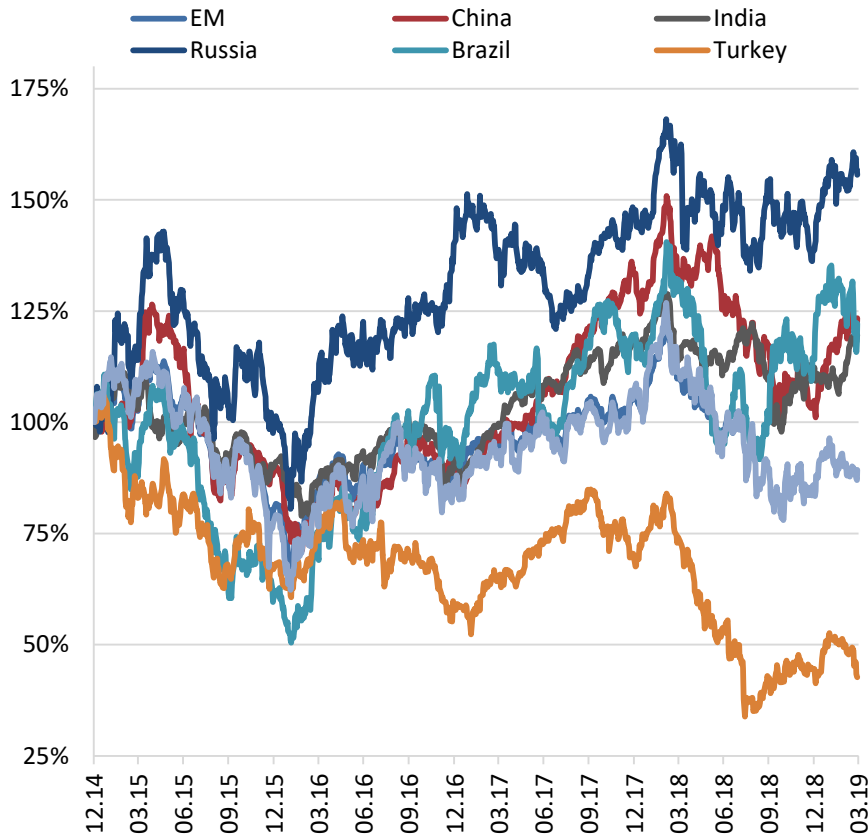
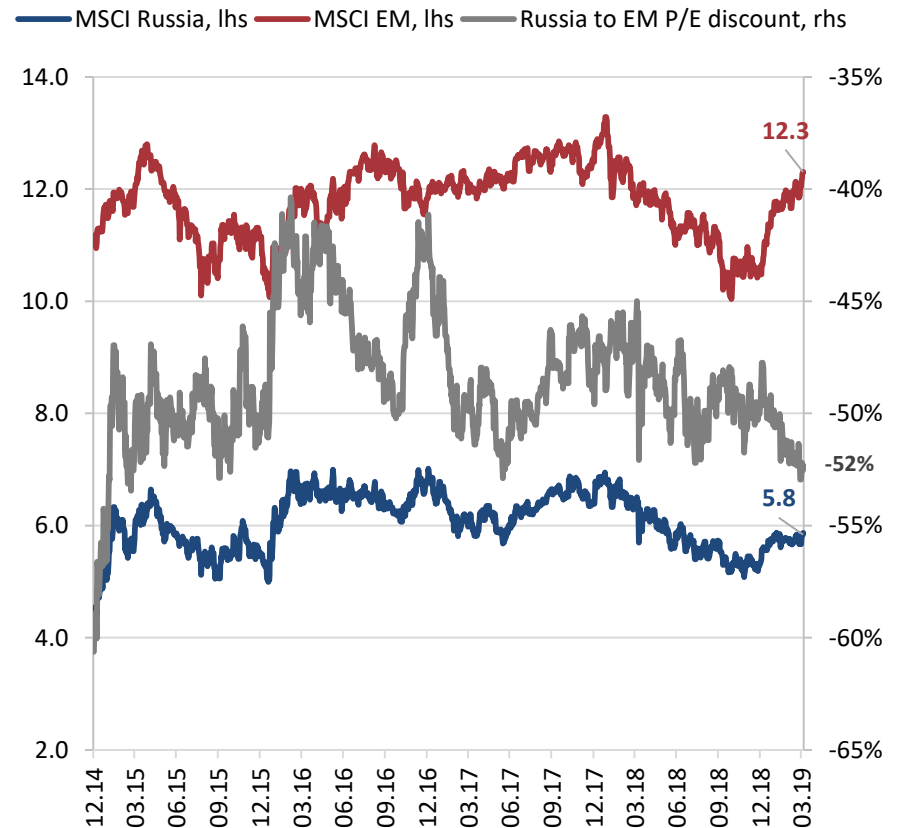


