



Bank of Russia

# RUSSIAN FINANCIAL SECTOR INVESTOR PRESENTATION

June 2021



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Bank of Russia

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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

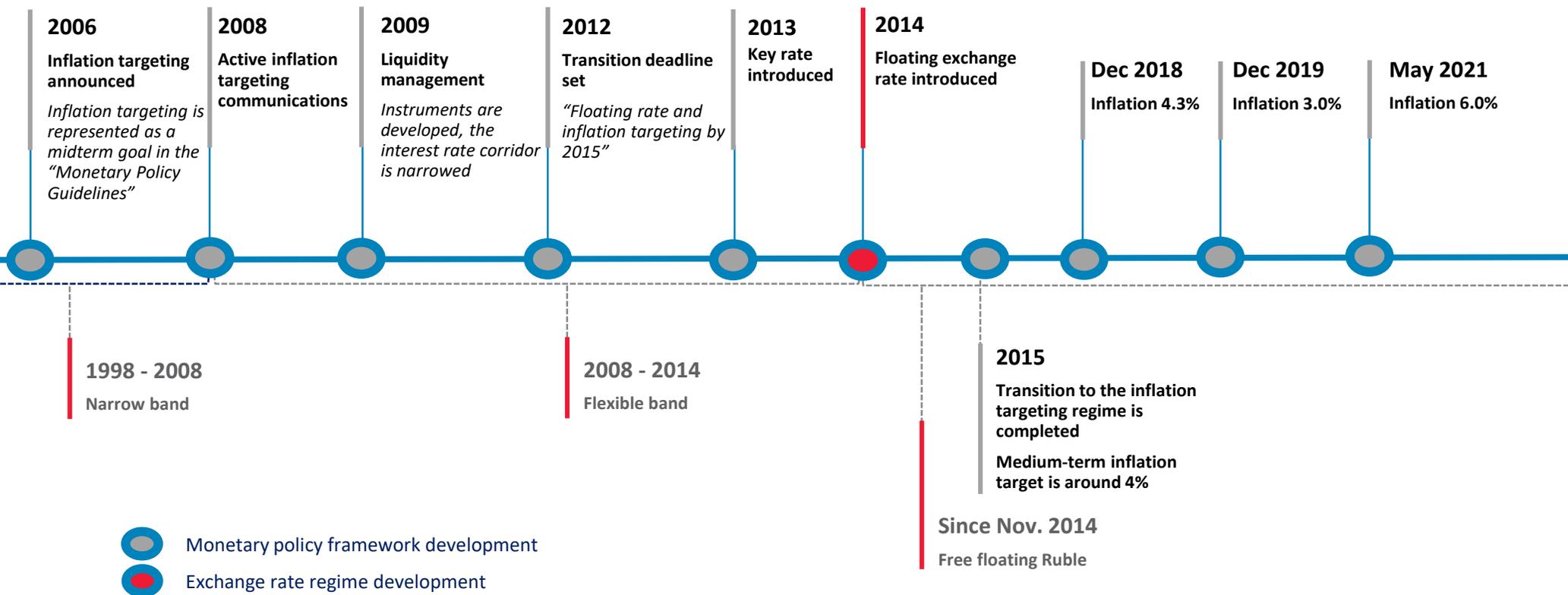
Focus on Russian financial market development

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, cutting edge technologies and best practices



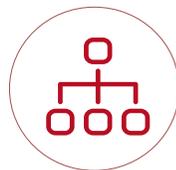
### Monetary policy

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
- Introduction of PTI ratio for macroprudential regulation purposes starting October 1, 2019
- 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 – personal finance platform 'Finuslugi' launched in October 2020



### 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
- Introduction of new voluntary personal pension plan (simple and standard) is being discussed

## COMPLIANCE WITH INTERNATIONAL STANDARDS

Russia complies with or implements key international standards and best practices



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



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



Russia advanced to **#28** in global **DOING BUSINESS-2020** rankings from 31<sup>st</sup> in the 2019 report (#35 in 2018, #40 in 2017)



Russia is a party to the Articles of Agreement of the IMF and **upholds free movement of capital**



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



Bank for International Settlements, IAIS and IOSCO **Principles for financial market infrastructures (PFMI)** are being implemented

Upon monitoring the implementation of the **PFMI**, the CPMI gave Russia the highest-possible **'4' rating**

**The BoR payment system** fully complies with **the PFMI**.



National Settlement Depository is **eligible for custody arrangements under Rule 17f-7** of the US Investment Company Act of 1940



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



# INTERNATIONAL COOPERATION

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

## Multilateral cooperation

## Financial market authorities

## Regional financial integration



## NEWSLETTER (1)

### Key news from the Russian financial market

June 2021	<p><b>23 June 2021:</b>The Bank of Russia publishes <a href="#">a consultation paper</a> on the regulation of ecosystem banks to discuss it with market participants. The regulator suggests a flexible approach in this area as the best option.</p> <p><b>2 June 2021:</b> The Bank of Russia published <a href="#">a consultation paper</a> to discuss the steps needed for systemically important credit institutions (SICIs) to consistently apply the internal ratings-based (IRB) approach for credit risk assessments.</p>
May 2021	<p><b>21 May 2021:</b> The Bank of Russia decided <b>to raise risk weights add-ons for mortgage loans and loans for construction co-funding</b> granted starting 1 August 2021. The increase in add-ons will help reduce the incentives for banks to expand lending by issuing loans with a low down payment to borrowers, and will also speed up the recovery of the macroprudential buffer on mortgage loans and ensure banks' resilience to potential stress scenarios.</p> <p><b>13 May 2021:</b> Under the amendments to the CBR Ordinance #590-P with respect to loans to fund mergers and acquisitions, beginning on 1 October 2021, banks' discretion about upgrading a quality category (upgrading category III to II) with phasing of additional provisions is conditional on positive operational performance of borrowers.</p>
April 2021	<p><b>29 April 2021:</b> The Bank of Russia's Board of Directors decided <b>to cancel from 30 June 2021 add-ons on unsecured consumer loans issued before 1 April 2020 and raise risk-weight add-ons on unsecured consumer loans issued from 1 July 2021</b>. The increase in add-ons will help reduce the incentives for banks to expand lending by issuing loans to borrowers with high debt-to-income (DTI) ratios, as well as gradually restore the value of the capital cushion and insure banks' resilience to potential stress scenarios.</p> <p><b>22 April 2021:</b> The Bank of Russia has decided to include <b>the projected ranges for the average level of the Bank of Russia's key rate</b> for each of the calendar years covered by the forecast in its published medium-term economic forecast. Additional information on how to interpret the proposed format of the key rate forecast communication is presented in <a href="#">the methodological note</a>.</p> <p><b>2 April 2021:</b> The Bank of Russia has published a consultation paper "<a href="#">Ecosystems: regulatory approaches</a>" to discuss main trends in ecosystems' development and their role in the modern economy, as well as approaches to the regulation of ecosystems' operation.</p>
March 2021	<p><b>30 March 2021:</b> Creditors should make a decision to restructure a retail loan when the borrower (or their family member) has a confirmed case of COVID-19 or their income has declined to an extent that the borrower is no longer capable to service the debt, as explained in the Bank of Russia's information letter sent to all creditors.</p> <p><b>3 March 2021:</b> The Bank of Russia has unveiled a <a href="#">consultation paper</a> exploring potential regulatory approaches to mortgage loans with floating interest rates, aiming to protect borrower interests and prevent financial stability risks in the future.</p>



## NEWSLETTER (2)

### Key news from the Russian financial market

February 2021	<b>25 February 2021:</b> The Bank of Russia Board of Directors has decided to change the parameters of an irrevocable credit line (ICL) that the Bank of Russia opens for SICIs starting from 1 April 2021: (1) The fee for an ICL opening from 1 April 2021 is set as follows: from 1 April 2021 to 30 September 2021 — 0.15% per year of the maximum ICL limit set for SICIs; starting from 1 October 2021 — 0.5% per year of the maximum ICL limit set for SICIs. For ICLs opened earlier, the fee will be kept unchanged until their expiry; (2) From 1 April 2021, the maximum total limit for ICLs will be Rub 4 tn.
February 2021	<b>17 February 2021:</b> The changes proposed to the Bank of Russia Regulation No. 199-I will enable a wider use of government guarantees of the Russian Federation to reduce credit exposure in calculating required ratios in the case of ruble claims secured by ruble-denominated government guarantees. <b>11 February 2021:</b> According to a draft Bank of Russia ordinance, limits that banks set for their customers' daily operations in the Faster Payments System (FPS) should not be less than Rub 150 thousand. Banks will have to adjust their limits by 1 October 2021. This will improve the availability of FPS transfers for individuals. <b>3 February 2021:</b> Credit institutions will be allowed to <b>measure operational risk for calculating their capital adequacy ratios in compliance with Basel III</b> . The new standardised approach involves the usage of a loss threshold. According to banks, this will enable them to save a part of capital allocated to cover operational risk. Banks with a universal license shall comply with the new rules beginning on 1 January 2023.
January 2021	<b>20 January 2021:</b> The Bank of Russia has laid out <a href="#">key objectives in refining debt-to-income (DTI) ratio calculation</a> for 2021-2022. There are plans to develop and propose legislation to make lenders legally obliged to calculate the DTI ratio. In addition, the roadmap provides for the potential introduction of a new macroprudential toolset to ensure quantitative restrictions are in place on the share of high-risk loans, in particular, unsecured consumer loans issued to high-DTI borrowers.
December 2020	<b>21 December 2020:</b> Under the Bank of Russia Regulation No. 730-P, effective from 2021, banks that have switched to the internal ratings-based approach (IRB approach) to calculating regulatory capital requirements are authorised to use their own credit risk assessment methodology and models in the creation of provisions.
October 2020	<b>15 October 2020:</b> Effective <b>from 1 April 2021</b> , under the Bank of Russia Regulation No. 729-P (a new version of Regulation No. 509-P) <b>banking groups</b> will be able to use <b>a new standardised approach to measuring credit risk for the calculation of capital adequacy ratios</b> . This will allow credit institutions that are parts of such groups to free capital, expanding their capabilities to lend to the real sector of the economy.

## NEWSLETTER (3)

### Key news from the Russian financial market

August 2020	<p><b>10 August 2020:</b> The Bank of Russia <b>reduced risk weight add-ons</b> for unsecured consumer loans in rubles issued starting 1 September 2020. The changes will mostly apply to borrowers with lower levels of PTI.</p> <p>The Bank of Russia <b>extended the following temporary regulatory forbearance measures until 31 December 2020:</b></p> <ul style="list-style-type: none"> <li>• (i) Banks are allowed not to accrue loan loss provisions and not to calculate the borrower's PTI for retail borrowers whose financial situation has worsened following the pandemic, as well as for restructured loans (both under Federal Law No. 106-FZ and in-house programmes); (ii) Banks are allowed not to apply risk weight add-ons to retail loans if the borrowers have a confirmed COVID-19 case; (iii) Banks are allowed not to accrue loan loss provisions for SME loans restructured due to the coronavirus pandemic and to maintain the quality assessment as of 1 February 2020.</li> <li>• Loan loss provisions should be created in full under restructured retail and SME loans <b>until 1 July 2021</b>.</li> <li>• Banks are entitled to delay loan loss provisioning <b>until 1 April 2021</b> for corporate loans restructured due to the coronavirus pandemic and to maintain the quality assessment as of 1 January 2020 if collateral is classified into I or II category.</li> <li>• <b>Until 2022</b> banks are allowed not to apply risk weight add-ons to FX loans issued to manufacturers of pharmaceuticals, medical products and equipment. Risk weights for investments in FX debt securities of such organisations are also set free from the add-ons made during the above-mentioned period.</li> </ul>
July 2020	<p><b>24 July 2020:</b> The Bank of Russia approved a <b>fast-track implementation of credit risk assessment approach under Basel III standard for mortgage loans</b>. Risk weights are set in the range from 20% to 100% depending on the values of LTV and PTI ratios (earlier, risk ratios were set in the 35-100% range).</p> <p>Temporary regulatory easing:</p> <ul style="list-style-type: none"> <li>• To stimulate the activity during the recovery period and afterwards <b>the risk weight for investments in subordinated debt of non-financial organizations</b> (including perpetual) will be reduced from 150% to 100% till mid-2025.</li> <li>• To stimulate banks to settle problem loans of systemically important companies through a compensation or share pledge (a debt/equity swap) the Bank of Russia will lower <b>the risk weight for investments in equity of systemically important companies</b> received under the abovementioned arrangements from 150% to 100% till mid-2022.</li> </ul>
March 2020	<p><b>20 March 2020:</b> Temporary regulatory forbearance:</p> <ul style="list-style-type: none"> <li>• The Bank of Russia decided to postpone several amendments to the regulation of credit institutions, incl. the introduction of the large exposures concentration ratio (N30) until 1 January 2022.</li> <li>• The Bank of Russia <b>reduced risk-weight add-ons for mortgage loans and loans for construction co-funding</b> with downpayment from 15 to 20% granted in rubles from 1 April 2020 from 100 to 20-80 p.p. depending on the PTI ratio.</li> </ul>

# 2

## RUSSIAN MACRO UPDATE

## KEY INDICATORS

Russian economy started to recover in 2016 and moderated in 2019

Figure 1: Real GDP growth dynamics (YoY, %)

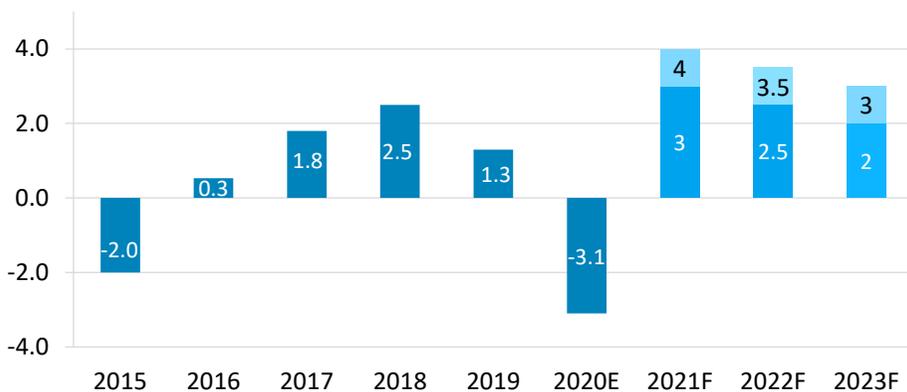


Figure 2: Private consumption and investment dynamics (YoY, %)

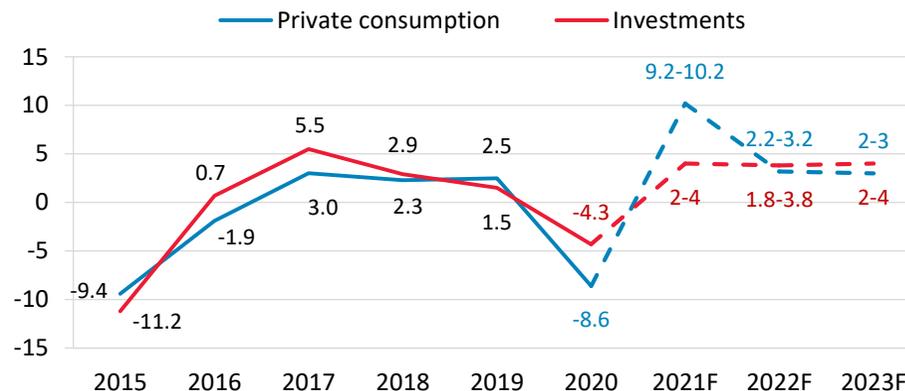


Figure 3: Russian Ruble volatility remains low while in free-floating

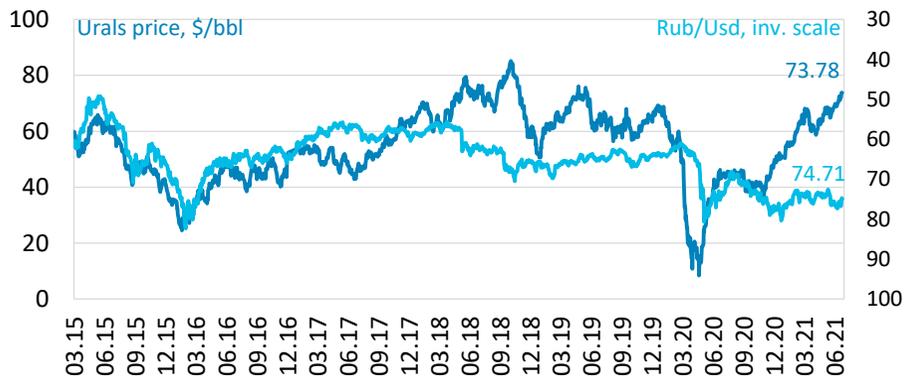
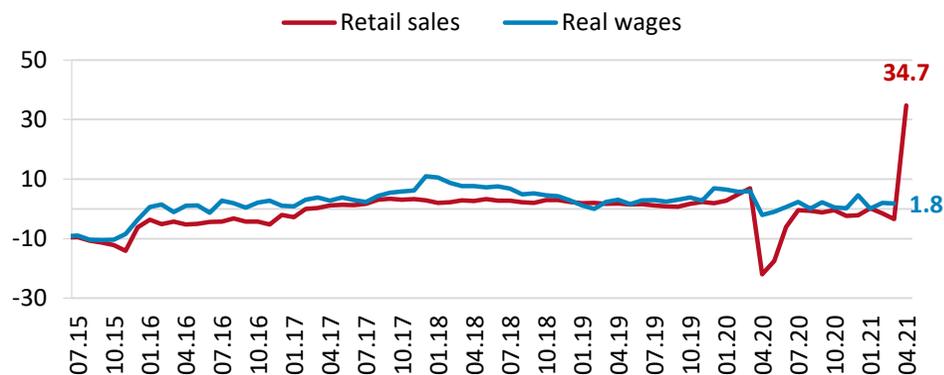


Figure 4: Retail sales and real wages dynamics (YoY, %)



