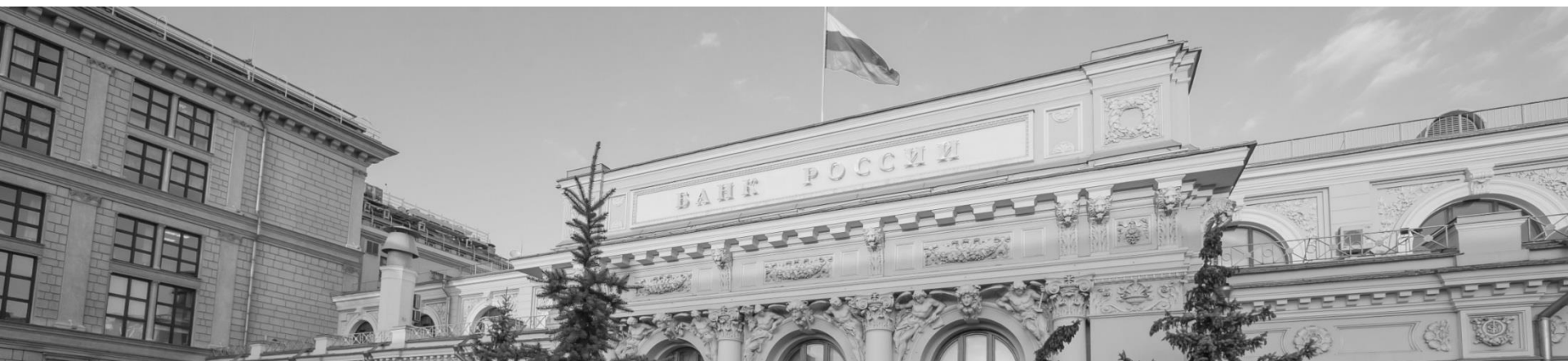




# Bank of Russia

The Central Bank of the Russian Federation



## RUSSIAN FINANCIAL SECTOR Investor presentation

May 2018



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# Bank of Russia

The Central Bank of the Russian Federation



## BANK OF RUSSIA: OVERVIEW



# EVOLUTION (1)

## Central Bank of Russia (CBR): founded in 1990

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

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

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



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

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

Focus on Russian financial market development

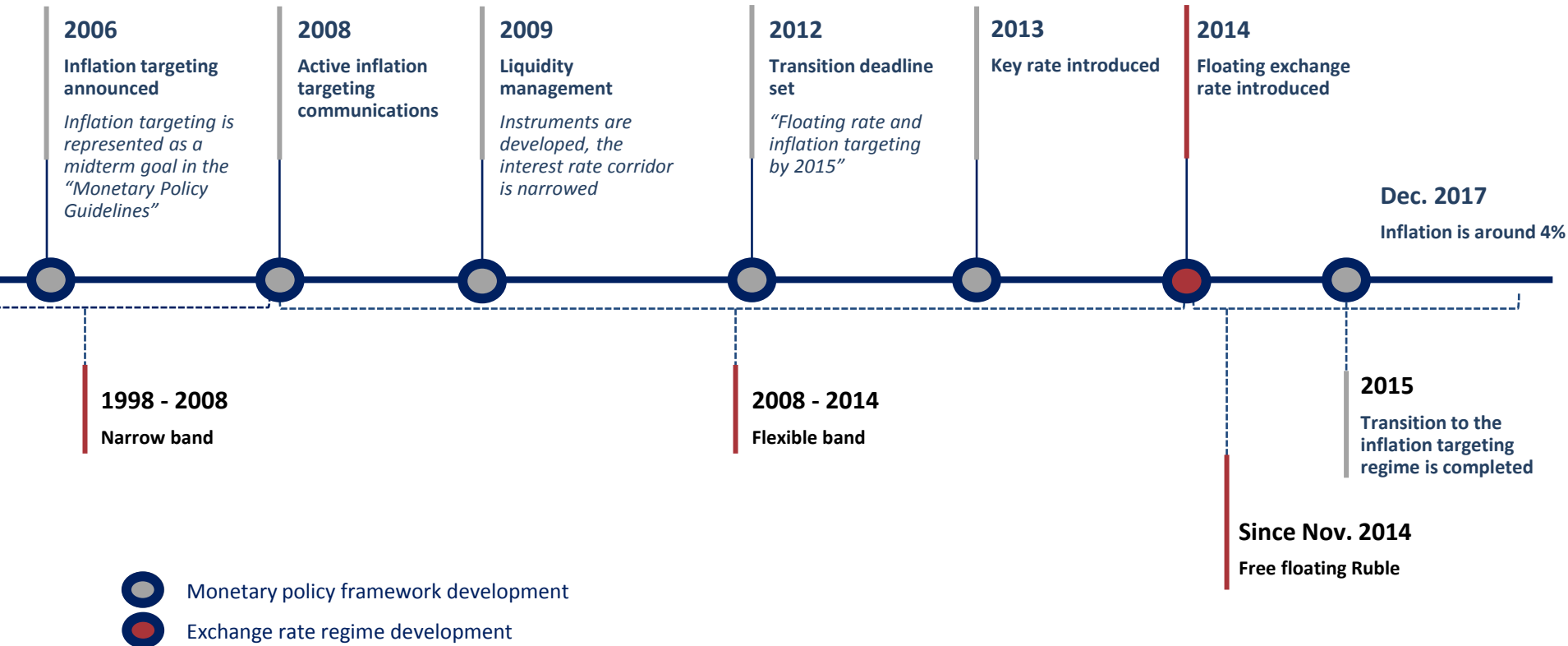
2013  
CBR becomes the megaregulator of the Russian financial sector