Figure 49: Forward P/E ratio (12m), MSCI Russia vs MSCI EM



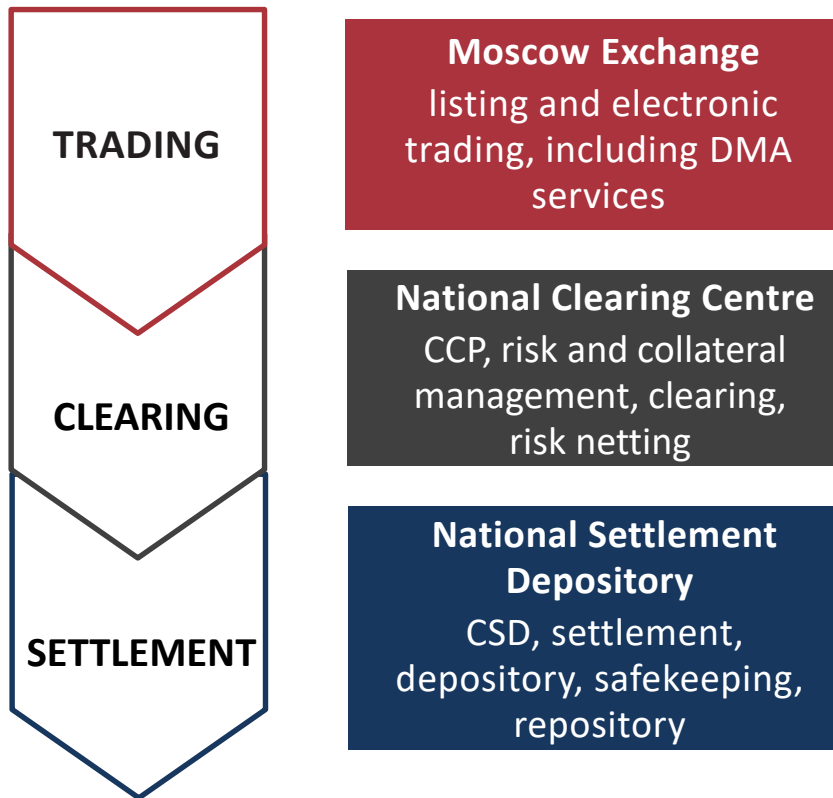
Source: Bloomberg





## SECURITIES MARKET (7)

Moscow Exchange group offers the best infrastructure in its class



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



## SECURITIES MARKET (8)

Russian financial market has necessary infrastructure and regulation for trading OTC