# MACROFINANCE

## Solid fiscal and external positions

Figure 5: Current account surplus amounted to USD 34 bn in 2020

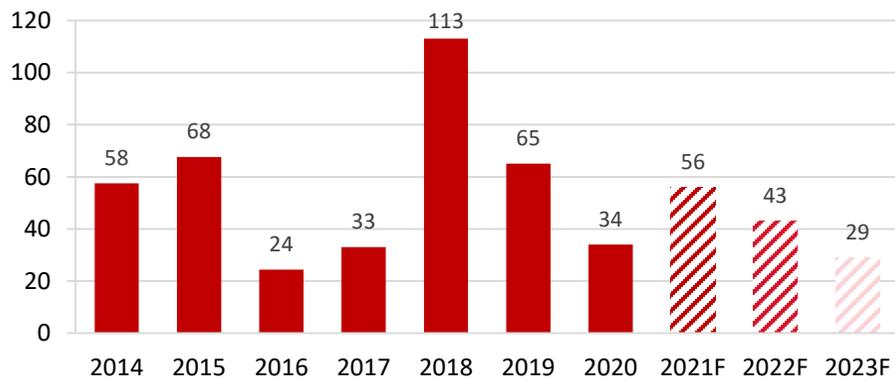


Figure 6: Strong fiscal position: budget consolidation and fiscal rule

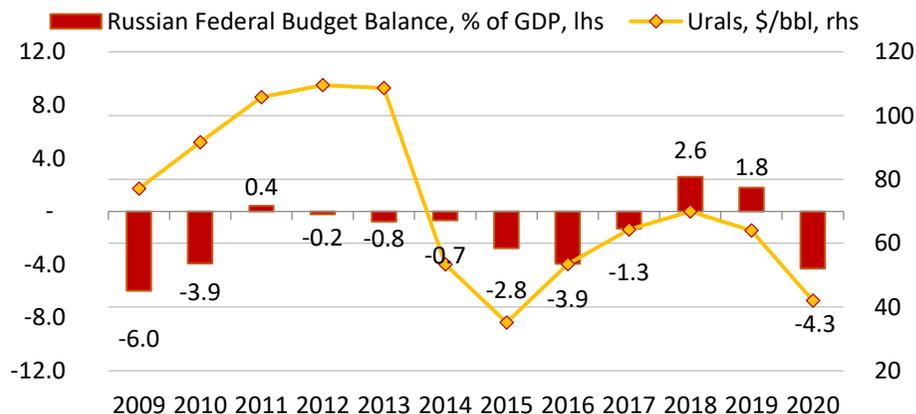


Figure 7: Significant international reserves assuring financial stability

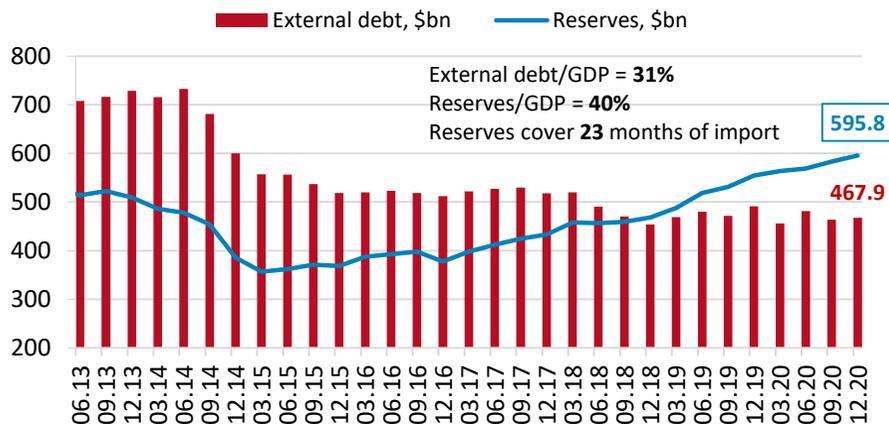
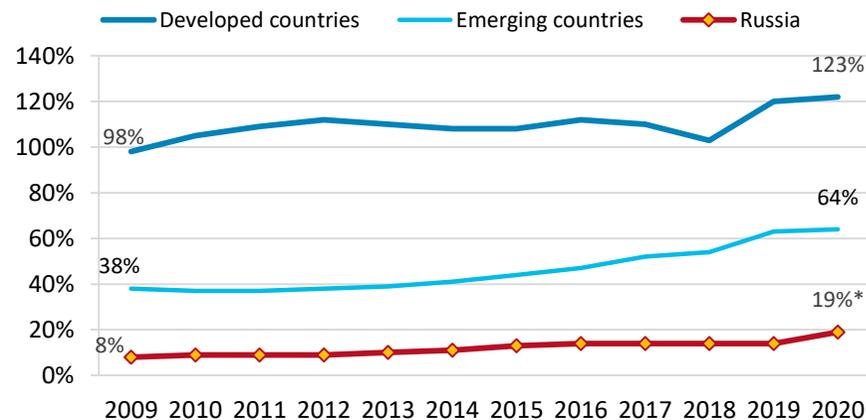


Figure 8: Sovereign debt to GDP lowest in both EM and DM spaces



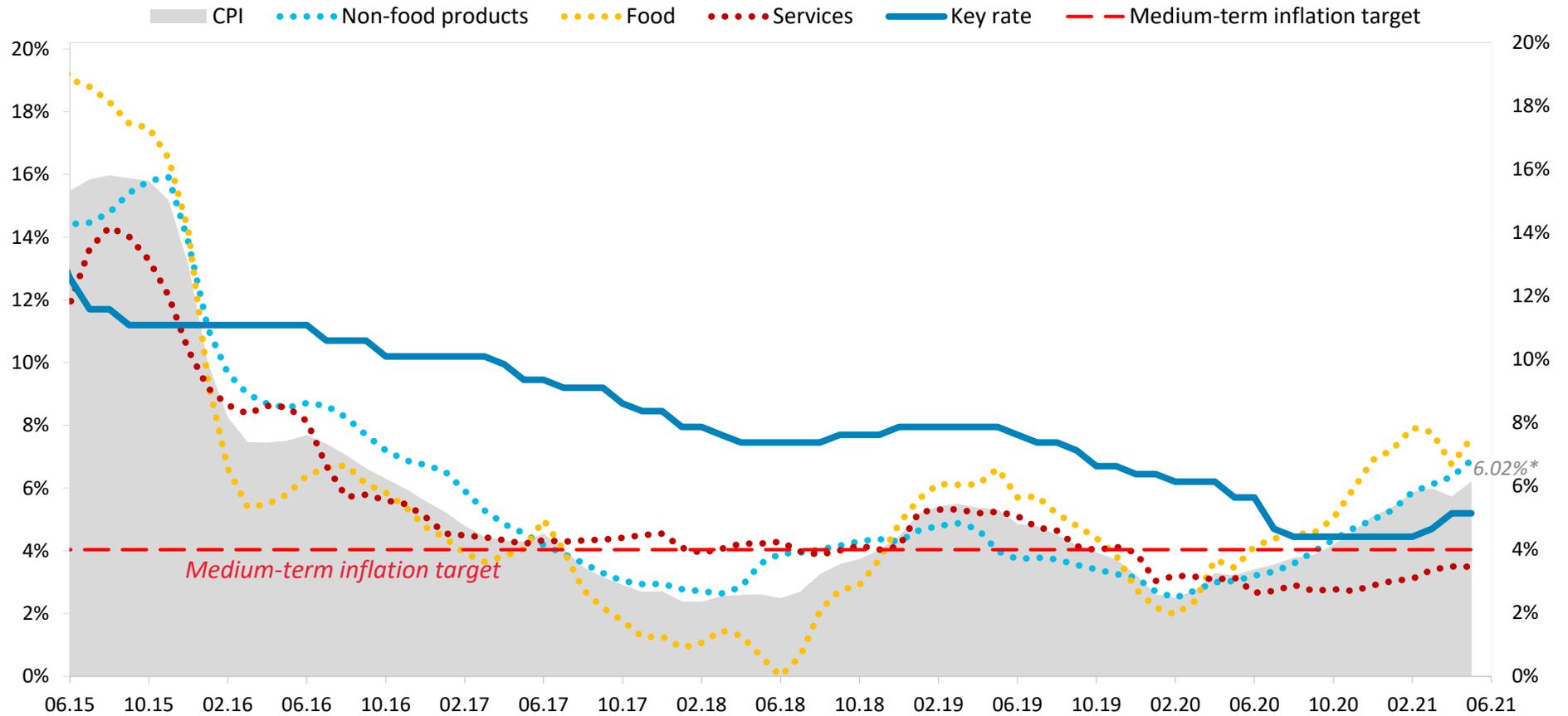
Source: Bank of Russia, Bloomberg, Ministry of Finance, IMF

\*estimate

# INFLATION

Medium-term inflation target is set at around 4%

Figure 9: Inflation (YoY, %)



Source: Bank of Russia, Rosstat

\*Inflation is 6.0% as of June, 2021



## INFLATION EXPECTATIONS

### Inflation expectations of households and businesses remain elevated

Expect. horizon		2018				2019				2020						2021			
		I	II	III	IV	I	II	III	IV	I	II	III	Oct	Nov	Dec	I	Apr	May	June
<b>Inflation expectations (absolute numbers), %</b>																			
<b>Households</b>																			
FOM (median, expected inflation)	Next 12 months	8.5	9.8	10.1	10.2	9.1	9.4	8.9	9.0	7.9	-**	8.9	9.7	10.1	12.0	10.1	11.9	11.3	11.9
FOM (subgroup with savings)	Next 12 months	8.0	9.0	9.2	9.1	8.0	8.3	8.4	8.3	6.9	-	8.1	9.0	9.6	10.9	9.1	10.5	10.2	9.7
FOM (subgroup without savings)	Next 12 months	8.8	10.3	10.5	10.8	9.8	10.0	9.2	9.4	8.5	-	9.6	10.0	10.6	12.0	10.6	12.5	11.8	12.9
FOM (median, observed inflation)	Past 12 months	9.2	10.6	10.2	10.2	10.0	10.2	9.9	9.4	8.3	-	9.4	9.6	10.7	11.5	12.7	14.5	14.8	14.9
FOM (subgroup with savings)	Past 12 months	8.4	9.7	10.0	9.2	9.2	9.0	9.4	8.7	7.2	-	8.5	9.1	10.0	10.6	11.5	11.8	12.4	12.1
FOM (subgroup without savings)	Past 12 months	9.6	11.2	10.4	10.8	10.8	11.1	10.4	9.6	8.6	-	9.9	9.8	11.2	11.7	12.4	16.4	16.0	16.9
<b>Professional analysts</b>																			
Bloomberg	2021									4.0	3.6	3.9	3.9	3.5	3.7	3.9	4.4	4.5	5.0
Bloomberg	2022									3.9	3.7	3.8	3.8	3.8	4.3	4.4	4.4	4.3	4.0
<b>Financial markets</b>																			
OFZ IN (option not subtracted)	2023	3.9	4.7	5.5	5.1	4.6	3.9	3.2	2.8	3.5	2.3	2.6	2.6	3.5	2.6	3.7	3.8	3.8	4.1
OFZ IN (option not subtracted)	2028		4.7	5.5	5.2	4.9	4.1	3.5	3.4	4.1	3.0	3.5	3.3	3.8	3.2	3.9	4.0	4.1	4.2
<b>Inflation expectations (balanced index*)</b>																			
<b>Businesses</b>																			
Bank of Russia monitoring	Next 3 months	6.8	10.2	12.6	16.5	10.6	9.9	8.3	8.5	18.1	15.1	17.5	20.3	20.5	19.0	20.7	24.9	26.7	27.4
PMI M, input prices, diff. index	Current month	...	70.3	69.1	62.5	66.2	54.6	54.3	54.0	59.8	58.8	63.3	72.5	77.1	78.5	72.6	76.2	74.4	-
PMI M, output prices, diff. index	Current month	...	56.6	56.8	52.5	56.1	51.5	50.4	50.4	55.4	51.6	53.0	57.1	58.3	60.6	65.3	67.1	66.9	-
PMI S, input prices, diff. index	Current month	...	61.8	59.4	60.4	60.3	56.3	55.3	55.6	61.5	55.9	58.6	58.0	64.5	60.4	65.0	62.2	68.3	-
PMI S, prices charged, diff. index	Current month	...	52.1	51.3	53.0	54.6	52.5	52.3	52.4	54.2	49.7	53.5	53.1	53.6	54.7	56.3	56.2	60.5	-

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

\*\*Households surveys in Apr-July 2020 were conducted by phone, their results are not comparable with those obtained later.

## 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)	2020 (actual)	BASELINE		
		2021	2022	2023
<b>Inflation, as % in December year-on-year</b>	<b>4.9</b>	<b>4.7-5.2</b>	<b>4.0</b>	<b>4.0</b>
Inflation, average for the year, as % year-on-year	<b>3.4</b>	5.4-5.8	4.0-4.2	4.0
Key rate, average for the year, % per annum	<b>5.0</b>	<b>4.8-5.4*</b>	<b>5.3-6.3</b>	<b>5.0-6.0</b>
<b>Gross domestic product</b>	<b>-3.0</b>	<b>3.0-4.0</b>	<b>2.5-3.5</b>	<b>2.0-3.0</b>
Final consumption expenditure	<b>-5.2</b>	7.1-8.1	1.6-2.6	1.6-2.6
– households	<b>-8.6</b>	9.2-10.2	2.2-3.2	2.0-3.0
Gross capital formation	<b>-2.0</b>	2.5-4.5	1.0-3.0	2.5-4.5
– gross fixed capital formation	<b>-4.3</b>	2.0-4.0	1.8-3.8	2.0-4.0
Exports	<b>-4.3</b>	0.2-2.2	4.9-6.9	2.4-4.4
Imports	<b>-12.0</b>	13.8-15.8	1.4-3.4	2.6-4.6
Money supply in national definition	<b>13.5</b>	11-15	8-12	7-11
<b>Claims on organisations and households in rubles and foreign currency**</b>	<b>10.9</b>	10-14	8-12	7-11
– on organisations	<b>10.2</b>	8-12	7-11	6-10
– on households, including	<b>12.9</b>	15-19	12-16	10-14
mortgage loans	<b>21.6</b>	16-20	14-18	14-18

\*Given that from January 1st to April 25th 2021 the average key rate was 4.3%, from April 26th to the end of 2021 the average key rate forecast range is 5.0-5.8%. Additional information on how to interpret the proposed format of the key rate forecast communication is presented in the methodological note [[http://cbr.ru/Content/Document/File/120337/comment\\_20210422\\_e.pdf](http://cbr.ru/Content/Document/File/120337/comment_20210422_e.pdf)].

\*\*Banking sector claims on organisations and households means all of the banking sector's claims on non-financial and financial institutions and households in rubles, 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.

Claims' growth rates are given with the exclusion of foreign currency revaluation. In order to exclude the effect of foreign currency revaluation the growth of claims in foreign currency and precious metals is converted to rubles using the period average USDRUB exchange rate

Source: Bank of Russia



## ECONOMIC FORECASTS (2)

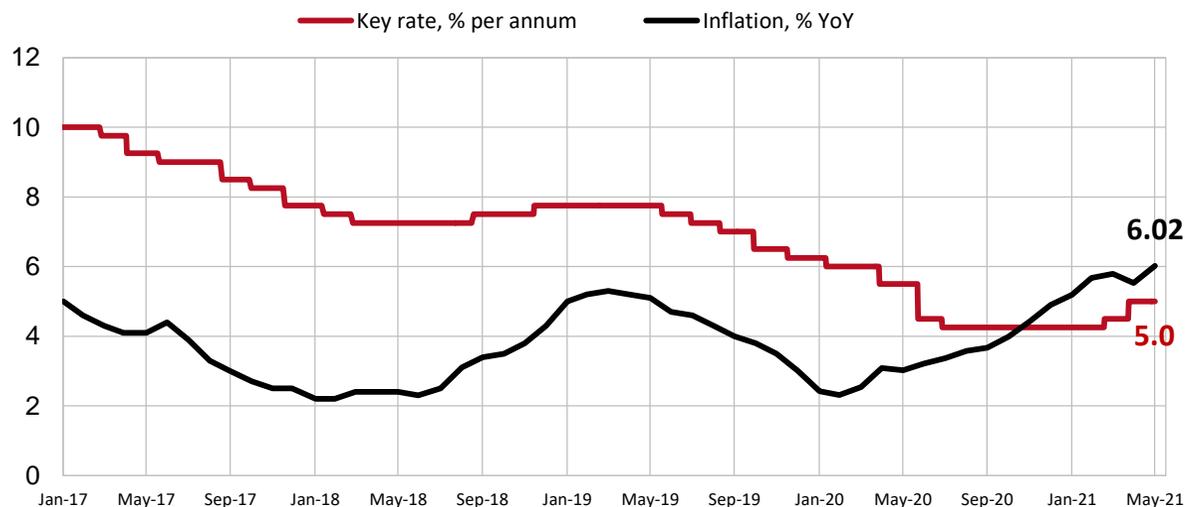
### Medium-term outlook for the Russian economy

Russia's balance of payments indicators* (billions of US dollars)	2020 (actual)	BASELINE		
		2021	2022	2023
<b>Current account</b>	<b>34</b>	<b>56</b>	<b>43</b>	<b>29</b>
Balance of trade	92	131	132	126
Exports	332	403	406	409
Imports	240	272	274	283
Balance of services	-17	-28	-38	-44
Exports	47	49	54	60
Imports	64	77	93	104
Balance of primary and secondary income	-40	-47	-51	-53
<b>Current and capital account balance</b>	<b>33</b>	<b>56</b>	<b>43</b>	<b>29</b>
<b>Financial account (excluding reserve assets)</b>	<b>50</b>	<b>31</b>	<b>17</b>	<b>11</b>
Government and the central bank	-1	-5	-8	-10
Private sector	51	35	25	20
<b>Net errors and omissions</b>	<b>3</b>	<b>2</b>	<b>0</b>	<b>0</b>
<b>Change in reserve assets ('+' – increase, '-' – decrease)</b>	<b>-14</b>	<b>27</b>	<b>26</b>	<b>18</b>
<b>Urals price, average for the year, US dollars per barrel</b>	<b>42</b>	<b>60</b>	<b>55</b>	<b>50</b>

\* 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 (1)

- ❑ Both the Russian and global economies are recovering faster than expected. Inflation is developing above the Bank of Russia's forecast. The contribution of persistent factors to inflation is increasing due to faster growth of demand compared to output expansion capacity. Over a short-term horizon, this influence is strengthened by price growth in global commodity markets.
- ❑ Taking into account high inflation expectations, the balance of risks has significantly shifted towards pro-inflationary ones.
- ❑ Given the monetary policy stance, annual inflation **will return to the Bank of Russia's target in the second half of 2022 and will remain close to 4% further on.**



Source: Bank of Russia

**Decision**  
as of June 11, 2021

**The Bank of Russia  
increased the key rate  
to 5.50% p.a.**

**Signal**

*“Increased inflationary pressure <...> can lead to a more substantial and prolonged deviation of inflation upward from the target. This creates the necessity of further increases in the key rate at the upcoming meetings. Key rate decisions 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.”*

## MONETARY POLICY (2)

### Monetary Policy Guidelines 2021-2023: matrix of macroeconomic forecast scenarios

✓ The key point is the dynamics of potential and demand

		Demand	
		Sustainable recovery	Long and unsustainable recovery
<b>Supply</b>	<b>Moderate decline of potential</b>	<b>Baseline</b> <ul style="list-style-type: none"> <li>The weakening of epidemiological risks</li> <li>Moderate decline in potential GDP trajectory</li> <li>Recovery in household consumer activity, comparable to other post-crisis episodes</li> <li>Gradual recovery of investment activity</li> <li>Gradual fiscal consolidation in line with the planned return to the parameters of the fiscal rule in 2022</li> </ul>	<b>Disinflationary</b> <ul style="list-style-type: none"> <li>The dynamics of potential GDP corresponds to the baseline scenario</li> <li>Slower recovery of demand due to the prolonged nature of the pandemic</li> <li>Sustainable deviation of inflation downwards from the target</li> <li>Longer and more pronounced accommodative monetary policy than in the baseline scenario</li> </ul>
	<b>Deep decline of potential</b>	<b>Proinflationary</b> <ul style="list-style-type: none"> <li>The potential of the economy is falling significantly more than in the baseline scenario</li> <li>Consumer demand is recovering steadily, and investment is recovering more slowly than in the baseline scenario</li> <li>The economy is returning to its potential (lower than before) in 2021 and even exceeds it somewhat, which creates pro-inflationary risks</li> <li>Inflation returns to the target by Q3 and Q4 of 2022 and remains close to the target further on</li> <li>A temporary shift to a moderately tight monetary policy with a return to neutral monetary policy by the end of the projection period is possible</li> </ul>	<b>Risk</b> <ul style="list-style-type: none"> <li>Possible escalation of geopolitical risks, credit crisis in countries with high debt levels</li> <li>Reduction of the potential is greater than in the baseline scenario</li> <li>External shocks create significant pro-inflationary pressures in 2021, then inflation falls below target under the influence of weak demand. Inflation stabilises close to 4% after 2023</li> <li>Temporary significant tightening of monetary policy with a return to accommodative policy in the second half of the forecast period</li> </ul>

## INTERNATIONAL RESERVES

### Foreign exchange and gold assets by asset class

Assets	As of 30 September 2019		As of 30 September 2020		Change in Sep 2019 - Sep 2020, billions of US dollars
	billions of US dollars	share of assets, %	billions of US dollars	share of assets, %	
Government securities of foreign issuers*	209.3	39.7	213.1	36.8	3.9
Deposits and account balances with foreign counterparties	142.7	27.1	144.4	24.9	1.7
Gold	105.4	20	136.6	23.6	31.3
Non-government securities of foreign issuers	41.9	8	53.3	9.2	11.4
International organisations securities	17.6	3.3	23.5	4.1	5.8
Reverse repo operations with foreign counterparties	2.8	0.5	3.7	0.6	0.9
Claims in foreign currency on Russian counterparties and issuers**	5	1	2.9	0.5	-2.1
Net position with the IMF	2.2	0.4	1.2	0.2	-1
Claims on foreign counterparties on foreign currency supply	0.1	0	-0.1	0	-0.2
<b>Total***</b>	<b>527.0</b>	<b>100.0</b>	<b>578.7</b>	<b>100.0</b>	<b>51.7</b>

\* Securities issued by a foreign government or foreign issuers with explicit government guarantee.