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



## EVOLUTION (2)

### Monetary policy framework development





## EVOLUTION (3)

Bank of Russia supervises the following key segments

Banking sector

Payment  
infrastructure

Non-state pension  
funds

Market  
infrastructure,  
including fair pricing

Asset managers

Securities market,  
including securities  
market professionals

Microfinance

Credit rating  
agencies

Insurance sector



## REFORMS

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



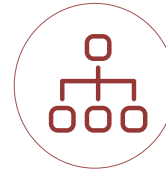
### Monetary policy

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



### Banking regulation and supervision

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



### Market infrastructure

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



### Corporate governance

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



### Pension system

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



### Payment infrastructure

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



## COMPLIANCE WITH INTERNATIONAL STANDARDS

Russia complies with or implements key international standards and best practices



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



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



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



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

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



Russia ranks **#35 in DOING BUSINESS-2018** ratings



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



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



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





# INTERNATIONAL COOPERATION

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



BANK FOR INTERNATIONAL SETTLEMENTS



THE WORLD BANK  
IBRD • IDA

WORLD TRADE ORGANIZATION



INTERNATIONAL ORGANISATION OF PENSION SUPERVISORS

G20



EAEU  
Eurasian Economic Union



COUNCIL OF EUROPE  
CONSEIL DE L'EUROPE

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

FSB

FINANCIAL STABILITY BOARD



Monetary Authority of Singapore



BRICS



ISDA  
Safe, Efficient Markets



European Securities and Markets Authority



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 2016 - 2018



**The Bank of Russia Guidelines for the Development of the Russian Financial Market in 2016 – 2018 (presented in 2016 and undergone discussion with market participants in 13 Russian regions) cover the following areas:**

- ✓ Consumer financial protection and financial literacy of the population of the Russian Federation;
- ✓ Improving financial inclusion for households and small and medium-sized businesses;
- ✓ Discouraging malpractice in the financial market;
- ✓ Enhancing investor appeal for the equity financing of public companies via improved corporate governance;
- ✓ Development of the bond market and syndicated lending market;
- ✓ Improvement of the financial market regulation, including the use of proportional regulation and optimization of regulatory burden on financial market participants;
- ✓ Advanced training for professionals working in the financial market;
- ✓ Incentives to electronic interaction mechanisms in the financial market;
- ✓ International cooperation for the development and implementation of rules regulating the global financial market;
- ✓ Improvement of tools ensuring financial market stability.