### Robust legal protection in place

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

### Russia adheres to G20 decisions in respect of OTC derivatives reforms

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

### Variety of instruments and service providers

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

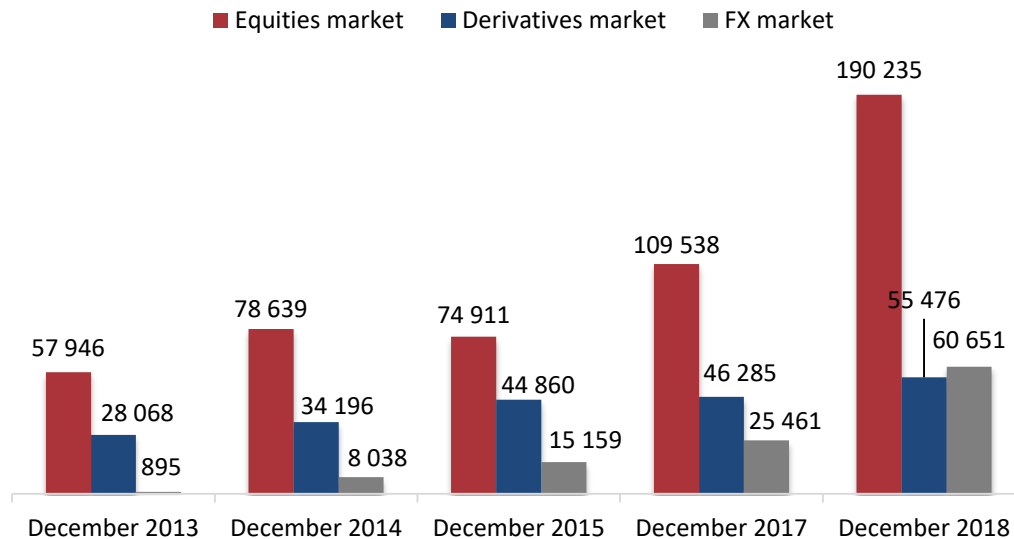


## SECURITIES MARKET (9)

Rapidly developing retail market with strong tax incentives and accelerating FinTech

- ✓ **2.7 million** retail investors were registered with the Moscow Exchange at the end of December 2018
- ✓ More than **190 000** retail investors were reported as “active” traders

Figure 50: 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.
- More than 528k accounts opened as of December 2018

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

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

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

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



## CORPORATE GOVERNANCE

New corporate governance standards reflect best international practices

### Corporate governance

JSC Law amended July 2018:

- ✓ Strengthening the role of the Board of Directors in JSC
- ✓ Mandatory risk-management, internal control in public companies
- ✓ Mandatory audit committees and internal audit functions in public companies (starting July 2020)
- ✓ Disclosure reform

### 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 2019

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

### Securities

New types of securities – structured bonds, perpetual bonds, priority dividends non-voting preferred shares

### Blockchain technology

- ✓ NSD used a blockchain-based settlement platform to complete an inaugural placement of a RUB 500 mln bond issue in 2017
- ✓ In 2018 first Russian bonds via smart contracts were issued for a total sum of RUB 750 mln

**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

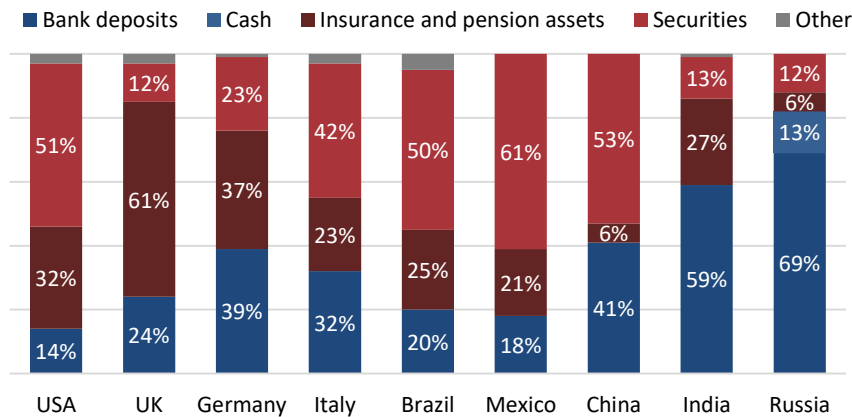
- Bank of Russia improves continuous monitoring of on-exchange trading for the purpose of maintaining financial stability and preventing system shocks caused by misconduct