\*\* Claims on Russian credit institutions, Eurobonds of the Russian Federation and other Russian issuers.

\*\*\* The total value may differ from the sum of asset classes values due to rounding.

Figure 10: Bank of Russia foreign exchange and gold assets by currency\* (% of market value)

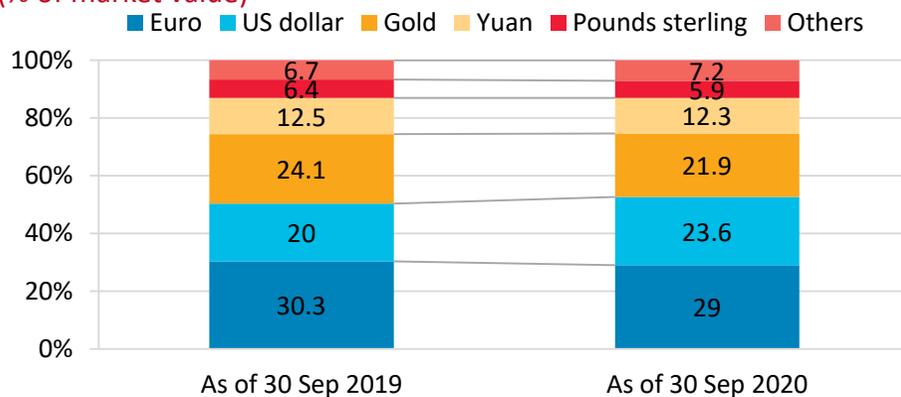
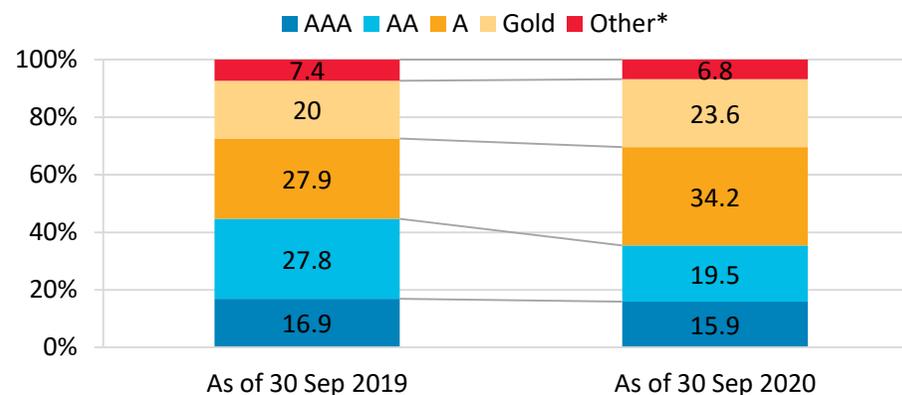


Figure 11: Bank of Russia foreign exchange and gold assets by credit rating, %



\* The distribution takes into account unsettled conversion transactions as of 31 December 2018 and 31 December 2019. \* Mainly claims on Russian counterparties and issuers and Russia's net position with the IMF.

# 3

## FINANCIAL SECTOR OVERVIEW



## 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 of 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



## 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

**Introduction of PTI ratio** in order to regulate 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 depends 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

*On 1 June 2017, Federal Law No. 92-FZ dated 1 May 2017 came into force. It envisages the introduction of proportional regulation designed to set up a regulatory balance for banks differing in scale and in the nature of operations. 123 banks hold basic license, as of 1 November 2020.*

## BANKING SECTOR: NEW RESOLUTION MECHANISM\*

The bank resolution mechanism implemented in 2017 is designed to reduce both costs and time while enhancing control over resolution processes

In 2017 the Bank of Russia adopted a new resolution mechanism, involving the CBR's direct participation in the capital of the banks under resolution. Over 2017-2019, measures were taken to rehabilitate three major systemically important financial groups: **Promsvyazbank**, **Otkritie**, **B&N Bank**, and two regionally important banks: **Moscow Industrial Bank** and **Asian-Pacific Bank**.

Resolution measures have been applied to Promsvyazbank PJSC, Public Joint-Stock Company "Bank Otkritie Financial Corporation", B&N Bank and PJSC Asian-Pacific Bank, which established permanent administration bodies, and now these banks are supervised by the Bank of Russia under the general mode.

✓ Deposit Insurance Agency acquired over 99.99% of Promsvyazbank PJSC's shares, and then transferred them to the Russian government.

✓ Public Joint-Stock Company "Bank Otkritie Financial Corporation" and B&N Bank became a basis for a universal financial group.

✓ NB TRUST, Bank AVB and "Rost Bank" (JSC) provided a basis for the Non-Core Asset Bank, which received the non-core and bad assets of the banks under resolution.

### Update on current status

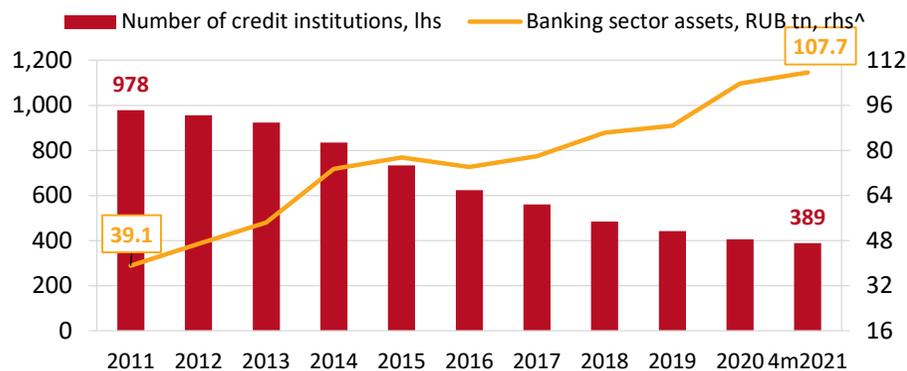
- Bank FC Otkritie**  
 Bank of Russia is developing a strategy for exiting the capital of the Otkritie group with the help from investment consultants and is looking for investors who would buy the group's shares.  
*Recapitalization: RUB 556 bln*  
*Deposit Balance: RUB 0*
- Asian-Pacific Bank**  
 Bank of Russia is looking for investors who would buy the Asian-Pacific Bank group's shares.  
*Recapitalization: RUB 9 bln*  
*Deposit Balance: RUB 0*
- NB Trust bank**  
 Non-Core Asset Bank's work with bad and non-core assets is planned to be completed in 2023. There are no plans to sell the bank afterwards.  
*Recapitalization: RUB 1 bln*  
*Deposit Balance: RUB 1,668 bln*

\*A new bank resolution mechanism involving the Bank of Russia has been implemented since 2017. Besides, since 2008, the "credit" mechanism of bank resolution with DIA's participation has also been in use. Under the latter mechanism, DIA engages an investor and afterwards may provide the bank with financial assistance at a preferential rate; such loans are funded by the Bank of Russia.

## BANKING SECTOR: KEY FIGURES

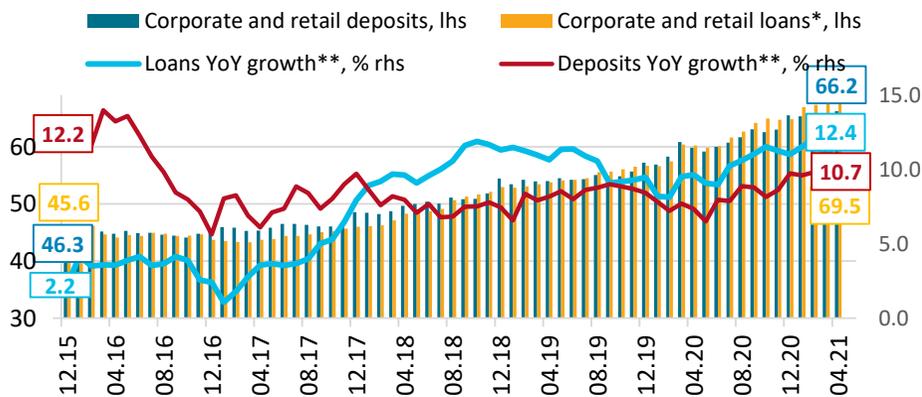
Active supervision and tighter regulation allowed to strengthen the health of the banking sector

Figure 12: In 2013-2021 more than 450 licenses were revoked causing almost no impact on the banking sector's total assets



\*350 banks and 39 non-banking credit organisations

Figure 14: Loans and deposits volume (RUB tn) and growth rates



^Since 01.11.2020 assets are shown net of created provisions. Data for retrospective periods restated.

\*Since 01.01.2020 corporate loans include loans to financial and non-financial organizations (excl. credit organizations). Data for retrospective periods restated

\*\*YoY, ccy adj. by credit institutions operating as of the reporting date. Since 01.01.2020 annual growth rate is based on chain method. Data for retrospective periods restated

Figure 13: Banking sector profitability restored

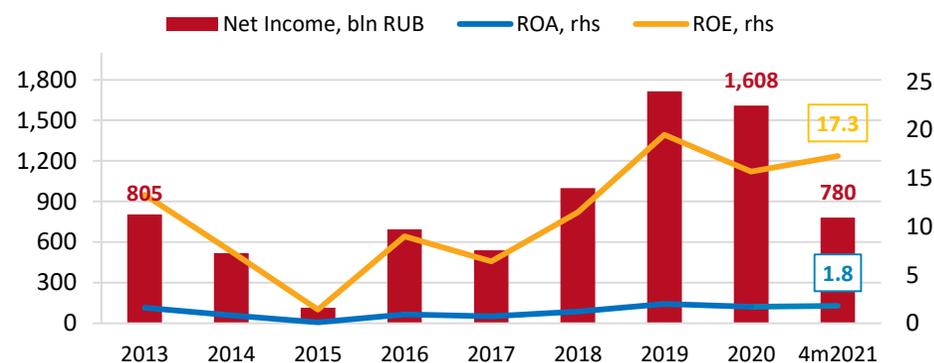
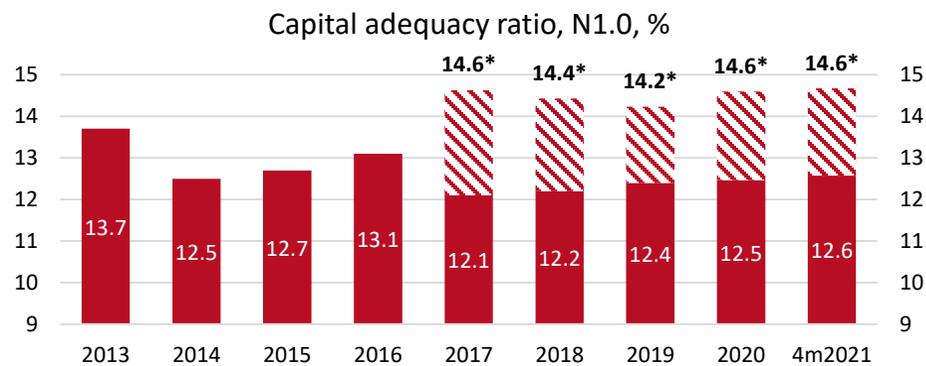


Figure 15: Banks hold an acceptable level of capital under Basel III

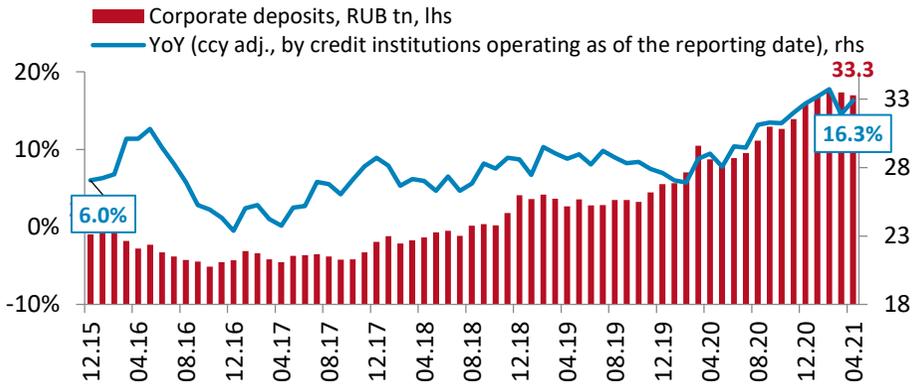


\*Excluding credit institutions under financial rehabilitation procedure

# BANKING SECTOR: FUNDING

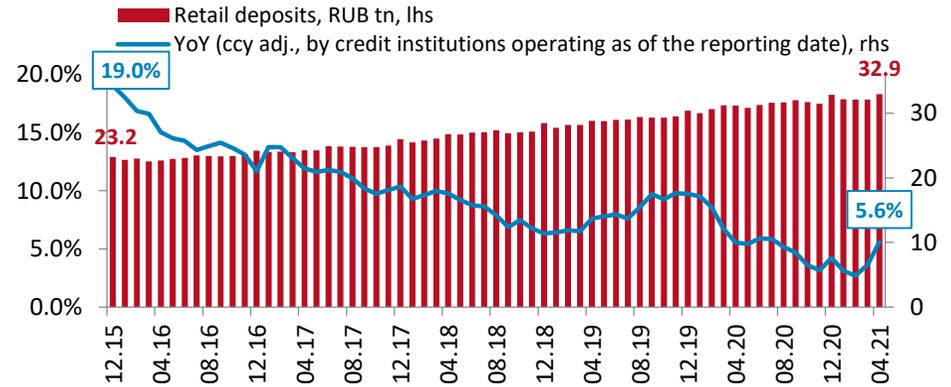
The funding of the banking sector mostly comes from corporate and retail deposits

Figure 16: In April 2021 corporate deposits amounted to RUB 33.3 tn, growth increased to 16.3% YoY



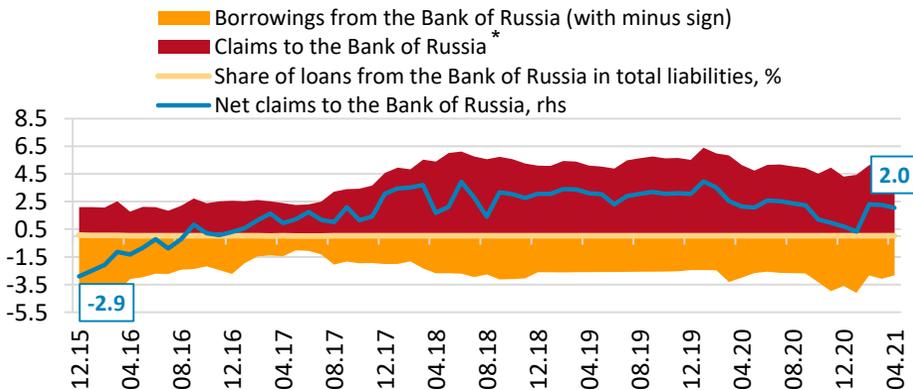
\*Since 01.01.2020 annual growth rate is based on chain method. Data for retrospective periods restated.