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

Moscow

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



## FINTECH (1)

Russia provides a favorable environment for FinTech development

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

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

### Key areas of development

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



## FINTECH (2)

Russia provides a favorable environment for FinTech development



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

### **Main goals**

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

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

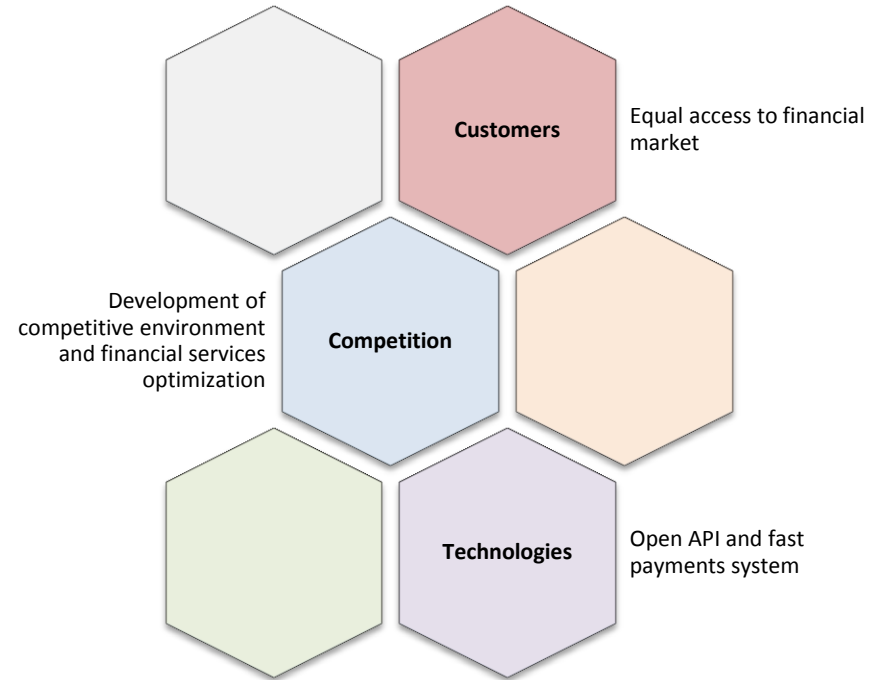
- ☑ Digital identification
- ☑ Distributed ledger technology
- ☑ Fast payment system
- ☑ Open API
- ☑ Big Data



## MARKET PLACE

Shaping future of financial services experience in Russia

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





## NEWSLETTER

### Key news from the Bank of Russia

May 23, 2018	The Bank of Russia <b>raises risk ratios on FX loans and securities</b> , effective from July 1. The new FX risk weights are: 110% (from 100%) for exporters, 150% (from 130%) for real estate purchase, 130% (from 110%) for other FX corporate loans.
May 1, 2018	The Bank of Russia <b>tightens the regulation of unsecured consumer credits</b> by reviewing its requirements for risk-weights.
April 24, 2018	The Bank of Russia suggests introducing <b>the principle of proportionality in non-bank financial institutions regulation</b> .
April 23, 2018	<b>Law on rehabilitation of insurance companies</b> was signed.
March 29, 2018	<b>The risk ratios for mortgage loans with LTV higher than 80% and 90% are tightened</b> by the Bank of Russia, reaching 150% and 300% respectively.
March 23, 2018	The Bank of Russia <b>cuts the key rate</b> by 25 bp to <b>7.25%</b> p.a.
January 1, 2018	<ul style="list-style-type: none"> <li>✓ <b>Basel III in force:</b> Leverage ratio (except for banks with basic license), NSFR – for D-SIBs;</li> <li>✓ <b>Unification of personal income tax regimes</b> for Ruble bonds and bank deposits;</li> <li>✓ Bank of Russia switches to <b>proportional regulation of the banking system</b>;</li> <li>✓ <b>Capital buffers under Basel III are increased:</b> capital conservation buffer is 1.875%; countercyclical capital buffer is 0%; buffers for systemically important banks are at 0.65%</li> <li>✓ Banks are required to introduce <b>International Financial Reporting Standard (IFRS) 9</b>, which supersedes IAS 39;</li> <li>✓ <b>Deposit Insurance Agency increases its base rate</b> at which quarterly payments are made to the deposit insurance fund from 0.12 to 0.15% of the basis for calculation.</li> </ul>
June 16, 2017	<b>New Banking Sector Consolidation Fund bailout</b> mechanism enacted.