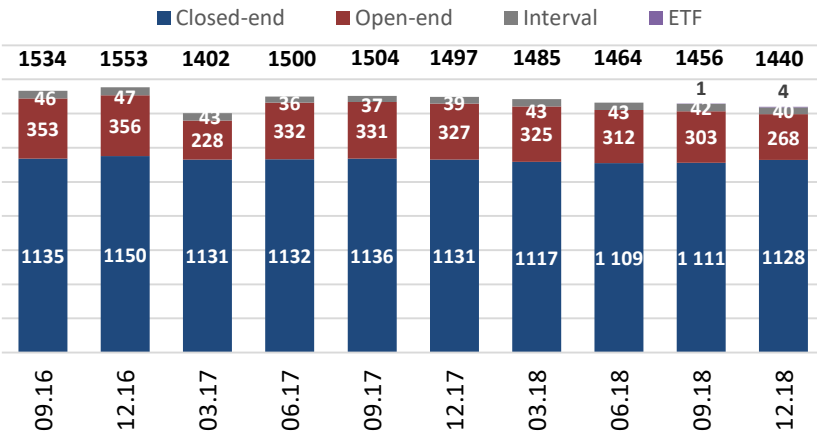
# INVESTMENT FUNDS

## Local institutional investor base: the potential of investment funds

**Figure 51: Majority of savings in Russia is held on bank deposits and in cash\***



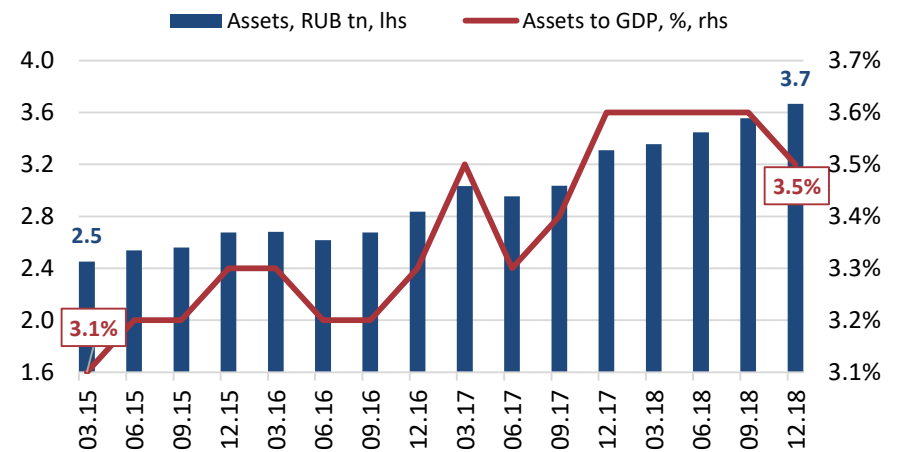
**Figure 53: Number of investments funds in Russia by the type**



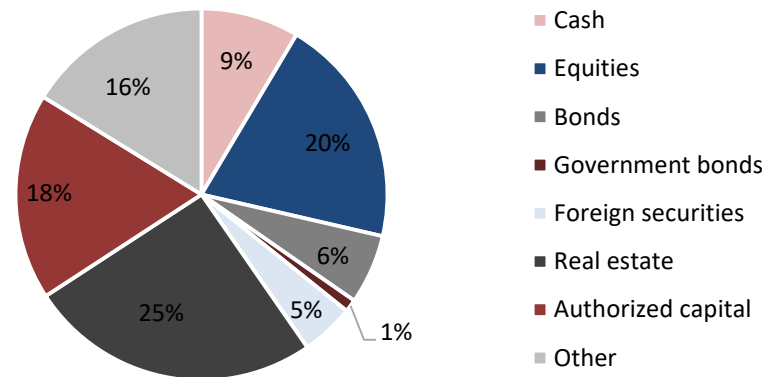
\* As of the end of 2017

Source: World Bank, IMF, Bank of Russia, Moscow Exchange

**Figure 52: Assets of investments funds in Russia (RUB tn)**



**Figure 50: Breakdown of investment funds' assets by the type (as of December 31, 2018)**





## NON-STATE PENSION FUNDS

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

Bank of Russia became a regulator of the pension system in 2013. Since then a number of changes has been adopted to strengthen the non-state pension system:

- ✓ 'one-year non-loss' rule was extended to 'five-year non-loss' rule
- ✓ stress-testing mechanism introduced
- ✓ customers are now encouraged to stay with the same fund for not less than 5 years
- ✓ since 2014 the Deposit Insurance Agency (DIA) guarantees the nominal value of mandatory savings
- ✓ non-state pension funds are to bear fiduciary responsibility (since March 18, 2018)
- ✓ non-state pension funds are to disclose their investment portfolios
- ✓ corporatisation of non-governmental pension funds (NPFs) completed
- ✓ work on individual pension accounts reform is in progress

Source: Bank of Russia

Figure 54: Pension assets in Russia (RUB tn)