Figure 17: In April 2021 retail deposits grew 5.6% YoY and amounted to RUB 32.9 tn



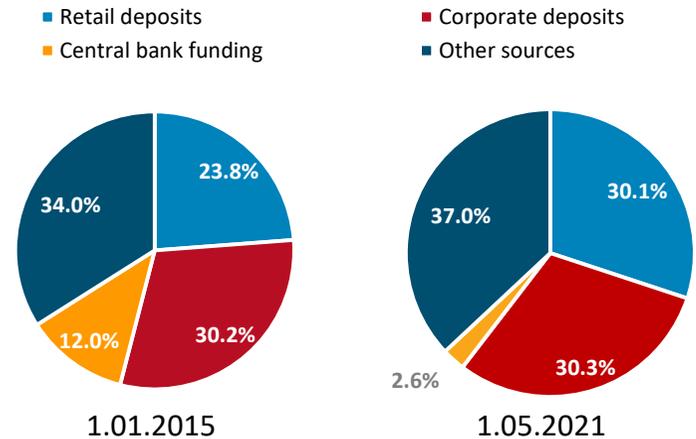
\*Since 01.01.2020 annual growth rate is based on chain method. Data for retrospective periods restated. Retail deposits are shown net of escrow accounts, data for retrospective periods restated

Figure 18: Operations with the Bank of Russia, tn RUB



\*excluding Mandatory cash balances by credit organizations with the Bank of Russia

Figure 19: Sources of funding, % of total liabilities

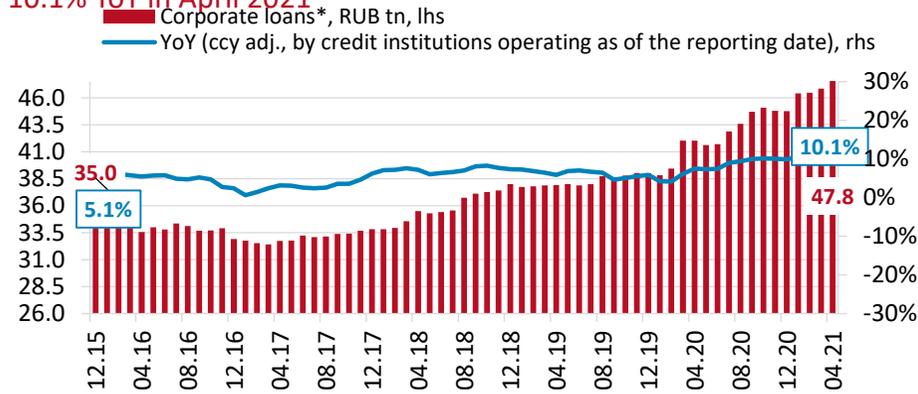




# BANKING SECTOR: LENDING

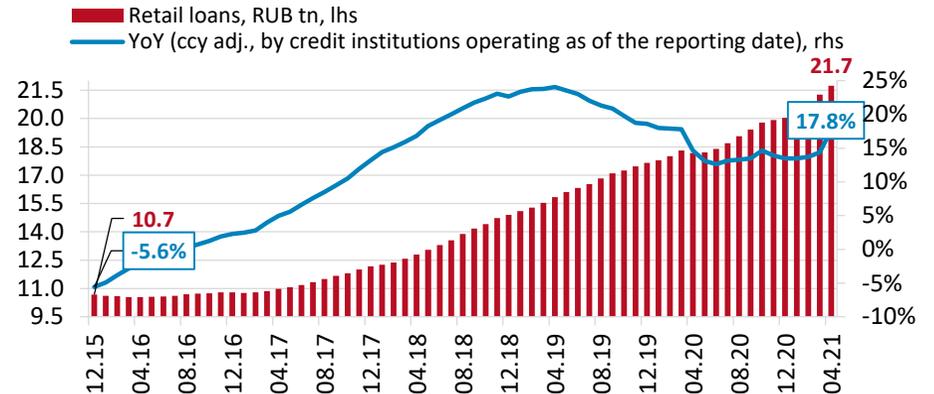
## The growth pace of retail loans has accelerated

Figure 20: Corporate loans amounted to Rub 47.8 tn, growth edged up to 10.1% YoY in April 2021



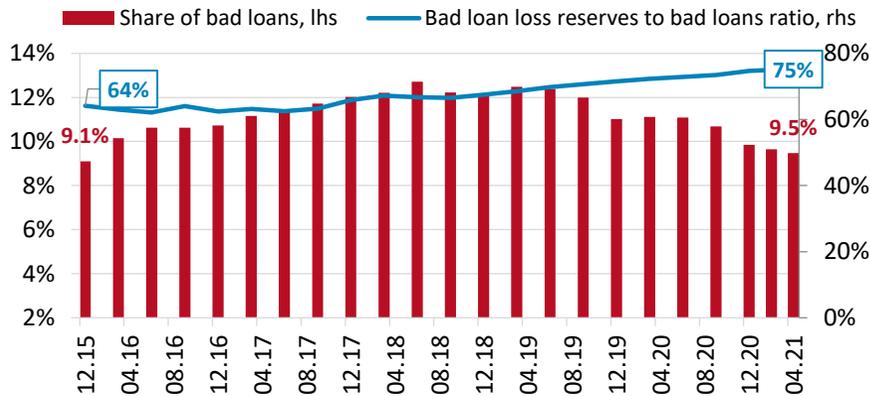
\*Since 01.01.2020 corporate loans include loans to financial and non-financial organizations (excl. credit organizations). Data for retrospective periods restated

Figure 21: Retail lending growth increased to 17.8% YoY in April 2021



\*Since 01.01.2020 annual growth rate is based on chain method. Data for retrospective periods restated

Figure 22: Share of bad corporate loans\*\* slightly decreased to 9.5% as of May 2021, while the bad loan loss reserves to bad loans ratio accounted for 75%

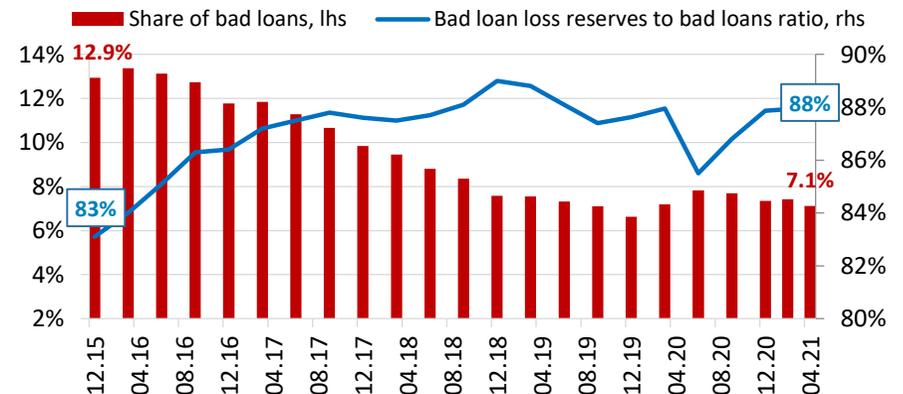


\*\* Loans classified into quality category of IV and V according to the requirements of Regulation No.590-P.

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 23: The share of bad loans\*\* decreased to 7.1% in April 2021 vs YE 2020

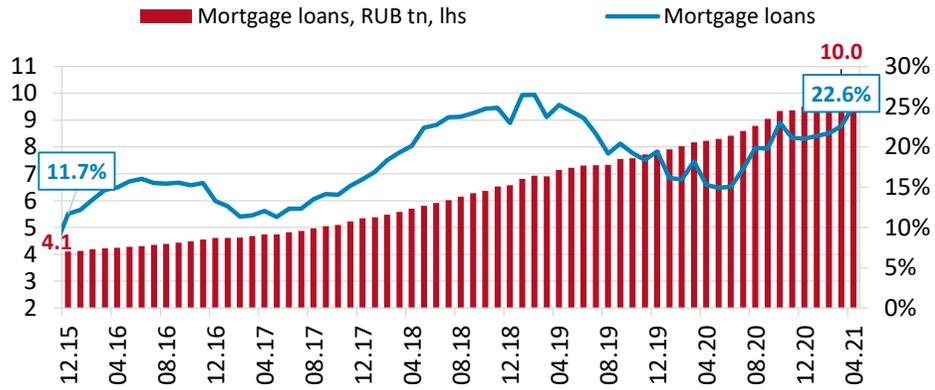




# BANKING SECTOR: MORTGAGE SEGMENT

## Mortgage loans have been the key driver of credit expansion in 2020

Figure 24: Mortgage lending growth increased 22.6% YoY in April 2021



\*Since 01.01.2020 annual growth rate is based on chain method. Data for retrospective periods restated.

Figure 26: Distribution of mortgage loans by LTV

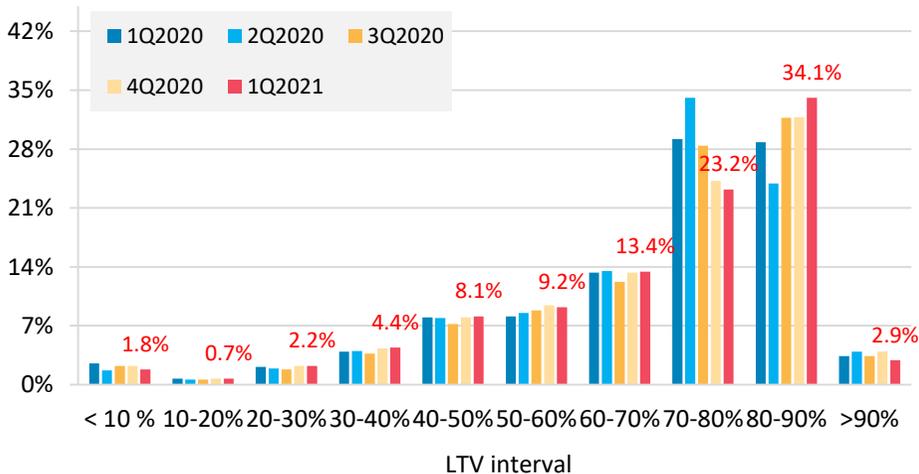


Figure 25: Share of NPLs remains at historically low levels

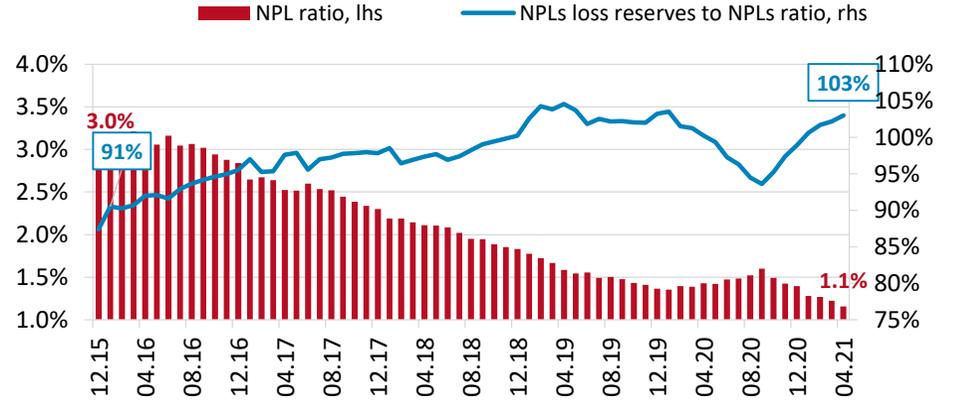


Figure 27: Risk weight add-ons applied to RUB mortgage loans depending on the LTV and the PTI (applied from 1 August 2021)

LTV	PTI interval, %							PTI not calculated
	0-30	30-40	40-50	50-60	60-70	70-80	80+	
	80-85	0.5	0.5	0.5	0.7	0.8	0.9	
85-90	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
90+	2.0 for the whole term (excl. loans repaid with the use of the maternity capital)							

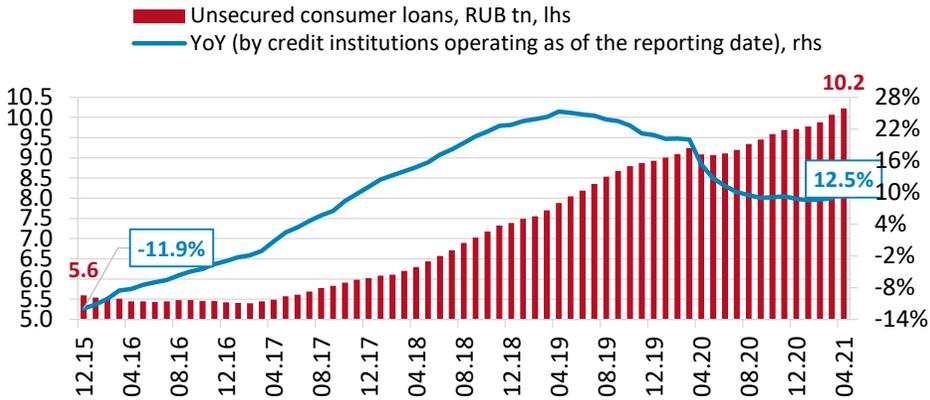
\*Risk weight add-ons applied from 1 August 2021 to mortgage loans issued from 1 August 2021



# BANKING SECTOR: UNSECURED CONSUMER LENDING

## Unsecured lending market growth rate has somewhat moderated following new macroprudential regulations

Figure 28: Unsecured consumer lending growth increased to 12.5% YoY in April 2021



\*Since 01.01.2020 annual growth rate is based on chain method. Data for retrospective periods restated.

Figure 30: Share of NPLs amounted to 8.8% as of April 2021

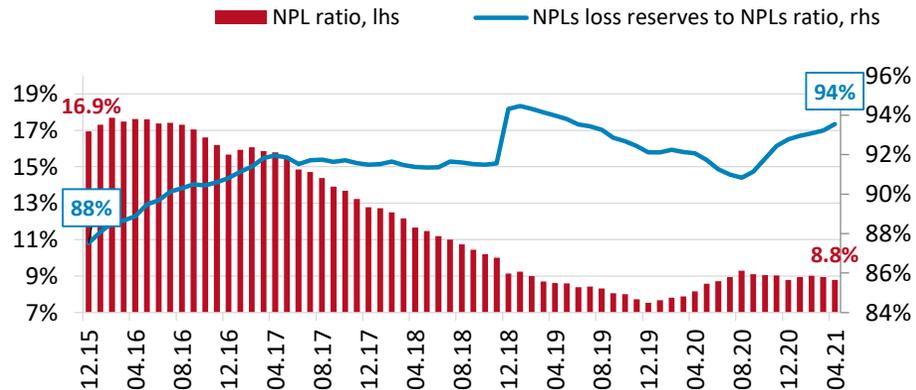
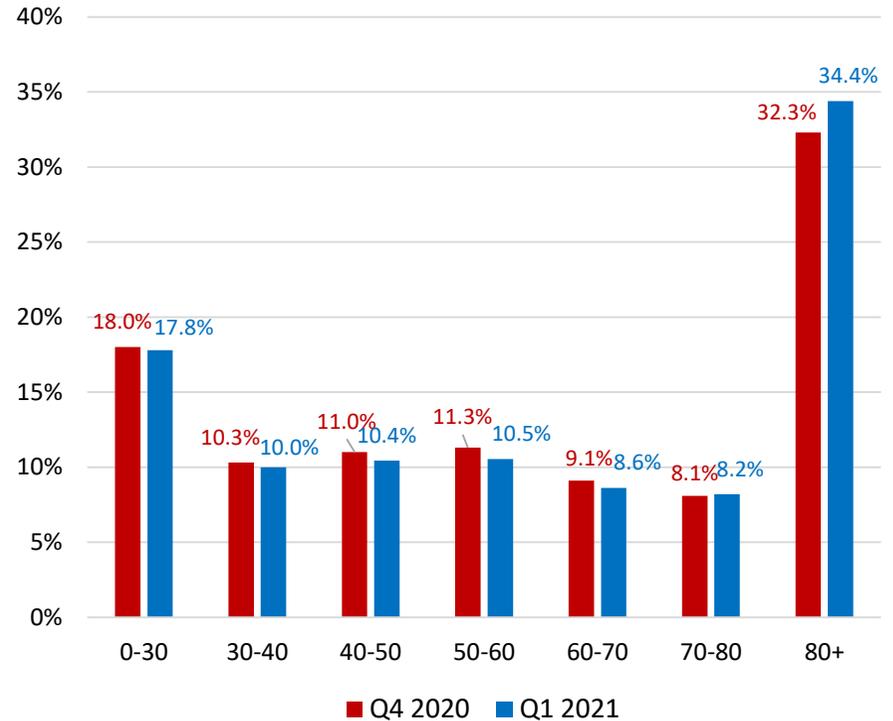


Figure 29: Distribution of unsecured consumer loan issuance by payment to income ratio (under CBR Ordinance No. 4892-U), %



## BANKING SECTOR: INTRODUCTION OF PTI

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

Starting from 1 July 2021, the Bank of Russia decided to raise add-ons on unsecured consumer loans up to the values that were in effect before the start of the pandemic (*please refer to table below*).

		PTI interval, %							
		W/o DTI	0-30	30-40	40-50	50-60	60-70	70-80	80+
EIR interval, %	0-10	0.6	0.3	0.3	0.3	0.6	0.7	0.9	1.1
	10-15	0.7	0.5	0.5	0.5	0.7	0.8	1.0	1.2
	15-20	1.1	0.7	0.7	0.7	1.1	1.3	1.4	1.6
	20-25	1.5	1.0	1.0	1.0	1.5	1.7	1.8	2.0
	25-30	1.8	1.3	1.3	1.3	1.8	1.9	2.0	2.2
	30-35	2.1	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	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 are applied to loans with PTI exceeding 50%.

Banks 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.