# Bank of Russia

The Central Bank of the Russian Federation



## RUSSIAN MACRO UPDATE



## KEY INDICATORS

Clear signs of macro stabilization across the board

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

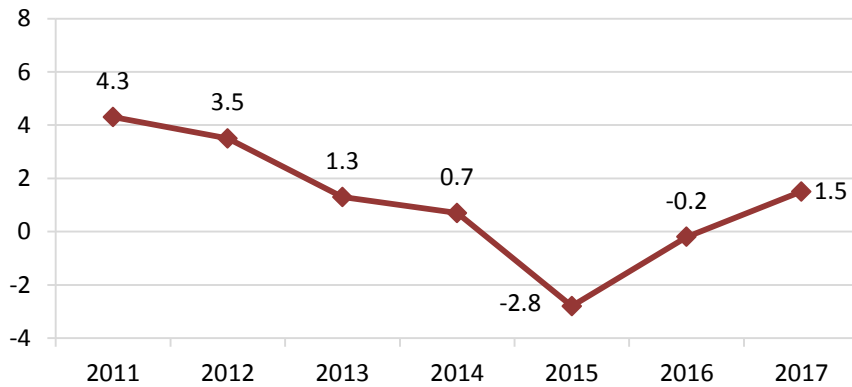


Figure 2: Unemployment rate in Russia remains low (%)