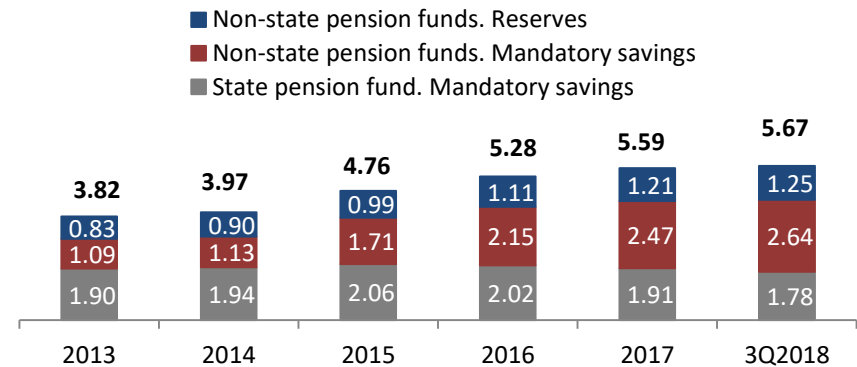
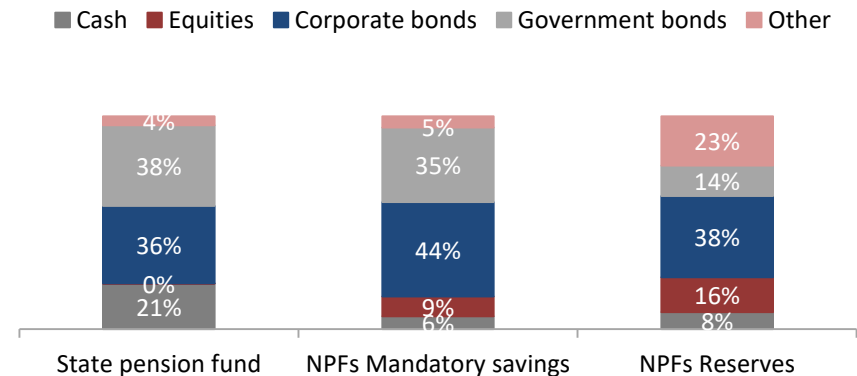


Figure 55: Pension system asset allocation (as of September 31, 2018, %)