# BANKING SECTOR: INTEREST RATES

Interest rates trending down again after a temporary pickup over 2019

Figure 31: Weighted average long-term interest rates on loans in rubles, %\*

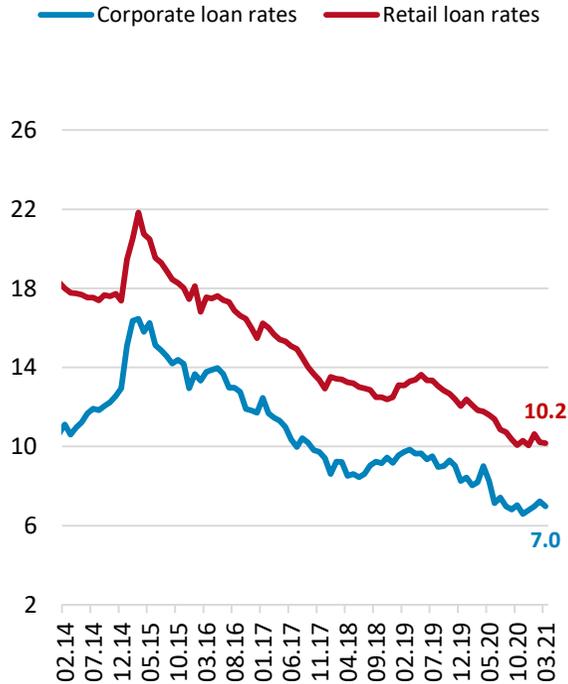


Figure 32: Weighted average long-term interest rates on deposits in rubles, %\*

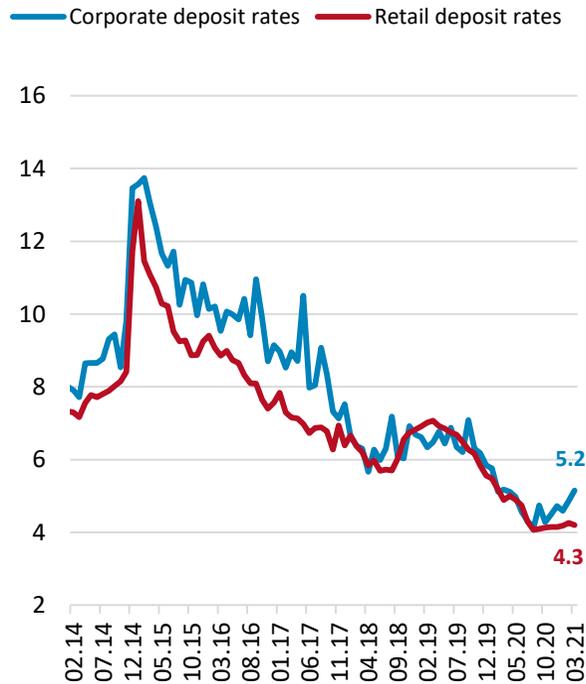
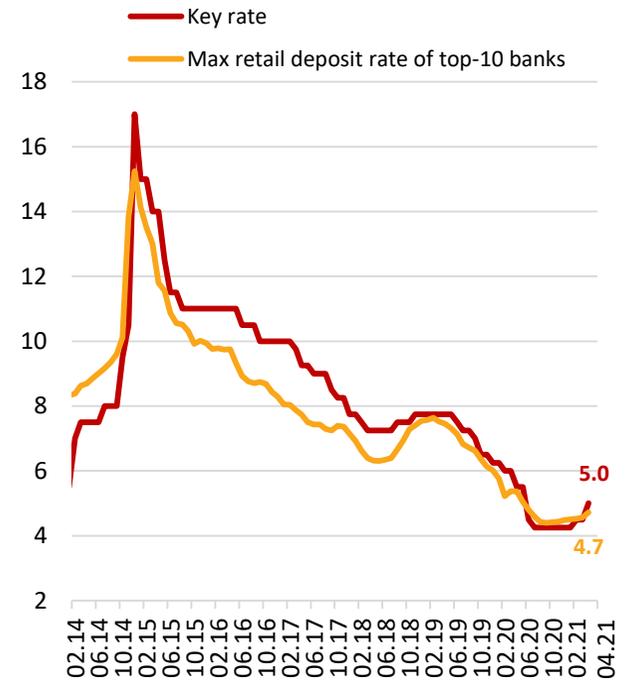


Figure 33: Max interest rate on retail deposits in rubles of top-10 banks and Bank of Russia's policy rate, %

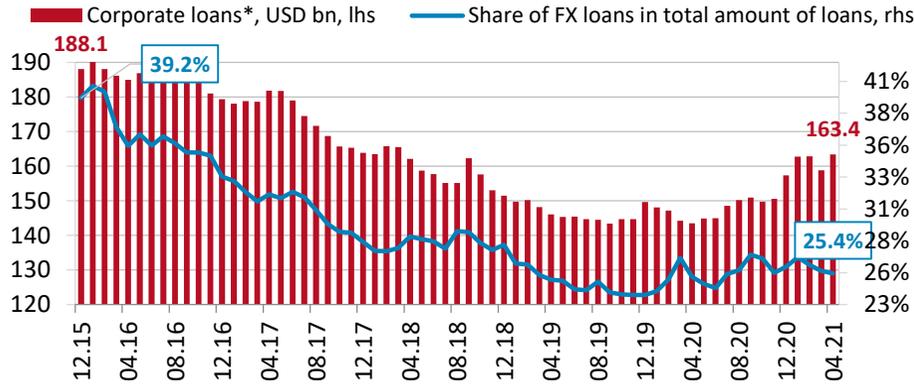


\*with maturities of over 1 year

# BANKING SECTOR: DEDOLLARISATION

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

Figure 34: Corporate FX lending declined significantly over the past few years



\*Since 01.01.2020 corporate loans include loans to financial and non-financial organizations (excl. credit organizations). Data for retrospective periods restated.

Figure 35: Retail FX loan portfolio is insignificant in size

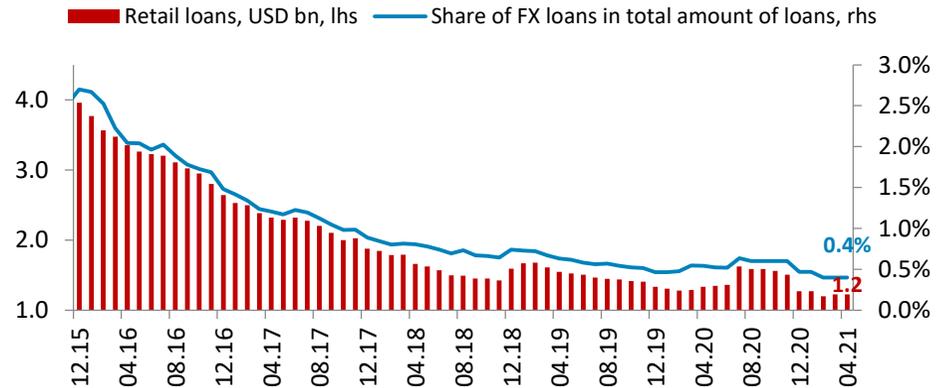


Figure 36: Due to ruble depreciation the share of corporate and retail FX deposits in total amount of deposits has risen vs. YE 2019

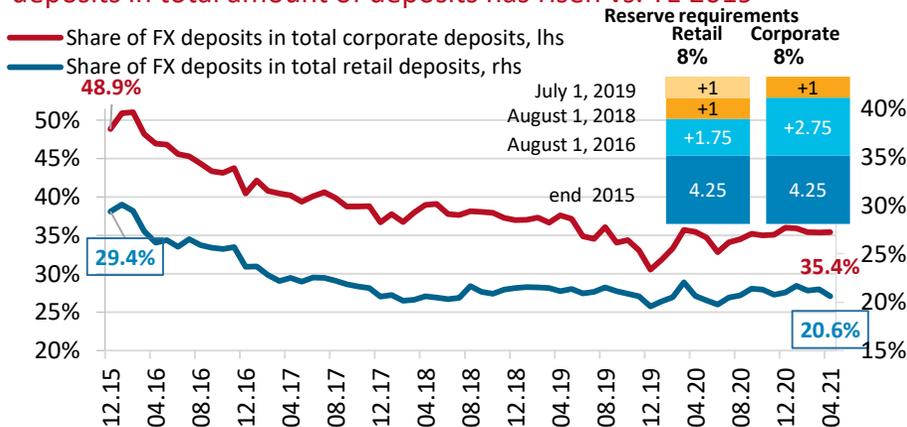
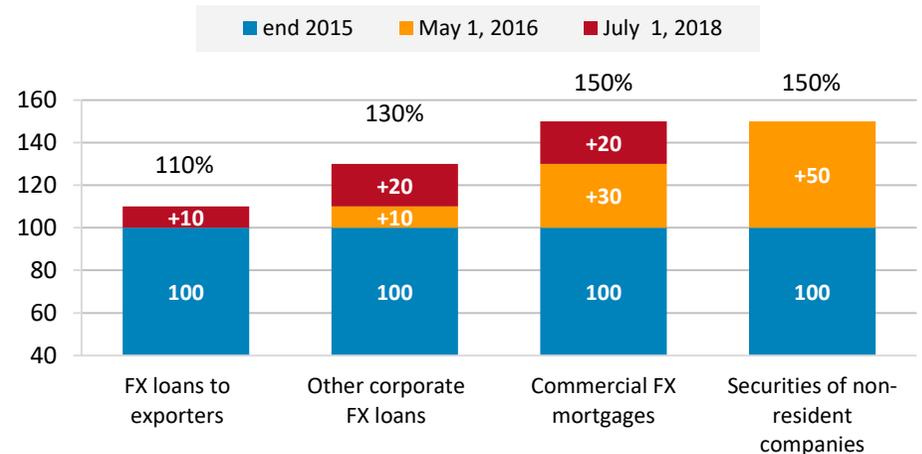


Figure 37: Risk weights applied to FX assets, %



## BANKING SECTOR: CAPITAL ADEQUACY

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

Figure 38: Capital adequacy ratio for the banking sector remains stable (12.3% on 1.01.20 and 12.6% 1.05.21)

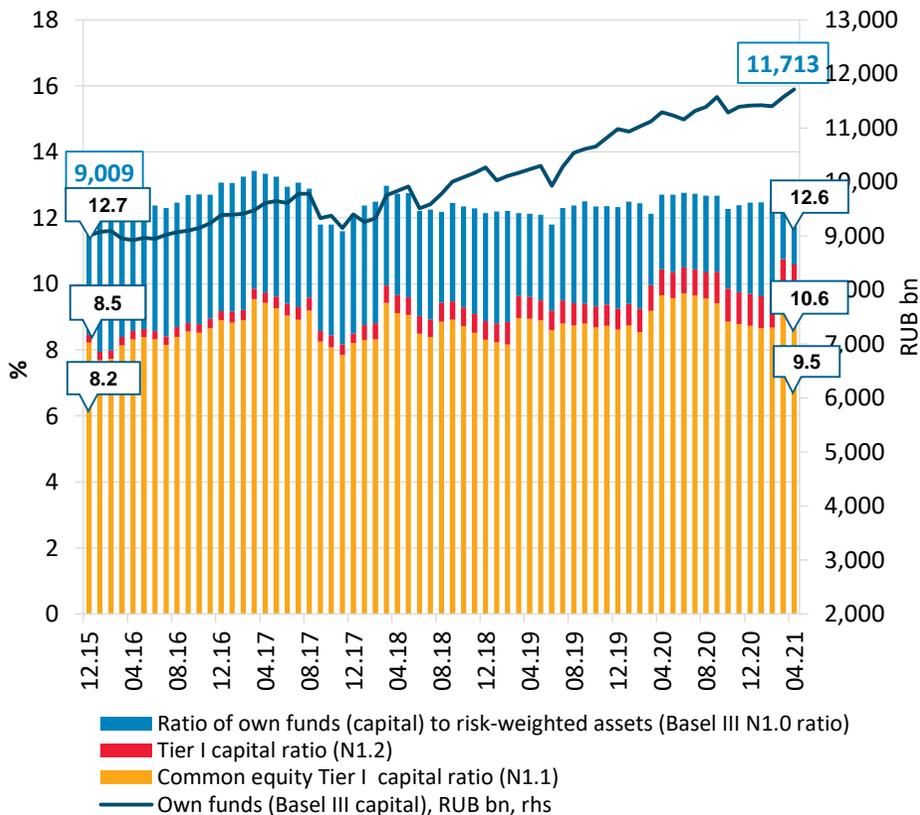
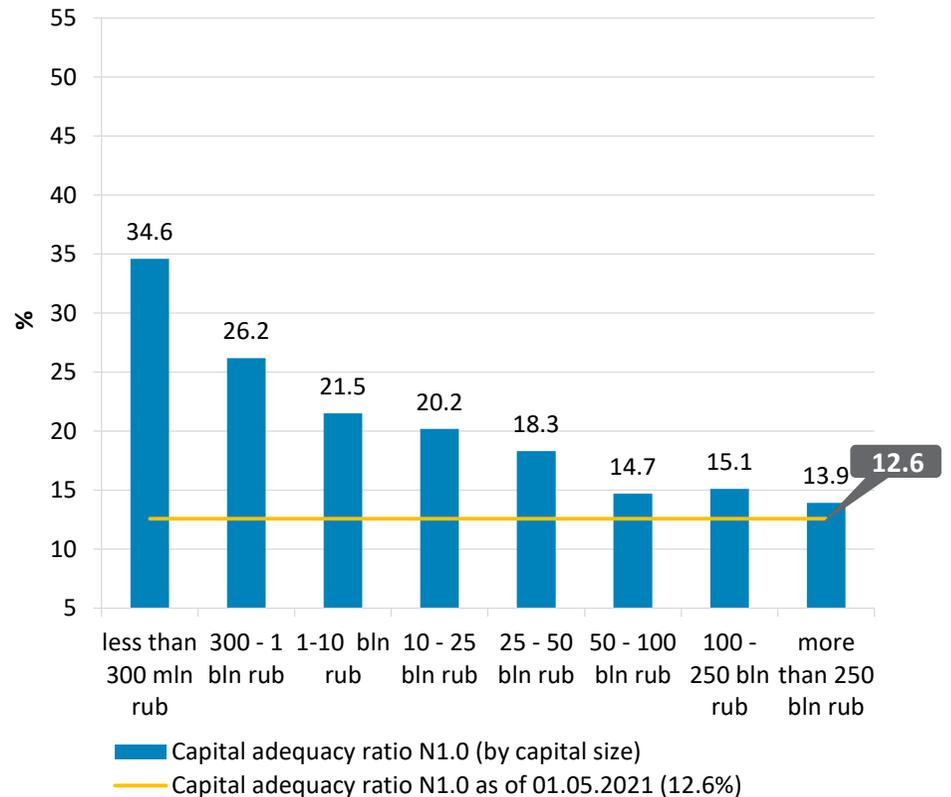


Figure 39: Credit organizations with capital exceeding RUB 25 bln have lower buffer vs N1.0 minimum requirement due to the economies of scale





## 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	35.8
2	VTB Bank	17.9
3	Gazprombank	7.9
4	Alfa-Bank	4.9
5	Russian Agricultural Bank	4.1
6	Credit Bank of Moscow	3.2
7	Bank FC Otkritie	3.0
8	Sovcombank	1.7
9	Promsvyazbank	n/a
10	Raiffeisenbank	1.5
11	Rosbank	1.4
12	UniCredit Bank	1.3

Assets as of May 2021

Systemically important financial institutions account for 75% 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	2020
Capital conservation buffer	1.25%	1.875%	2.25%	2.50%*
SIFI buffer	0.35%	0.65%	0.65%	1.0%
Countercyclical buffer	0%	0%	0%	0%

#### Minimum capital adequacy ratios for SIFI

	2017	2018	2019	2020
N1.1	6.1%	7.0%	7.65%	8.0%
N1.2	7.6%	8.5%	9.15%	9.5%
N1.0	9.6%	10.5%	11.15%	11.5%

\***Capital conservation buffer** was raised in accordance with the schedule approved by the Bank of Russia throughout 2019 – it was set 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.



## 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 literacy 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 7,300 MFI companies.

24% of the entire MFO microloan portfolio are microloans to small to medium enterprises (bearing 5-10% 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 23% of the entire MFO microloan portfolio.

Starting from 1 October 2019, microfinance organisations have to calculate the **PTI ratio** when taking a decision on extending loan of ₺10,000 or more.

For the loans with PTI of the borrower in excess of 50%, the level of add-on to the risk coefficients is set at 50% (65% starting from 1 January 2020).

## FINANCIAL STABILITY

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

#### Lending activity and credit risks

The growth rate of bank lending to the economy remains high. Nonetheless, lending growth is uneven across segments. The increase in lending to non-financial organisations is steady, while retail lending growth is accelerating, primarily owing to mortgage loans.

The **corporate loan portfolio** expanded by 9.9%<sup>1</sup> in 2020, which is nearly two times more than in 2019 (5.8%). Lending continued to grow in 2021, with the annual increase in the portfolio of outstanding corporate loans reaching 11.4% as of 1 March 2021.

The segment of **unsecured consumer lending** continues to recover after the decline in the first months of the pandemic. The annual growth of outstanding loans equalled 8.6%<sup>2</sup> as of 1 February 2021. Overall, banks maintain their lending standards. Households' average debt burden on newly issued unsecured consumer loans totalled 62%<sup>3</sup> in 2020 Q4 (vs 61% in 2020 Q3). The slight rise in the average debt burden per borrower in 2020 Q4 involves no threat to financial stability and was because individual banks returned to lending standards they had applied before the outbreak of the pandemic.

The annual growth of outstanding loans in the **housing mortgage segment** remains high, with the rise in ruble-denominated mortgage loans reaching 22% as of 1 February 2021.<sup>4</sup> The expansion of the mortgage loan portfolio is largely driven by lending in the primary housing market.

#### Measures to support consumers and business amid the coronavirus infection outbreak

The measures supporting households and businesses continue to be effective; therefore, it is unreasonable to change the national countercyclical buffer and risk-weight add-ons.

#### Capital adequacy

The banking sector has a considerable safety cushion in the form of the accumulated capital buffer of 5.8 trillion rubles,<sup>5</sup> as well as the macroprudential capital buffer amounting to 0.6 trillion rubles which may only be released based on the relevant decision of the Bank of Russia.

#### Decision

as of March 19, 2021

*“The Bank of Russia Board of Directors has decided to retain the countercyclical capital buffer rate for Russian credit institutions at zero per cent of risk-weighted assets ...”*

*“...As the temporary easing enabling banks to postpone loss provisioning for restructured loans is gradually terminated, in 2021 Q2 the Bank of Russia will consider the issue regarding the release of the accumulated macroprudential buffer for unsecured consumer loans, given the level of potential losses on such loans.”*

<sup>1</sup> According to Reporting Form 0409101. Adjusted for currency revaluation.

<sup>2</sup> According to Section 3 of Reporting Form 0409115. For credit institutions operating as of the last reporting date, including previously reorganized banks.

<sup>3</sup> According to Reporting Form 0409704.

<sup>4</sup> According to Reporting Forms 0409316 and 0420863 including information on securitised mortgage loans, net of acquired claims.

<sup>5</sup> According to Reporting Form 0409135. Calculated as of 1 February 2021 as the minimum buffer to absorb losses estimated based on three ratios, taking into account the unaudited profit reclassified to common equity Tier 1 capital and the positive effect of loss on risk-weighted assets.