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

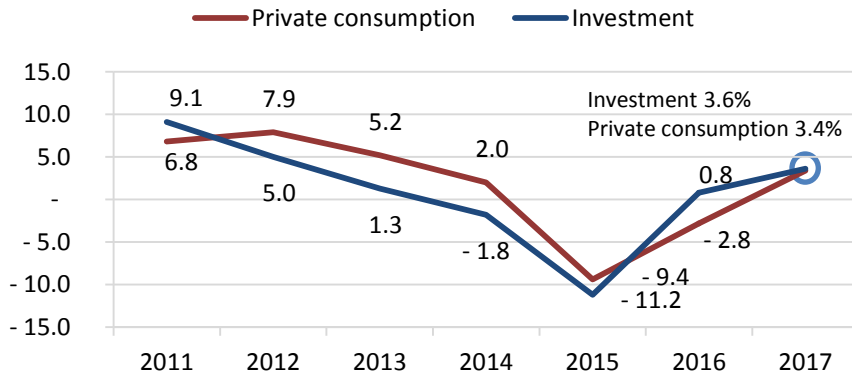


Figure 4: Russian Ruble volatility remains low while in free-floating







# MACROFINANCE

## Russian economy has adapted to lower oil prices

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

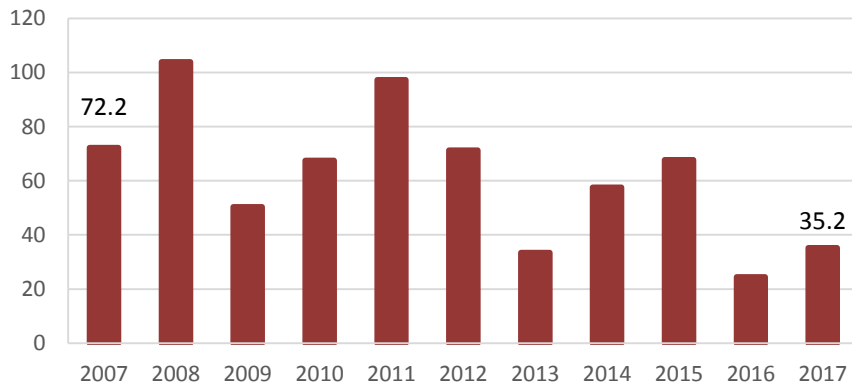


Figure 6: Strong fiscal position: budget consolidation and fiscal rule

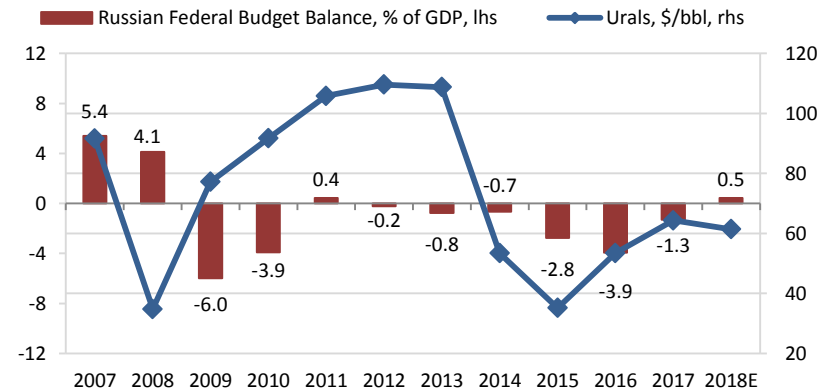


Figure 7: Significant international reserves assuring financial stability

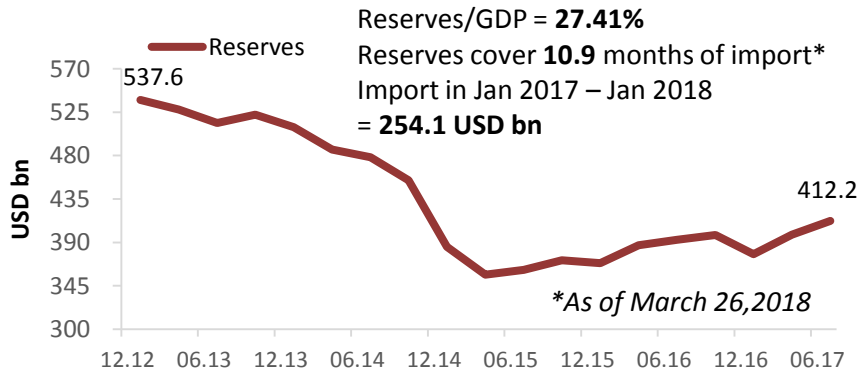
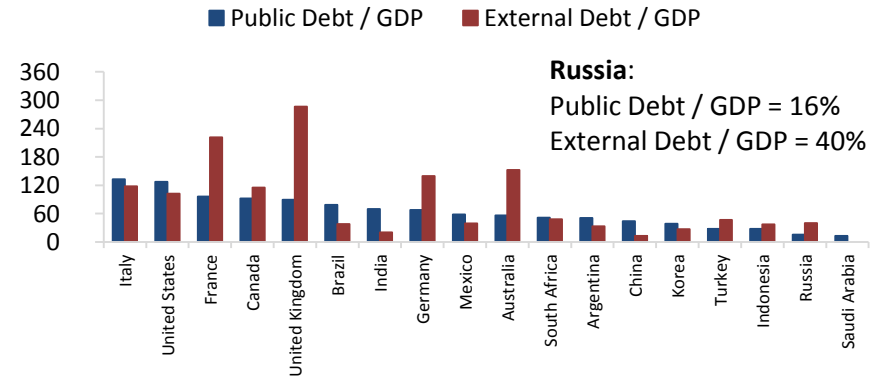


Figure 8: Public debt to GDP among the lowest in both EM and DM (2016, %)