# INSURANCE

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

Figure 56: Premium volume is gradually growing

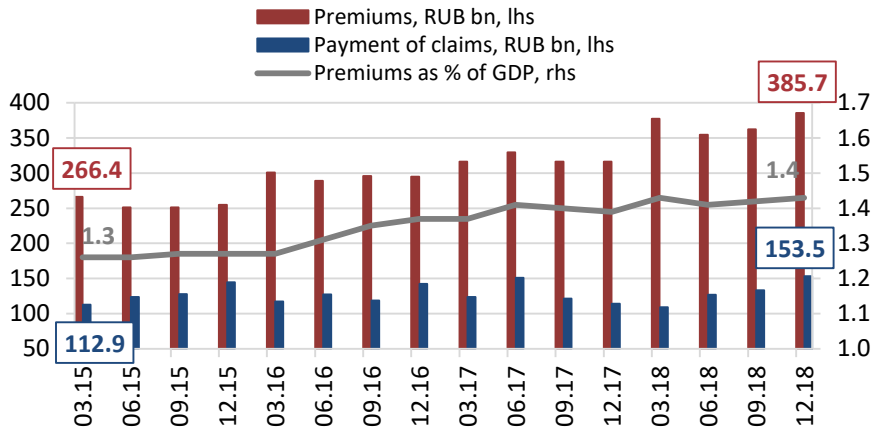


Figure 58: Premium structure in 2018 shows high level of market diversification

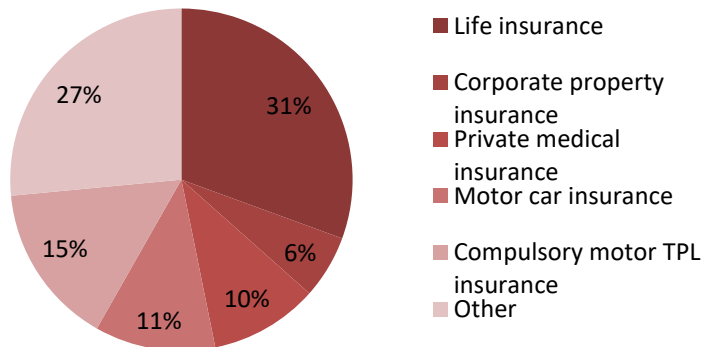


Figure 57: Assets hit 2.8% of GDP

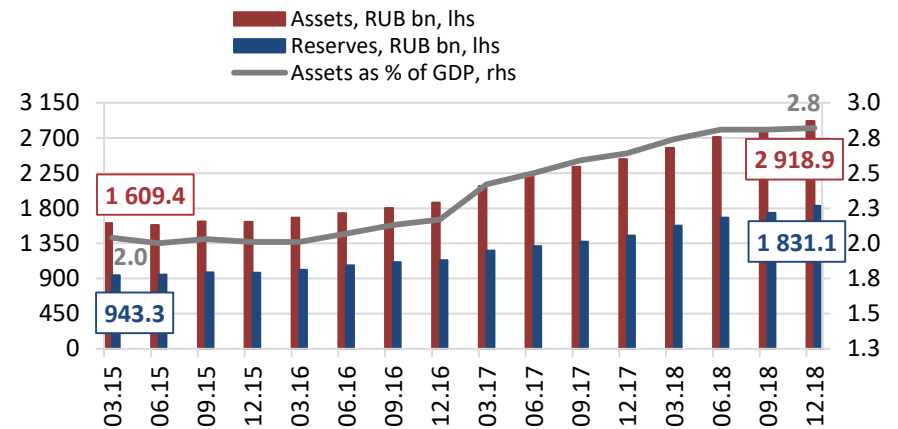
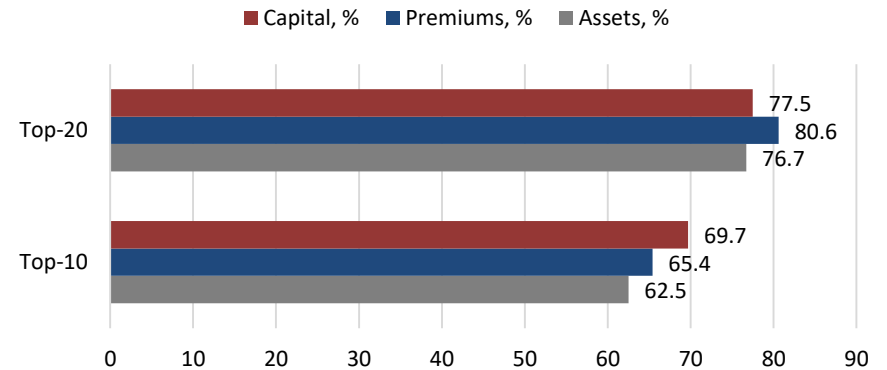


Figure 59: In 2018 market remained highly competitive with the Herfindahl-Hirschman Index equal to 550.6

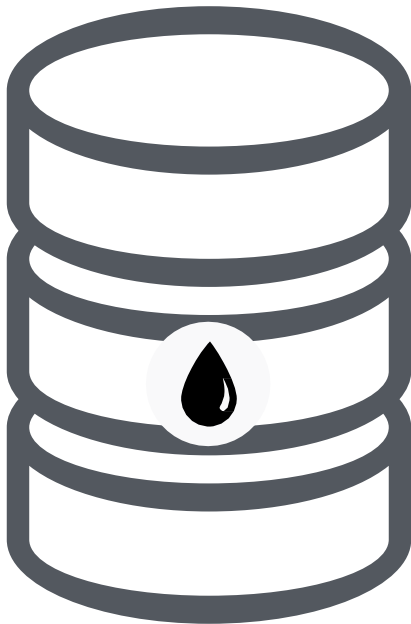






## COMMODITIES

### Urals futures trading launched to set a price benchmark for Russian export oil



- ✓ Deliverable **SPIMEX Urals Crude Futures** contract is a new oil pricing mechanism allowing a direct quotation of exported Russian oil without reference to other crude oil grades traded on global energy markets
- ✓ Transparent pricing process is based on exchange-traded futures contracts reflecting the supply-and-demand equilibrium reached on the back of a large number of trades concluded on the exchange by a wide range of market participants and setting an arm's length price for the relevant commodity
- ✓ Deliverable SPIMEX Urals Crude Futures contract trading was launched on 29 November 2016
- ✓ Access to the SPIMEX futures contract trades is granted to Russian and foreign legal entities as well as to Russian individual entrepreneurs. Only legal entities (both Russian residents and non-residents) are able to conduct physical deliveries of crude oil
- ✓ The SPIMEX Urals Crude Futures contract is settled by physical delivery upon expiration. Such a futures contract has a direct link with the crude oil spot market and prevents price manipulation. Physical delivery of crude oil under the contract is effected against positions opened as of the relevant contract expiration date



## MICROFINANCE

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

# MFIs

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

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

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

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

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



## FINTECH (1)

Russia provides a favorable environment for FinTech development

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

- ✓ Facilitate the **competition** in the financial market
- ✓ Enhance **accessibility, quality** and **range** of financial services
- ✓ Lower **risks and costs** in the financial market
- ✓ Advance the level of **competitiveness** of Russian technologies