## SECURITIES MARKET (1)

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



### Crisis-proven market infrastructure

- the Moscow Exchange has built a secure and reliable infrastructure ensuring uninterrupted trading
- Trading rules do not stipulate any trading suspensions, reduction in trading hours, short sell bans or other restrictions
- T+2 settlement on equities, T+1 on OFZs, T+0 on corporate bonds



### Upgraded corporate governance

- Updates to the Listing Rules have created a Sustainability Sector for financing ESS projects
- 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



### Regulatory changes to promote investments

- Capital gains on securities held for more than 3 years are tax-exempt
- Tax deductions for Individual Investment Accounts (IIA) type A – max RUB 52 000; for IIA type B – at the rate of investment income;
- Corporate bonds with yield of under the key rate + 5pp became tax-exempt on January 1, 2018



### 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.)
- High level of competition in the Russian financial market helps keep the cost of brokerage and depository services low
- Financial intermediaries are allowed to make both brokerage and depository operations



### Increased transparency

- Moscow Exchange instruments comply with the post-trade transparency requirements under MiFID II/MiFIR
- Mandatory audited IFRS for all public companies
- Strengthened regulation to prevent market manipulation and insider trading
- Improved disclosure practices
- 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 40 : Volume of the Russian local bond market, RUB tn

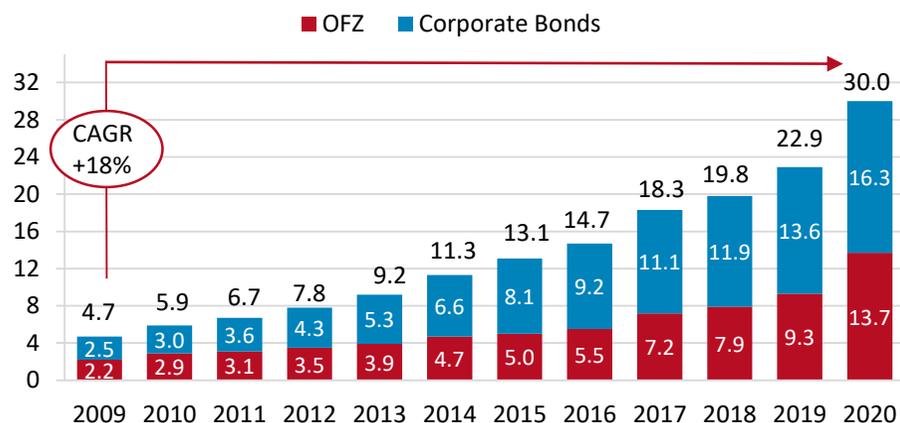


Figure 41: Volume of the Russian corporate bond market, RUB tn

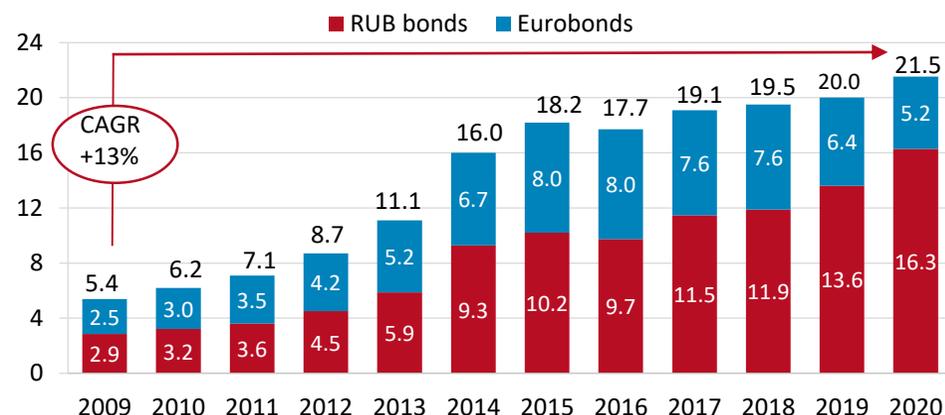
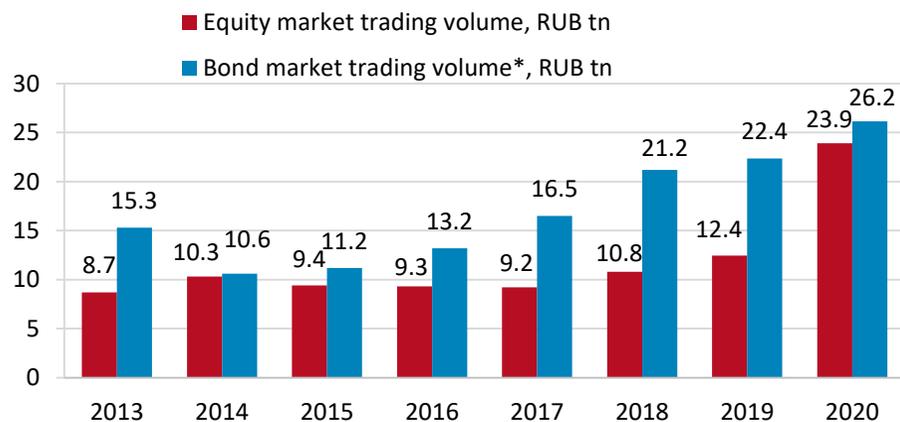


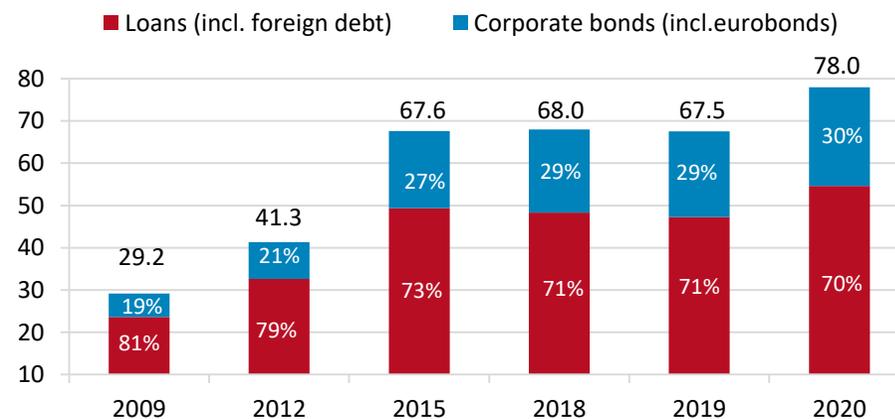
Figure 42: “Bondization” of the Russian financial market



\*excl. overnight bonds

Source: Moscow Exchange, Cbonds

Figure 43: Corporate loans vs corporate bonds in Russia, RUB tn



## SECURITIES MARKET (3)

Russian OFZ market provides relatively high yields amid investment grade reliability

Figure 44: Russian OFZ market volume keeps growing

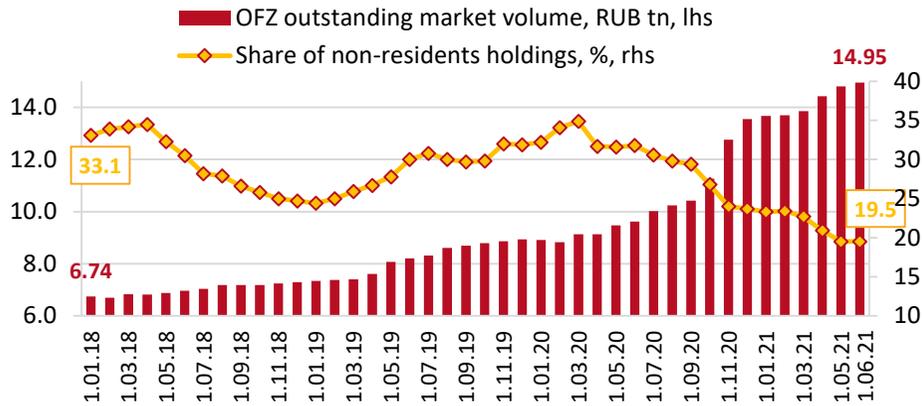
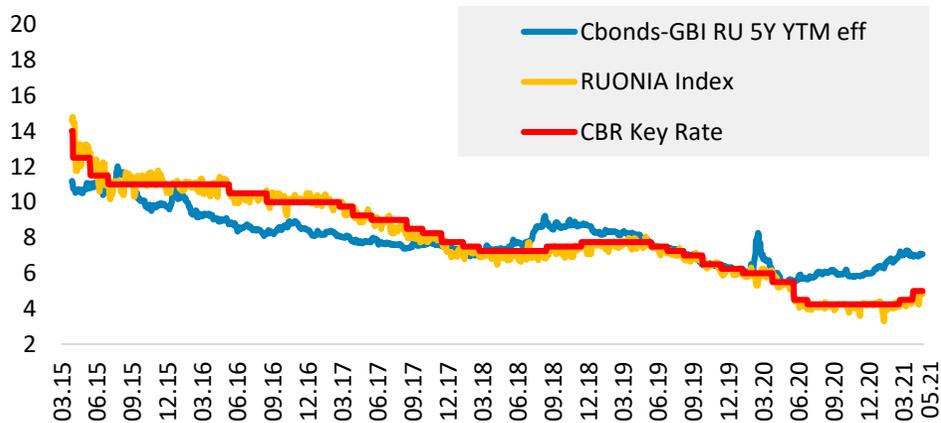


Figure 46: Bond market yields, key rate and RUONIA (% RUB)



Source: Bank of Russia, Cbonds, Bloomberg

Figure 45: Zero-coupon OFZ yield curve, %

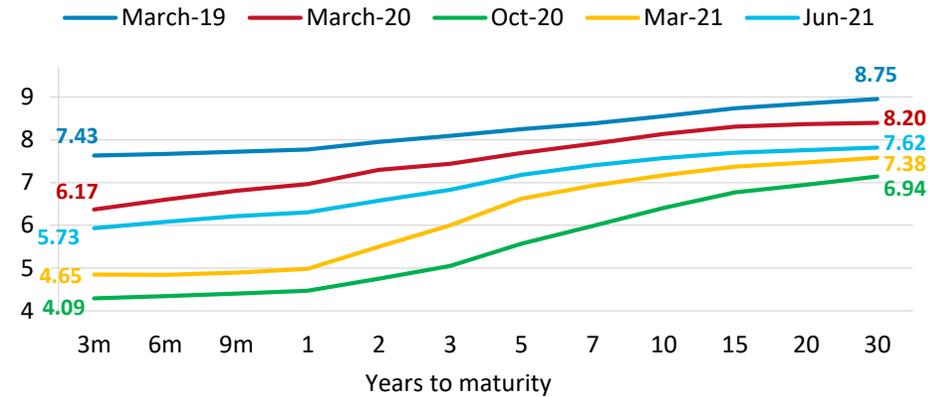
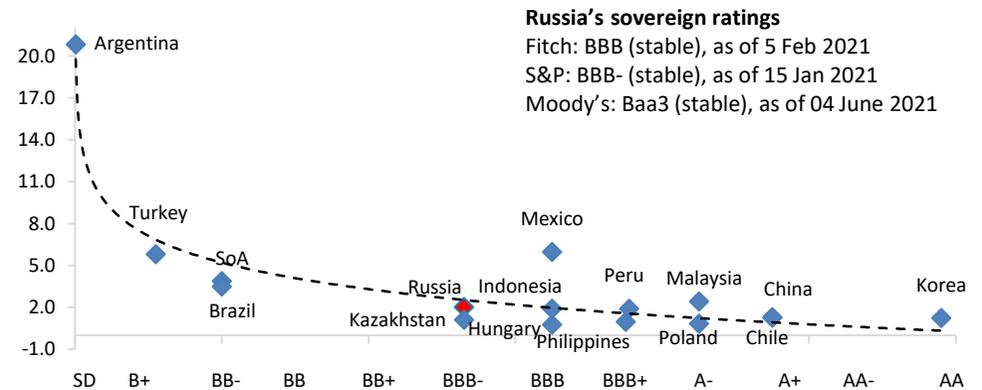


Figure 47: EM 10Y bond yields (% USD) on the background of credit ratings

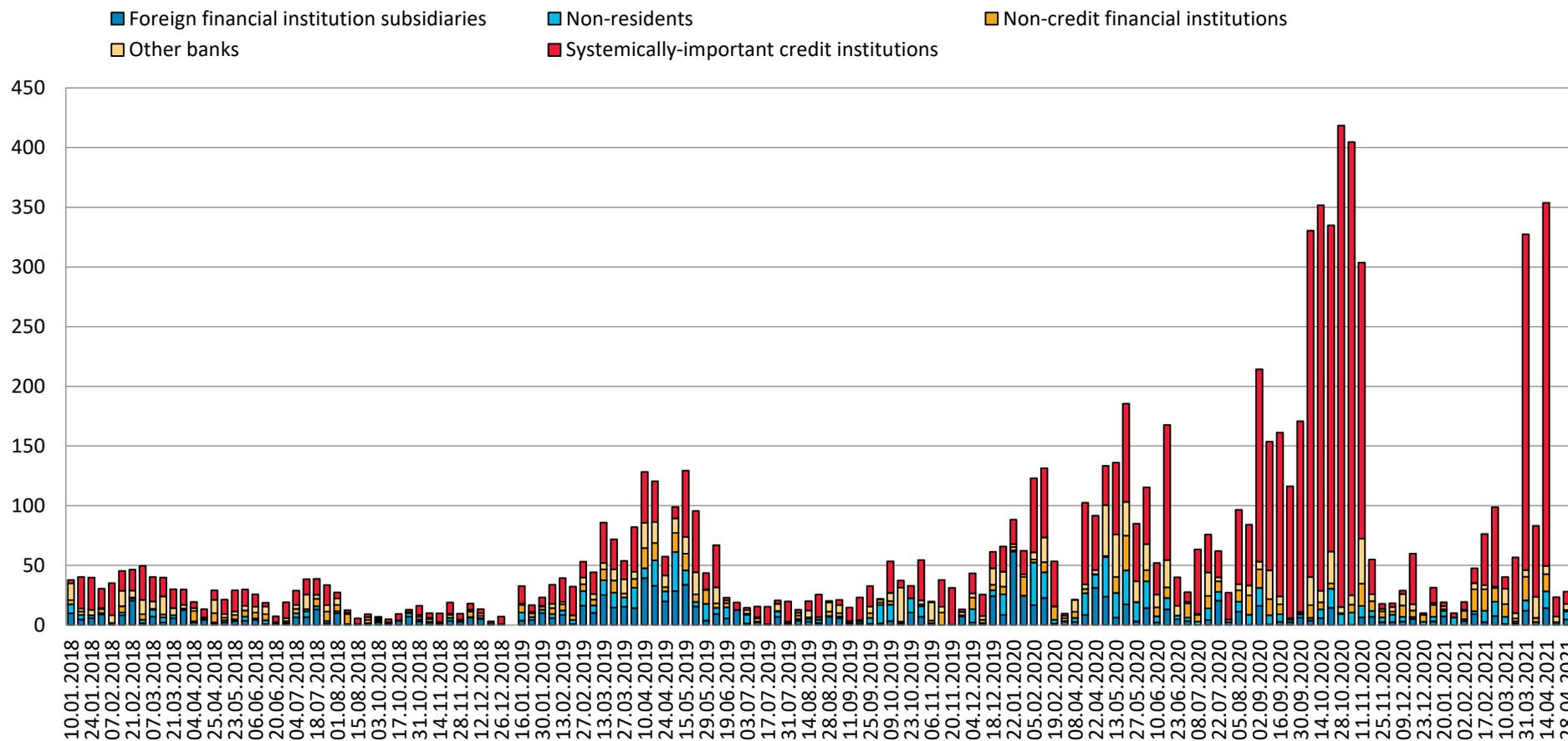




# SECURITIES MARKET (4)

## Demand for OFZs placements remains sustainably high

Figure 48: OFZ placement dynamics in 2018 - 2021 (RUB bn)



Source: Bank of Russia, Ministry of Finance, National Settlement Depository

# SECURITIES MARKET (5)

## Russian equity market: key trends

Figure 49: Russian Equity market cap, bln RUB & bln USD

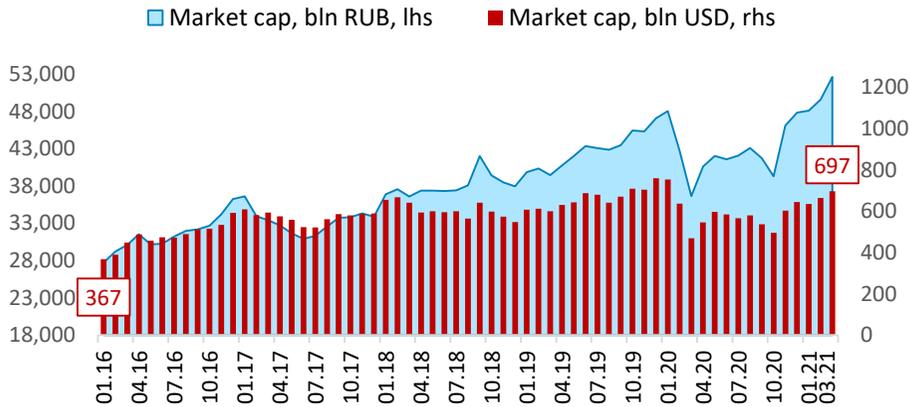


Figure 51: Russian equities market trading volumes proves stable

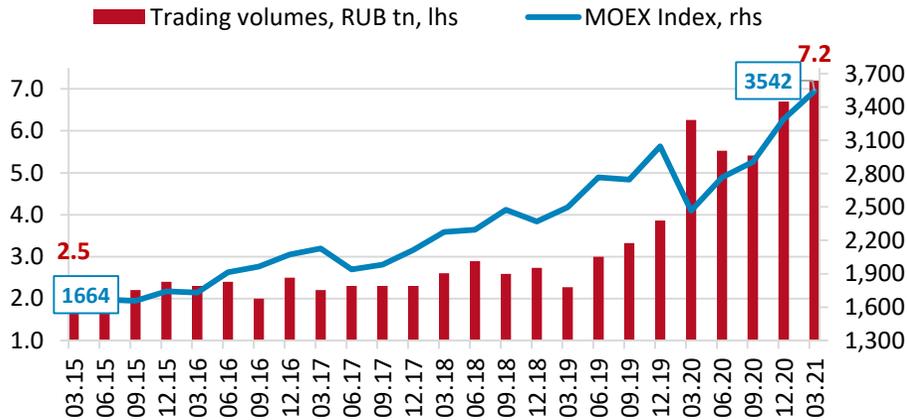


Figure 50: Market capitalization to GDP ratio, %

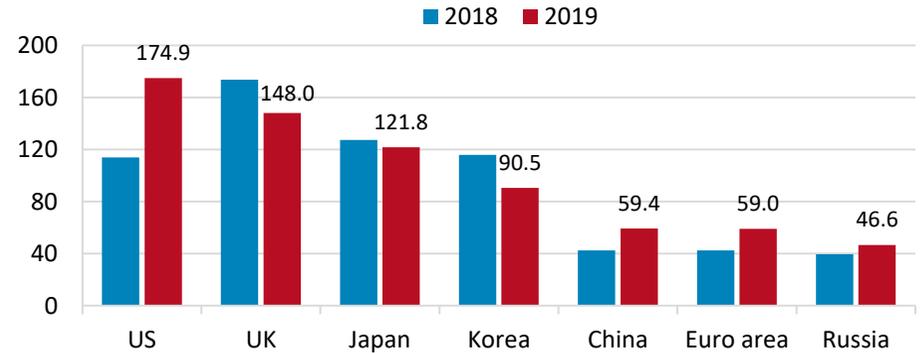


Figure 52: Dividend yield (12M): Russia vs. EM, %



# SECURITIES MARKET (6)

## Russian equity market performance vs EM peers

Figure 53: Russian MSCI index vs EM peers (01.01.15 = 100%)