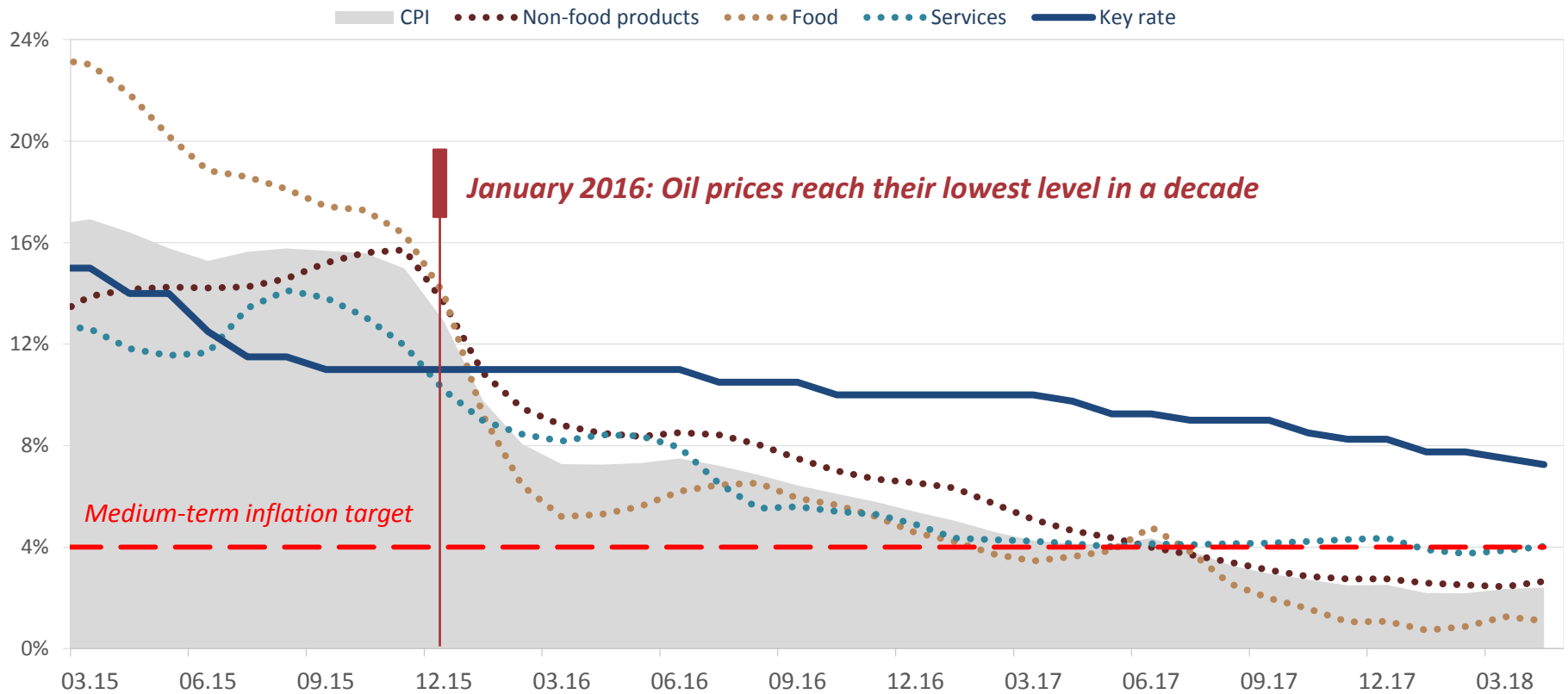




# INFLATION

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

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



Source: Bank of Russia, Rosstat



## ECONOMIC FORECASTS (1)

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

<i>as % of previous year (unless indicated otherwise)</i>	2017 (actual)	2018	2019	2020
		Baseline*		
Urals price (annual average), US dollars per barrel	53	61	55	50
Inflation, % in December year-on-year	2.5	3.0-4.0	4.0	4.0
Inflation, yearly average	3.5	2.5-3.5	4.0	4.0
Gross domestic product	1.5	1.5-2.0	1.5-2.0	1.5-2.0
Final Consumption Expenditure	2.3	2.7-3.2	2.0-2.5	2.0-2.5
- <i>households</i>	3.4	3.8-4.3	2.5-3.0	2.5-3.0
Gross formation	7.6	2.5-3.5	3.0-4.0	2.0-3.0
- <i>gross fixed capital formation</i>	3.6	3.5-4.0	3.2-3.7	2.5-3.0
Exports	5.4	1.8-2.3	1.5-2.0	1.5-2.0
Imports	17.0	7.5-8.0	6.0-6.5	4.5-5.0
Money supply in national definition	10.5	8-10	9-12	8-12
Lending to non-financial organisations and households in rubles and foreign currency**	9.0	8-10	9-12	8-12
- <i>lending to non-financial and financial organisations in rubles and foreign currency</i>	8.1	7-9	8-11	7-10
- <i>lending to households in rubles and foreign currency</i>	12	11-13	11-14	11-14

\*As presented in Monetary Policy Report No.5 (March 2018)

Source: Bank of Russia



## ECONOMIC FORECASTS (2)

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

<i>(Billions USD)</i>	2017 (actual)	Baseline*		
		2018	2019	2020
<b>Current account</b>	<b>40</b>	<b>59</b>	<b>39</b>	<b>23</b>
Balance of trade	116	140	121	107
<i>Exports</i>	354	398	384	372
<i>Imports</i>	-238	-258	-263	-265
Balance of services	-30	-32	-32	-33
<i>Exports</i>	58	61	65	66
<i>Imports</i>	-88	-93	-97	-99
Primary and secondary income balance	-45	-50	-51	-52
Capital account	0	0	0	0
<b>Balance of current and capital accounts</b>	<b>40</b>	<b>59</b>	<b>39</b>	<b>23</b>
<b>Financial account (except reserve assets)</b>	<b>-21</b>	<b>-9</b>	<b>-8</b>	<b>1</b>
<i>General government and central bank</i>	14	9	8	8
<i>Private sector</i>	-35	-19	-15	-7
<b>Net errors and omissions</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change in reserve assets ('+' means decrease, '-' means increase)</b>	<b>-23</b>	<b>-50</b>	<b>-31</b>	<b>-24</b>