### Key areas of development

1. **Legal regulation** of FinTech, including protection of consumer rights and security of personal data
2. **Development of digital technologies** in the financial market and development of digital infrastructure
3. Transition to **electronic interaction** between the Bank of Russia, government, market participants and their clients
4. **“Regulatory Sandbox”** for experimentation with innovative financial technologies, products and services
5. Cooperation within the **Eurasian Economic Union** and development of single payment area for member states
6. Ensuring **technological safety and sustainability** in FinTech implementation
7. **Development of human resources** in the financial market



## FINTECH (2)

Russia provides a favorable environment for FinTech development



**Established on 28 December 2016  
by the Bank of Russia  
with participation of the largest  
financial institutions**

### **Main goals**

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

### **Main activities (2017-2018)**

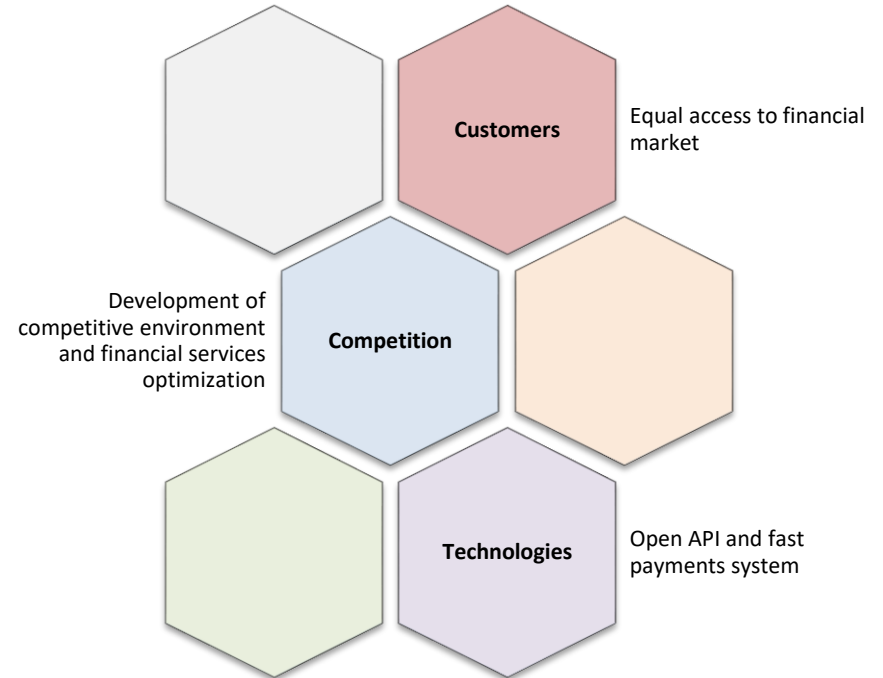
- ☑ Digital identification
- ☑ Distributed ledger technology
- ☑ Faster payment system
- ☑ Open API
- ☑ Big Data



## 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





## PAYMENT INFRASTRUCTURE (1)

### Bank of Russia Payment System

- ✓ Money transfer services are provided to:
  - ✓ all credit institutions (financial market infrastructure included)
  - ✓ Russia's Federal Treasury and its agencies
  - ✓ other Bank of Russia clients
- ✓ Average daily figures: **6.4 mln payments, RUB 6.9 tn**
- ✓ **84% of funds** are transferred via the real-time service
- ✓ New **liquidity management tools**, future value date settlement functionality, cash-pooling services for Federal Treasury and multibranch banks introduced
- ✓ Transfer timeframe is adapted to Russia's **11 time zones** - system operates from 1 a.m. to 9 p.m., Moscow time.
- ✓ The **Faster Payments System (FPS)**, launched on 28 January 2019, is set to enable instant C2C interbank transfers 24/7/365 using mobile phone number. At the next stage – C2B (customer-to-business) and C2G (customer-to-government) payments to be included



## 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 2019 :

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

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

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

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



## 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
- ✓ More than **53 mln** “Mir” payment cards were issued by year end 2018 in Russia
- ✓ Co-badging projects with international payment systems: Maestro, JCB, AmEx and UnionPay
- ✓ Support of mobile payment service Samsung Pay
- ✓ Mobile payments service MirPay is launched
- ✓ PayPass system has been successfully implemented
- ✓ Payment system “Mir” launched a loyalty program which allows card holders to receive cashback
- ✓ “Mir” payment cards are accepted in the Republic of Armenia, Kyrgyz Republic, as well as in the infrastructure of VTB Bank in the Republic of Kazakhstan and the Republic of Belarus