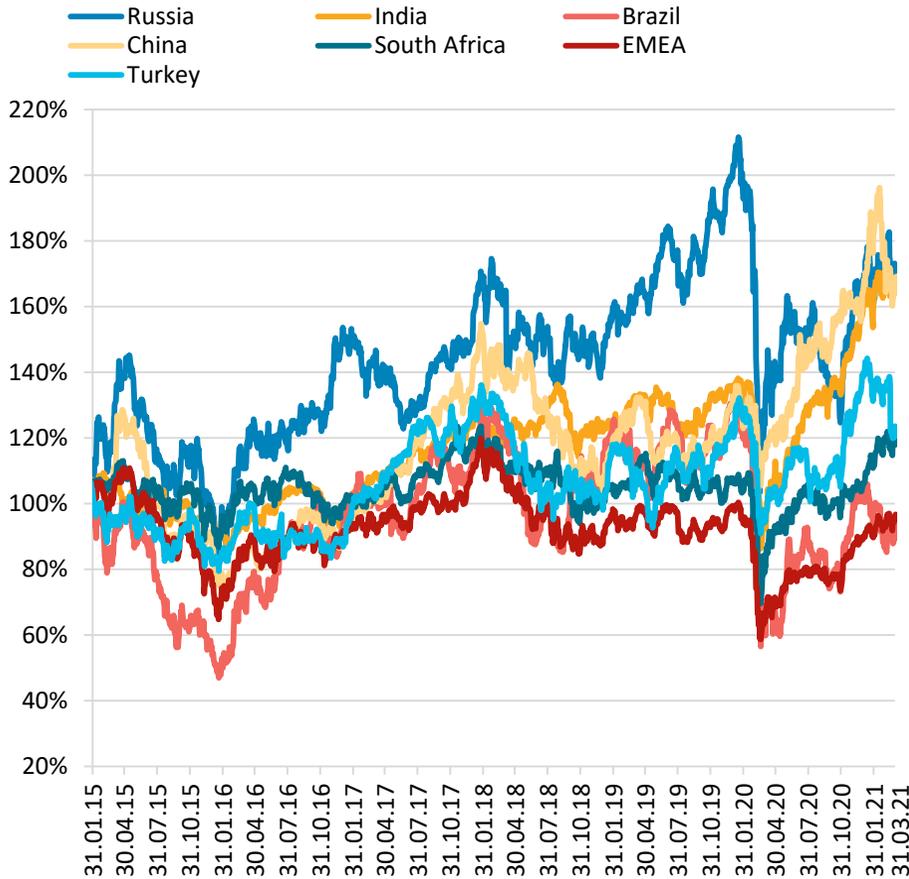
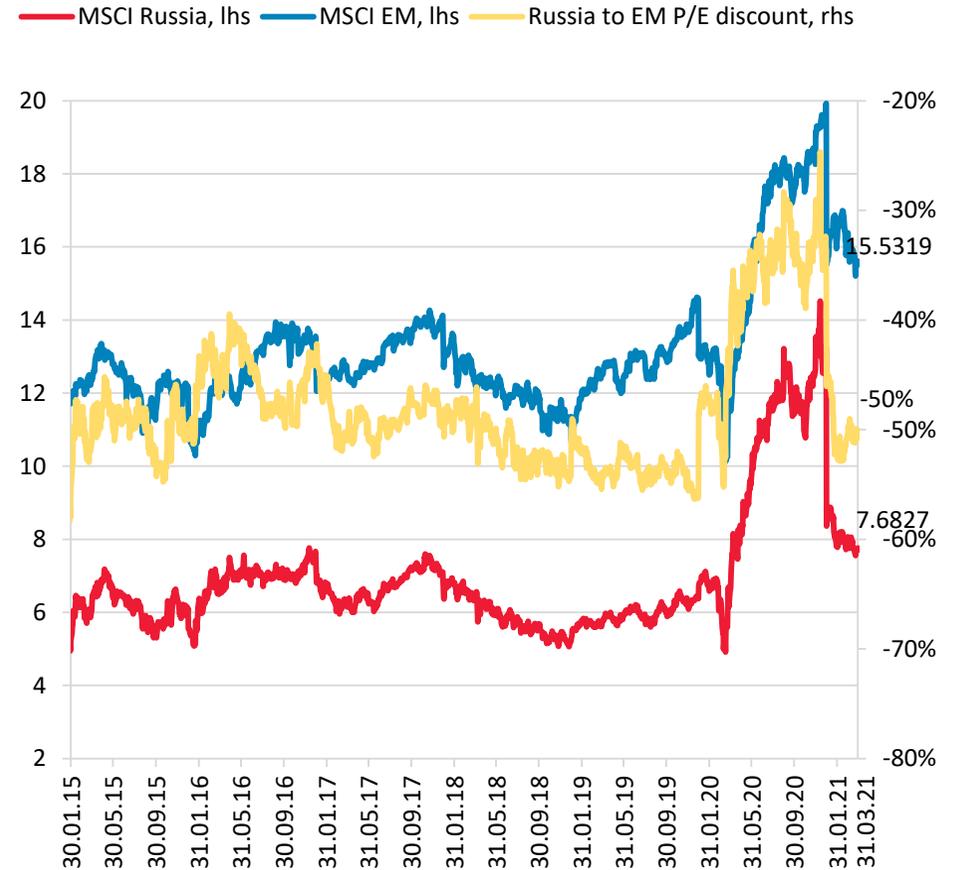


Figure 54: Forward P/E ratio (12m), MSCI Russia vs MSCI EM



Source: Bloomberg

## CORPORATE GOVERNANCE

New corporate governance standards reflect best international practices

### Corporate governance

- ✓ Guidance for members of financial institutions' Boards of Directors
- ✓ Recommendations on organizing and conducting self-assessment of the Boards of Directors' performance in public JSCs
- ✓ Recommendations on participation of the Board of Directors in development and management processes related to IT and information security risk management in public JSCs
- ✓ Russian public JSCs are implementing mandatory risk management and internal controls
- ✓ Implementation of an internal audit system will be mandatory for public JSCs since January 2021
- ✓ Information disclosure reform: reduction of administrative burden on issuers, elimination of excessive requirements for information disclosure (to be put in force since 1 October 2021)

### Next stage

Providing the possibility to hold general meetings of shareholders online

### Corporate actions reform

Amendments to the JSC Law :

- ✓ Protection against dilution of stakes in the authorized capital of JSCs and violation of dividend rights
- ✓ Determination of the price at which the issuer repurchases - at the request of shareholders - shares admitted to trading, taking into account their weighted average cost
- ✓ Legal uncertainty with regard to the votes of parties controlled by a party with an interest in the transaction has been eliminated

### Securities

Securities issuance reform: the procedure of securities issuance was simplified, electronic registration of securities' issues was launched

### Green, Social and Sustainable Finance

- ✓ Stewardship Code
- ✓ Legal framework for Green, Social and Infrastructural Bond Issuance
- ✓ Special Disclosure rules for Green, Social and Infrastructural Bonds' Issuers
- ✓ Mandatory right of redemption for green and social marked bond holders if capital allocated under Issuance was used improperly
- ✓ Sustainable Development Sector for Bonds on Moscow Exchange
- ✓ Two Sustainable Development Benchmarks ("Responsibility and Transparency", "Sustainable Development Vector")

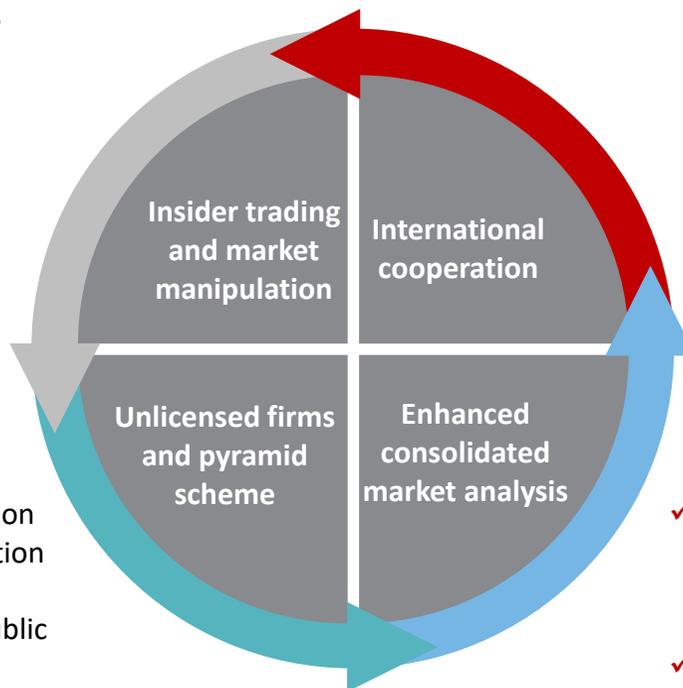
**CBR corporate governance report:** annual monitoring of corporate governance practices and publication of the report on the CBR official site ([only in Russian](#))

## 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 such as market manipulation and insider trading, which is aimed at ensuring investors' equality and fair pricing.

- ✓ Bank of Russia identifies companies operating on the financial market without proper authorization (license) and running pyramid schemes, with a view to initiate responsive measures by the public authorities. The number of instances of such measures being taken by public authorities has increased almost 4x times in 2019 compared to 2018. The number of illegal lenders tends to decrease.



- ✓ In 2015, Bank of Russia became a signatory to the IOSCO MMoU.
- ✓ Intense cooperation with foreign financial market regulators in terms of exchanging information, including confidential information.
- ✓ Elaboration of international initiatives.

- ✓ Bank of Russia improves continuous monitoring of on-exchange trading for the purpose of maintaining financial stability and preventing system shocks caused by misconduct.
- ✓ On-exchange trades are supervised by the Analysis Center to identify unusual activity online.

# INVESTMENT FUNDS

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

Figure 55: Majority of savings in Russia is held on bank deposits and in cash\*

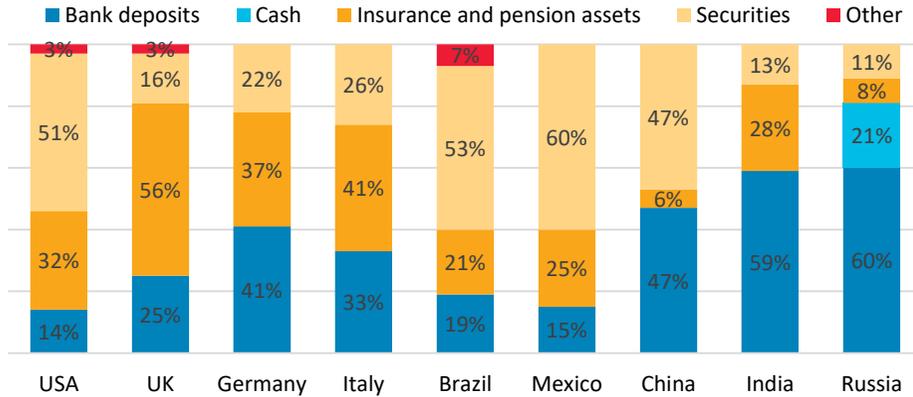
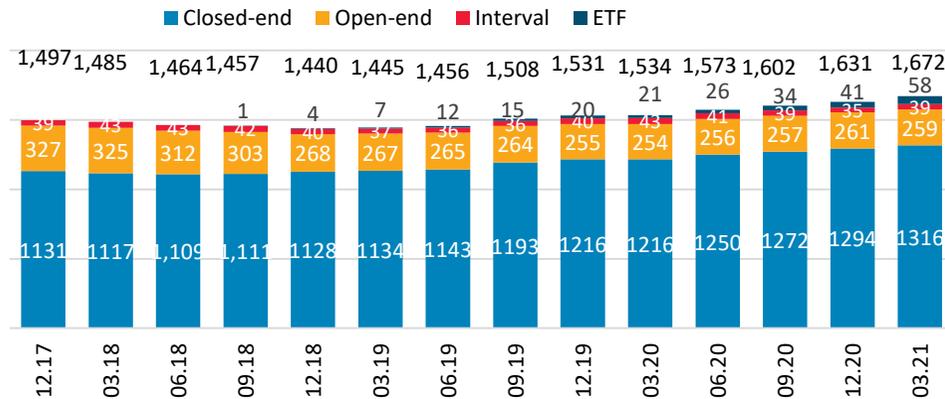


Figure 57: Number of investments funds in Russia by type



\* As of the end of 2018, Russia - 2020  
Source: World Bank, IMF, Bank of Russia, Moscow Exchange

Figure 56: Assets of investments funds in Russia (RUB tn)

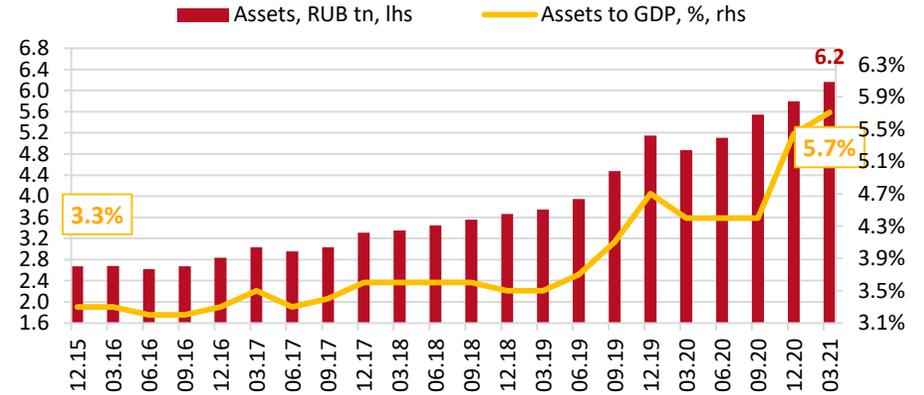
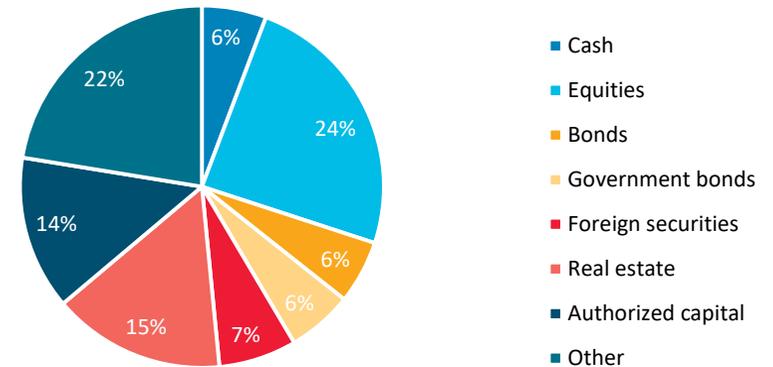


Figure 58: Breakdown of investment funds' assets by type (as of 31 March 2021)



## NON-STATE PENSION FUNDS

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

Figure 59: Pension assets in Russia (RUB tn)

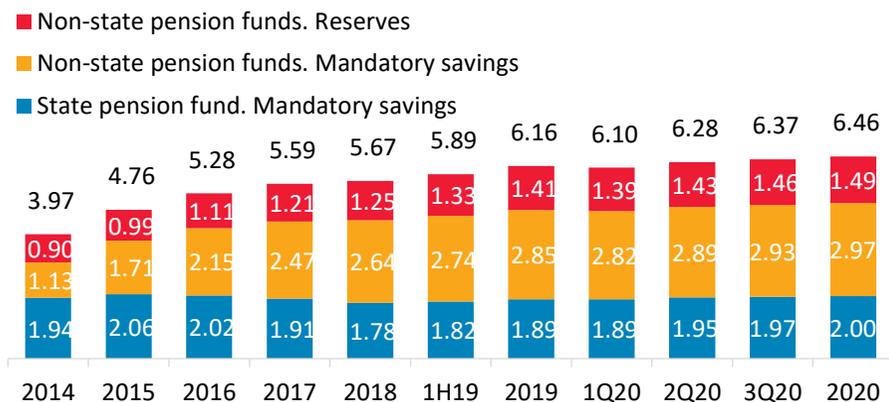
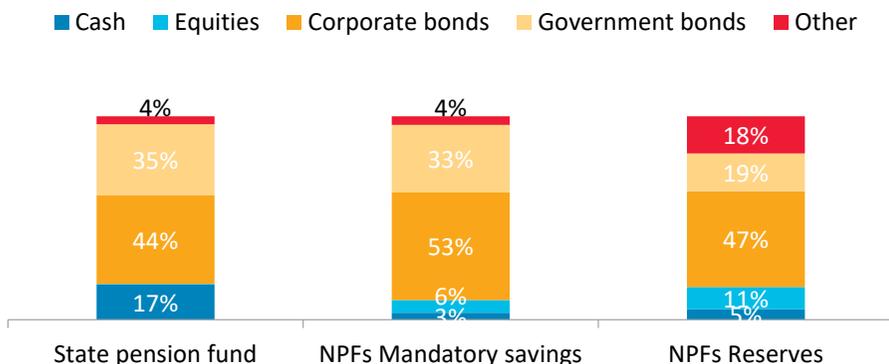


Figure 60: Pension system asset allocation (as of December 30, 2020, %)



The 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
- ✓ corporatization of non-governmental pension funds (NPFs) completed
- ✓ work is in progress to improve financial stability of private pension funds (development of legislation, introducing mandatory state guarantee system for voluntary pension plans and mechanisms of private pension funds financial recovery under the Bank of Russia management)