\*As presented in Monetary Policy Report No.5 (March 2018)

Source: Bank of Russia



## INFLATION EXPECTATIONS

Inflation expectations are at historical lows but their decline has yet to become sustainable and consistent

	Expectation horizon	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Jan. 2018	Feb. 2018	Mar. 2018
<b>Expected inflation (absolute value), %</b>												
<b>Population</b>												
FOM (FOM sociological service) poll	Next 12 months	14,7	14,2	14,2	12,4	11,2	10,3	9,6	8,7	8,9	8,4	8,5
FOM poll (Bank of Russia estimates)	Next 12 months	7,4	6,7	5,9	5,1	4,0	4,0	2,8	2,4	2,1	2,2	2,1
<b>Professional analysts</b>												
Bloomberg	2018						4,0	4,0	4,0	4,0	4,0	
Interfax	2018					4,2	4,1	4,1	3,9	3,8	3,8	
Reuters	2018						4,1	4,0	4,1	3,8	3,8	
<b>Financial markets</b>												
Inflation-linked OFZ bonds	Next 6 years	5,4	4,6	4,5	4,6	4,5	4,3	3,9	3,7	3,7		
Inflation-linked OFZ bonds (no option adjustment)	Next 6 years	6,9	6,0	5,3	5,4	4,9	4,7	4,3	4,1	4,1		
Bond market	Next quarter	12,0	6,9	7,2	6,6	5,3	4,4	4,5	3,3			
Interbank lending market	Next quarter	9,9	5,3	5,4	5,6	4,6	3,7	3,4	2,5			
<b>Inflation expectations (balanced index*)</b>												
<b>Households</b>												
FOM poll	Next 12 months	84	78	82	80	79	80	82	78	78	75	
FOM poll	Next month	72	68	70	76	68	68	73	73	69	61	
<b>Business</b>												
REB (Russian Economic Barometer)	Next 3 months	14	38	36	46	22	20	14	52			
Bank of Russia (monitoring)	Next 3 months	12,4	12,1	10,4	12,4	6,8	9,6	6,6	9,4	7,1		
Retail prices (Russian Federal Statistics Service)	Next quarter	32	29	28	27	27	24	24	22			
Tariffs (Russian Federal Statistics Service)	Next quarter	5	5	0	0	4	3	0	0			

### Change against the previous 3 months:

- - inflation expectations improved (standard deviation >1)
- - inflation expectations improved (standard deviation <1)
- - inflation expectations unchanged (standard deviation at 0±0,2)
- - inflation expectations worsened (standard deviation < 1)
- - inflation expectations worsened (standard deviation > 1)

Source: Bank of Russia, FOM

\*Balanced index is the difference between the number of respondents expecting a rise in prices and the number of those expecting a fall



# MONETARY POLICY

## Gradual transition from moderately tight to neutral monetary policy

### Inflation and inflation expectations

- Annual inflation remains low
- Ruble weakening in April will quicken inflation movement to 4%
- Uncertainty is in place over how inflation expectations will respond to the April developments in financial markets

### Monetary Conditions

- Neutral interest rate has shifted closer to the upper bound within the range of 6–7%

### Economic activity

- Business activity keeps on expanding and is hardly posing any disinflationary pressure on consumer price dynamics
- Medium-term outlook on economic growth remains unchanged

### Pro-inflationary (↑) and disinflationary (↓) risks

- |   |    |
|---|----|
| • Fluctuations of food and oil prices   | ↑↓ |
| • Inflation expectations  | ↑  |
| • Possible changes in consumer behavior   | ↑  |
| • Wage dynamics   | ↑  |
| • <b>Volatility in the financial markets and heightened geopolitical tensions</b> | ↑  |
| • <b>Uncertainty surrounding the parameters of the fiscal decisions</b>           |    |



**Decision**  
(as of April 27, 2018)

**The Bank of Russia  
keeps the key rate**

**at 7.25% p.a.**

**Signal**

The Bank of Russia still assumes that the monetary policy will become neutral in 2018.

The Bank of Russia will base its decision-making upon assessments of inflation risks, inflation dynamics and economic developments as compared against the forecast.



## FINANCIAL STABILITY

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

#### Credit activity

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

#### Retail lending risks

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

**Mortgage loans** grow at a steady rate, however, borrowers' debt burden remaining at the same level show that the current growth does not present any significant risk to the financial stability. The Bank of Russia aims to prevent the build-up of risks related to loans with a high loan-to-value ratio and secure sustainable development of the mortgage lending segment.