## CONSUMER PROTECTION

Financial consumer and investor protection as one of priorities for 2016-2018

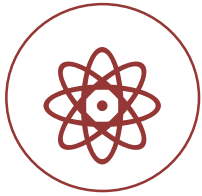
### KEY FINANCIAL CONSUMER PROTECTION WORKSTREAMS



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)

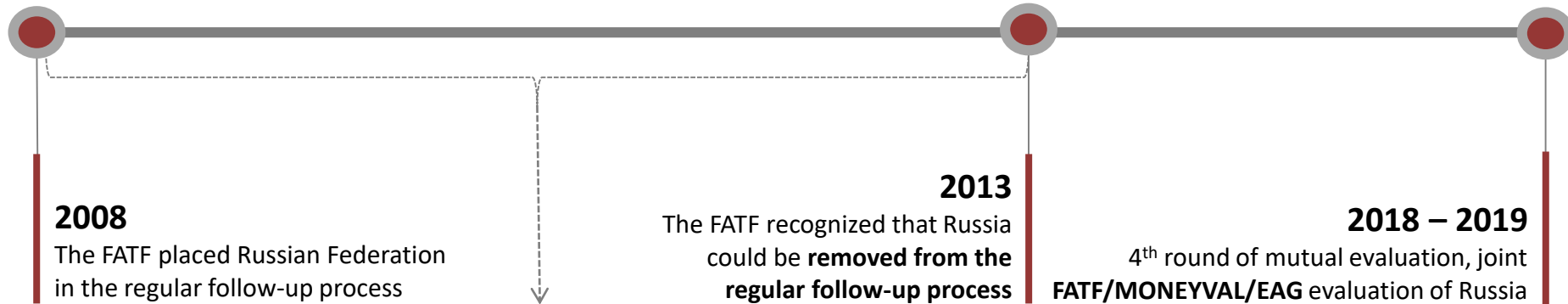
- The global knowledge exchange network empowering policymakers to increase access to quality financial services for the less well-off communities and households
- The Bank of Russia became a member of AFI in February 2014
- In September 2014 the Bank of Russia joined the Maya Declaration setting up 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 hosted the 2018 AFI Global Policy Forum



## AML/CFT

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

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



#### 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

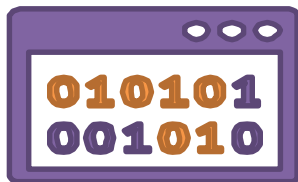
### Key initiatives in information security and cybersecurity



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 2019

<b>February 1-8</b>	Quiet period	<b>July 19-26</b>	Quiet period
<b>February 8</b>	Board of Directors meeting on monetary policy	<b>July 26</b>	Board of Directors meeting on monetary policy
<b>March 15-22</b>	Quiet period	<b>August 30 – September 6</b>	Quiet period
<b>March 22</b>	Board of Directors meeting on monetary policy Release of the Monetary Policy Report	<b>September 6</b>	Board of Directors meeting on monetary policy Release of the Monetary Policy Report
<b>March 26</b>	Conference call with institutional investors	<b>September 11</b>	Conference call with institutional investors
<b>April 10-12*</b>	Ad-hoc meetings with investors on the sidelines of the IMF/WB meetings	<b>October 11-13*</b>	Ad-hoc meetings with investors on the sidelines of the IMF/WB meetings
<b>April 19-26</b>	Quiet period	<b>October 18-25</b>	Quiet period
<b>April 26</b>	Board of Directors meeting on monetary policy	<b>October 25</b>	Board of Directors meeting on monetary policy
<b>June 6-8</b>	Saint Petersburg International Economic Forum	<b>December 6-13</b>	Quiet period
<b>June 7-14</b>	Quiet period	<b>December 13</b>	Board of Directors meeting on monetary policy Release of the Monetary Policy Report
<b>June 14</b>	Board of Directors meeting on monetary policy Release of the Monetary Policy Report	<b>December 18</b>	Conference call with institutional investors
<b>June 19</b>	Conference call with institutional investors		

### International Cooperation Department

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