# INSURANCE

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

Figure 61: Premium volume is gradually growing

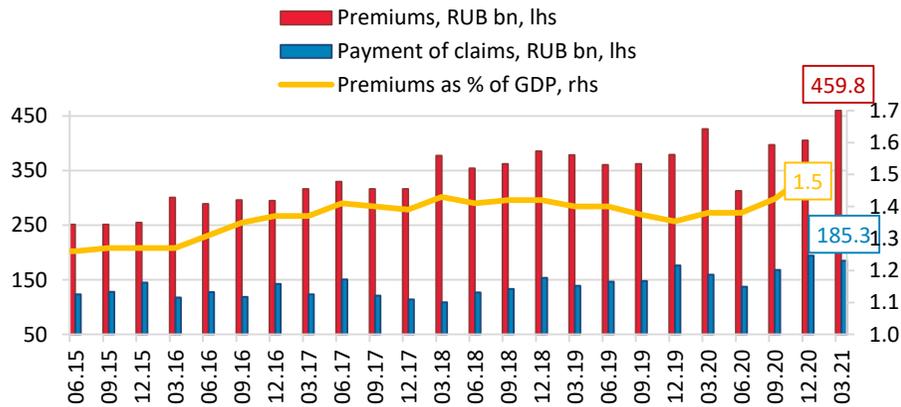


Figure 62: Assets hit 3.8% of GDP

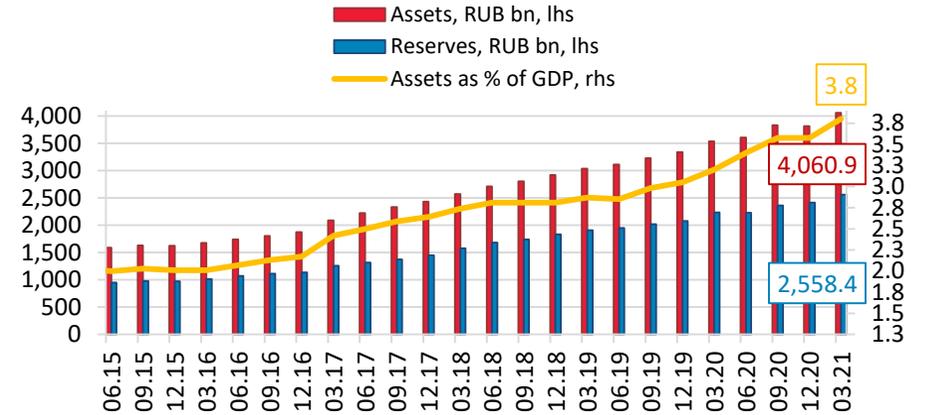


Figure 63: Premium structure in 1Q21 shows high level of market diversification

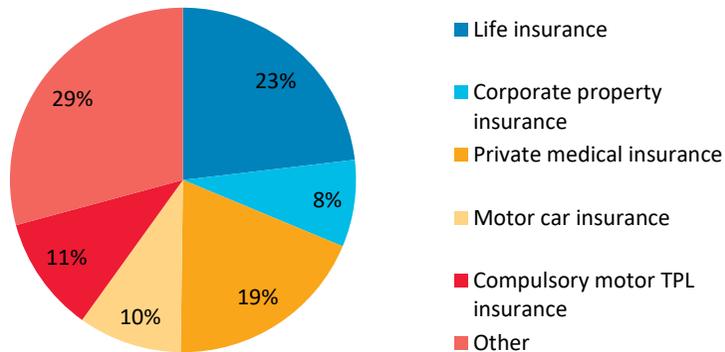
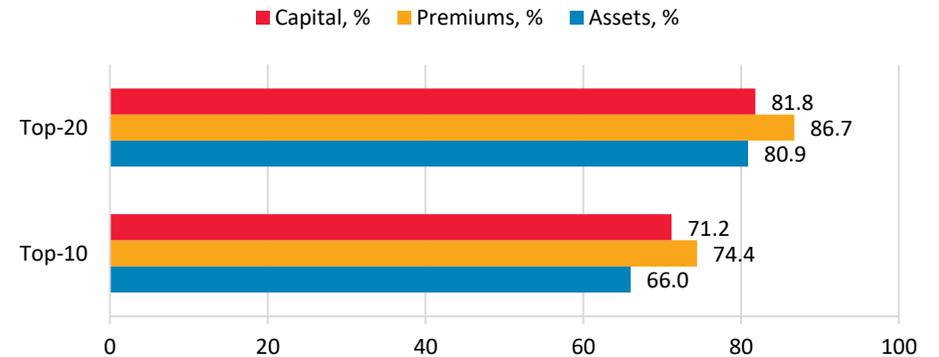


Figure 64: In 1Q21 market remained highly competitive with the Herfindahl-Hirschman Index equal to 1,069.4



## NATIONAL PAYMENT CARDS SYSTEM

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



Operator of Mir Card Payment System is **National Card Payment System Joint Stock Company**, 100% of its shares are held by the Bank of Russia



**National Card Payment System** → As of year-end 2020 about **95 mln** “Mir” payment cards were created on 23 July 2014 were issued in Russia



- ✓ Mobile payments and contactless service Mir Pay are developing
- ✓ Support of mobile payment service Samsung Pay
- ✓ Non-financial services are available on the basis of “Mir” payment cards



- ✓ Payment system “Mir” developing a loyalty program which allows card holders to receive cashback (more than **15 mln** “Mir” payment cards have already been connected)



- ✓ Co-badging projects with international payment systems: Maestro, JCB, AmEx and UnionPay
- ✓ “Mir” payment cards are accepted in **12 countries**, including the Republic of Armenia, Kyrgyz Republic, the Republic of Kazakhstan, the Republic of Belarus, Vietnam, Turkey, Cyprus

## PAYMENT INFRASTRUCTURE (1/3)

### 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 (for 2020): **7.2 mln payments, Rub 7.4 tn**
  
-  **83% 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, enables instant C2C interbank transfers 24/7/365 using mobile phone number and C2B (customer-to-business). C2G (customer-to-government) and G2C (government-to-customer) transactions are currently in the pipeline. Starting April 2020, B2C (broker's and MFIs' operations) have been enabled, July 2020 – C2C pull-operations (transfer on recipient's approval). As of December 2020 the FPS is offered by **210** Russian banks, including all systemically important. Average monthly figures for 2020 - **29.4 mln transactions, Rub 202.8 bn.**



# PAYMENT INFRASTRUCTURE (2/3)

## Supervision and oversight in the national payment system (NPS)

**Supervision in the NPS** - The Bank of Russia's activity to monitor the compliance of NPS entities with the requirements of the law on the NPS and the regulations of the Bank of Russia **in order to ensure stability and development of the NPS.**

### Market access:

- **payment systems:** registration of payment system operators (PSO) and foreign payment system operators
  - **money transfer operators - credit organizations (including electronic money operators):** licensing.
- The BoR publishes lists of payment application providers, payment aggregators, foreign payment service providers, information exchange operators.

### The subjects of supervision:

- functioning of the NPS entity separately;
- its relationship with other market participants, disruption of such relationships and systemic risks.

*Set of measures in respect of the supervised subjects is determined taking into account the established supervision mode*

Number of NPS entities (as of October 2020)	
Money transfer operators-credit organizations, including	416
<i>electronic money operators</i>	82
Payment system operators	27

# 1 Off-site supervision

Analyze the activities of NPS entities and payment system participants as well as the organization and functioning of payment systems including payment infrastructure

# 2 On-site inspection

Conduct on-site inspections of NPS entities' compliance with the requirements of the law on the NPS and the regulations of the Bank of Russia

# 3 Actions and Measures

Take actions and enforcement measures with regard to NPS entities in case of violations of the requirements of the law on the NPS

## PAYMENT INFRASTRUCTURE (3/3)

### Supervision and oversight in the national payment system (NPS)

**Oversight in the NPS** - The Bank of Russia's activity to encourage **the improvement** of the NPS entities' activities and services and to promote **the development** of objects of oversight in line with the recommendations of the Bank of Russia.

# 1

## Monitoring

Collection, systematization and analysis of information on the activities of the observed organizations, other NPS entities and related oversight objects

### Main areas of monitoring

- Defining criteria for the importance of payment systems and credit institutions significant in the payment services market;
- Identifying payment systems that meet the criteria of significance, and credit institutions that meet the criteria of significance in the payment services market;
- Identifying trends and development prospects for the Russian payment market.

# 2

## Assessment

Assessment of the activities of the observed organizations (PSO\*) and related objects of oversight in the context of best practices (**in particular, the document CPMI-IOSCO “Principles for financial market infrastructures”**)

\* Operators of systemically and socially important payment systems (as of the beginning of 2020 there are **2** systemically important payment systems and **4** socially important payment systems).

# 3

## Initiation of changes

- Bank of Russia issues recommendations to the PSO on the results of assessment.
- The PSO prepares an action plan for implementation of such recommendations.
- Bank of Russia monitors the implementation of recommendations by the PSO

*A report on the national payment system oversight results is published every two years*

### International cooperation in the field of oversight in the NPS:

- ✓ agreements (memorandums) on cooperation with foreign (national) banks;
- ✓ interaction with international organizations, including the Committee on Payments and Market infrastructures (CPMI), World Bank.



## 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

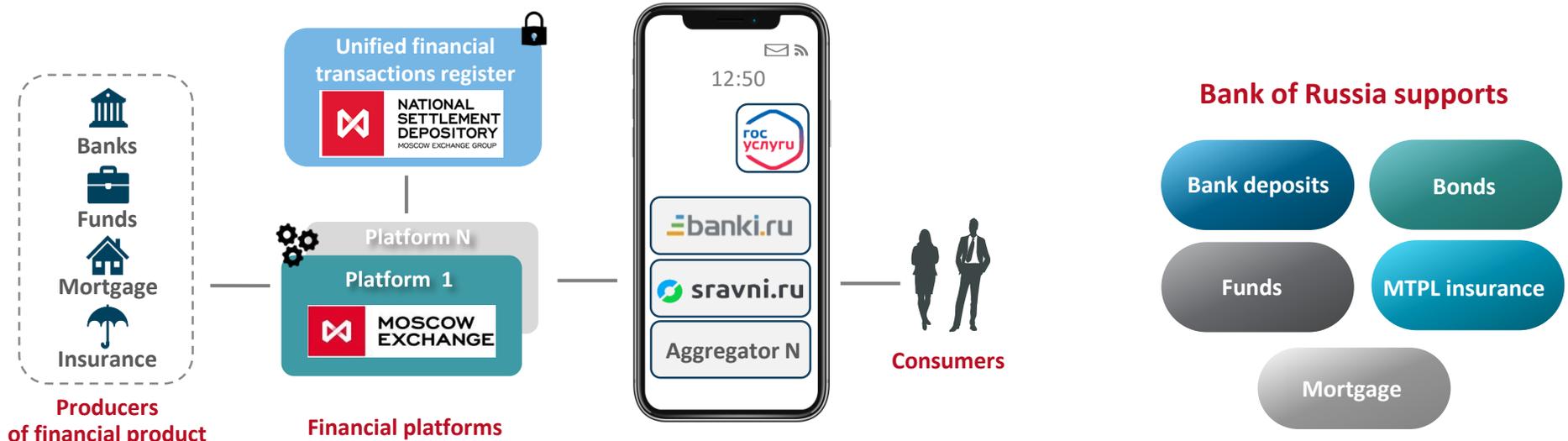
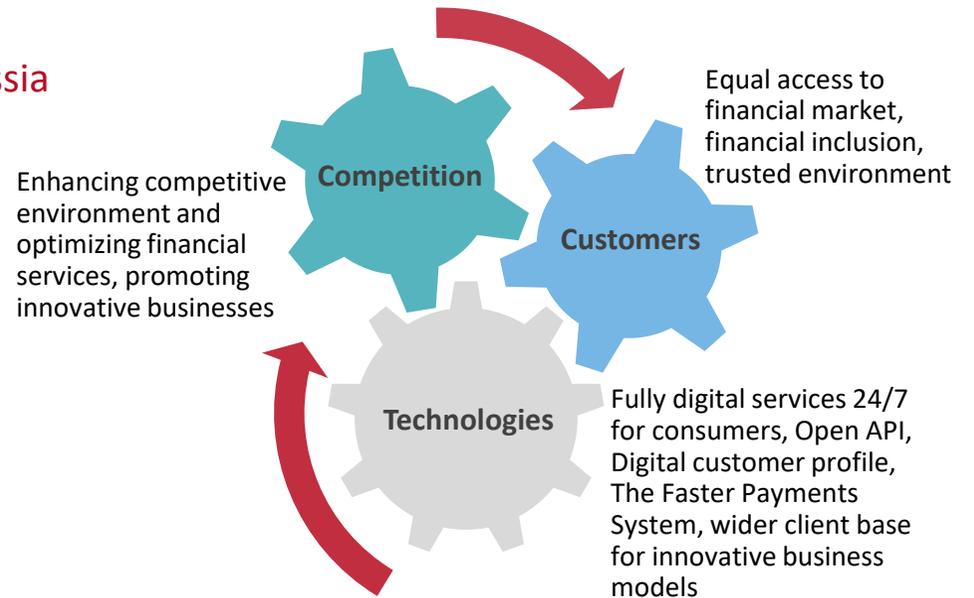
### Main FinTech projects of the Bank of Russia and FinTech Association

- ✓ Digital identification
- ✓ Digital profile
- ✓ Faster payment system
- ✓ Distributed ledger technology
- ✓ Open API
- ✓ Financial marketplace

# MARKETPLACE

## Shaping the future of financial services experience in Russia

- ✓ New system for online sales of financial products
- ✓ Aimed to complement traditional sales channels with websites and smartphone apps which will enable customers to compare multiple financial product offers
- ✓ In July 2020 the State Duma adopted the law on financial transactions through a financial platform that enabled launching the Marketplace system
- ✓ **Marketplace 2.0 launched for corporate clients**



For more details, see [http://cbr.ru/eng/fintech/market\\_place/](http://cbr.ru/eng/fintech/market_place/)

## CONSUMER PROTECTION

Financial consumer and investor protection as one of priorities for further financial market development

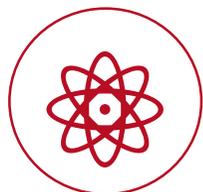
### KEY FINANCIAL CONSUMER PROTECTION WORKSTREAMS



Consumer and investor  
complaints handling



Differentiation of  
consumer protection  
requirements



Conduct supervision



Financial literacy  
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 (GPII)

- 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 GPII member since November 2010
- Endorsed the ‘original’ FIAP in 2010 and the ‘updated’ FIAP in 2014, 2017 and 2020
- G20 – World Bank – OECD conference on empowering consumers of financial products and services was hosted in Moscow in June 2013
- The third annual GPII Forum was held in St. Petersburg in 2013

#### Financial Inclusion Promotion by the Bank of Russia

- Improving financial inclusion for people and SMEs was one of financial market development priorities for 2016-2018, the importance of the issues was further affirmed for the period of 2019-2021
- 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
- Since April 2020, the Bank of Russia has been empowered by law to exercise functions aimed at increasing financial literacy of individuals and SMEs and at ensuring financial inclusion

#### ALLIANCE FOR FINANCIAL INCLUSION (AFI)

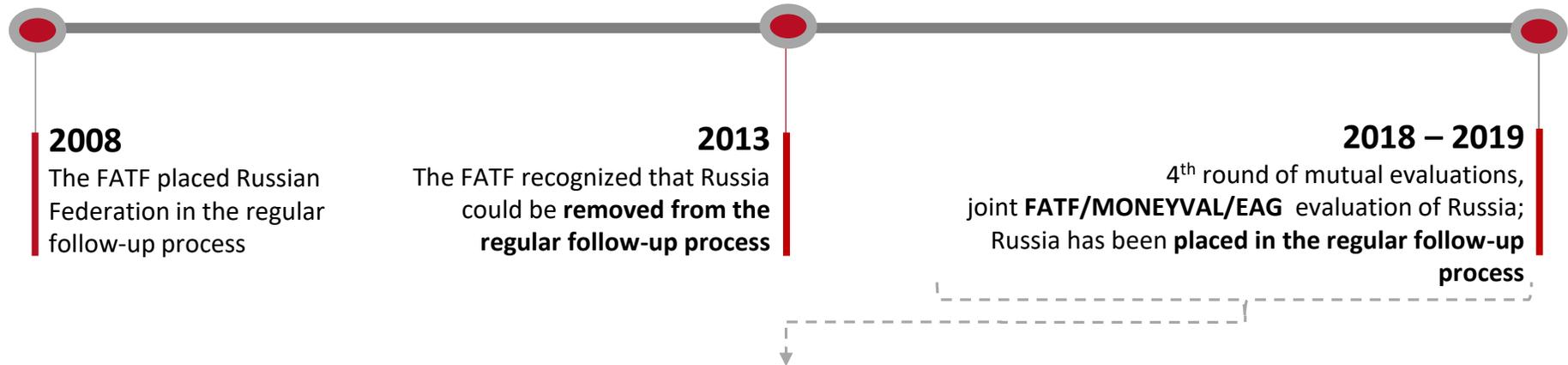
- The global knowledge exchange network empowering policymakers to increase access to quality financial services for the less well-off communities and households
- In February 2014, the Bank of Russia became a member of AFI
- In September 2014, the Bank of Russia joined the Maya Declaration setting up 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
- In November 2015, the Bank of Russia and AFI co-hosted the ‘Financial inclusion and shadow banking: innovation and proportional regulation for balanced growth’ conference
- In June 2016, the Bank of Russia hosted the AFI GSPWG meeting.
- The Bank of Russia hosted the 2018 AFI Global Policy Forum



## AML/CFT

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

**Russian AML/CFT law is based on International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation (FATF Recommendations)**



**The findings of the FATF on the Bank of Russia's actions and financial institutions' performance in the AML/CFT area:**

- ✓ **The Bank of Russia's deep understanding of ML/TF risks** in the supervised sectors
- ✓ Improvement of the Bank of Russia's **risk assessment methodology and risk-based AML/CFT supervision**
- ✓ Implementation of an **intense bank supervisory programme informed by ML/TF risks**
- ✓ Substantial improvement of the framework for **preventing criminals from owning and controlling financial institutions**
- ✓ **Adequate level of cooperation** between the Bank of Russia and other Russian competent authorities in the AML/CFT area
- ✓ **Good understanding of ML/TF risks by credit institutions**
- ✓ **Growth of the overall AML/CFT compliance** by financial institutions, including due to the Bank of Russia's supervisory measures

## CYBERSECURITY

### Key initiatives in information security and cybersecurity

- 1. Exchanging information on computer attacks**
- 2. Sharing regulations and best practices**
- 3. Countering online misconduct in credit and finance**
- 4. BRICS Best Practices Compilation as a topic for 2021**

### Key avenues of cooperation in information security

-  Collecting, processing and exchanging information on computer attacks in credit and finance
-  Analyzing the differences among jurisdictions, and sharing available internal practices with regard to how central banks protect themselves and financial institutions
-  Holding consultations, seminars and conferences on best practices in countering computer attacks in credit and finance
-  Providing assistance in returning funds stolen through fraud
-  Developing a compilation of the BRICS countries' Best Practices in information security

## INVESTOR CONTACTS AND REGULAR MEETINGS SCHEDULE FOR 2021\*\*

February 5-12	Quiet period	July 16-23	Quiet period
February 12	Board of Directors pivotal meeting on monetary policy. Publication of an updated medium-term forecast.	July 23	Board of Directors pivotal meeting on monetary policy. Publication of an updated medium-term forecast.
<b>February 17, 17:00 Conference call with institutional investors (Moscow time)</b>		<b>July 28, 17:00 Conference call with institutional investors (Moscow time)</b>	
March 12-19	Quiet period	September 3-10	Quiet period
March 19	Board of Directors meeting on monetary policy	September 10	Board of Directors meeting on monetary policy
April 9-11*	Ad-hoc meetings with investors on the sidelines of the IMF/WB meetings	October 15-17*	Ad-hoc meetings with investors on the sidelines of the IMF/WB meetings
April 16-23	Quiet period	October 15-22	Quiet period
April 23	Board of Directors pivotal meeting on monetary policy. Publication of an updated medium-term forecast.	October 22	Board of Directors pivotal meeting on monetary policy. Publication of an updated medium-term forecast.
<b>April 28, 17:00 Conference call with institutional investors (Moscow time)</b>		<b>October 27, 17:00 Conference call with institutional investors (Moscow time)</b>	
June 4-11	Quiet period	December 10-17	Quiet period
June 11	Board of Directors meeting on monetary policy	December 17	Board of Directors meeting on monetary policy

### International Cooperation Department

Tel.: +7 (495) 771-90-68

Email: [investormeetings@mail.cbr.ru](mailto:investormeetings@mail.cbr.ru)

Web-site: [cbr.ru/eng/about br/irp/](http://cbr.ru/eng/about_br/irp/)

\* *tbc.*

\*\* *Additional ad-hoc conference calls for institutional investors may be held in the periods between the Bank of Russia Board of Directors pivotal meetings.*