#### Capital adequacy

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

**Rising risk weights for specific credit requirements results in banks increasing their capital reserves to cover potential losses. Therefore considering the uneven recovery of lending, there is no need for a positive countercyclical buffer for credit institutions yet.**

#### Decision

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



# Bank of Russia

The Central Bank of the Russian Federation



## FINANCIAL SECTOR OVERVIEW





## BANKING SECTOR: CURRENT AGENDA

Shaping a favourable operating environment and supporting market competition

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

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

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

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

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

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

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

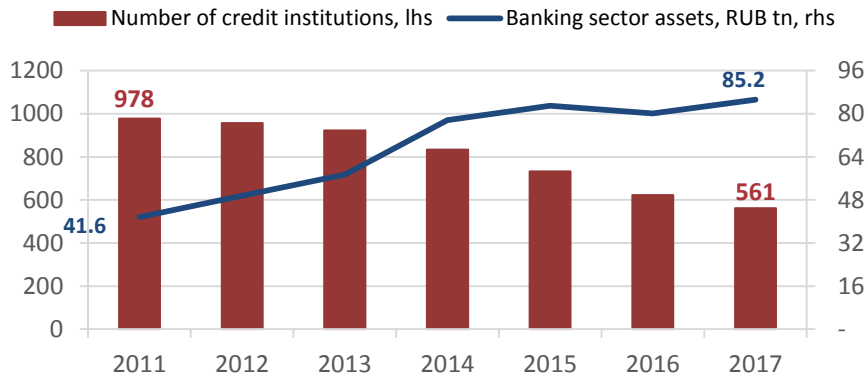
**Basel III in force:** Leverage ratio (except for banks with basic license), NSFR – for D-SIBs



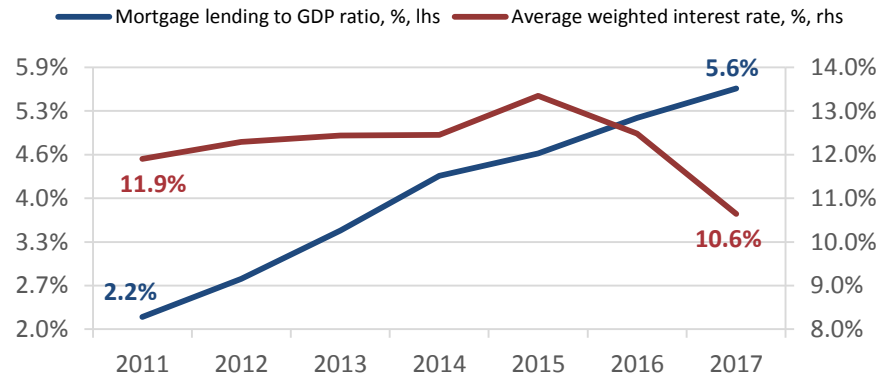
## BANKING SECTOR: KEY FIGURES (1)

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

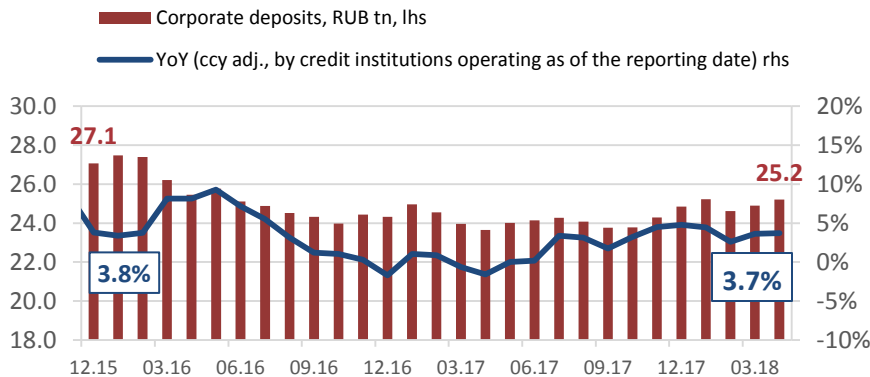
**Figure 10: In 2013-2017 more than 300 licenses were revoked causing almost no impact on the banking sector's total assets**



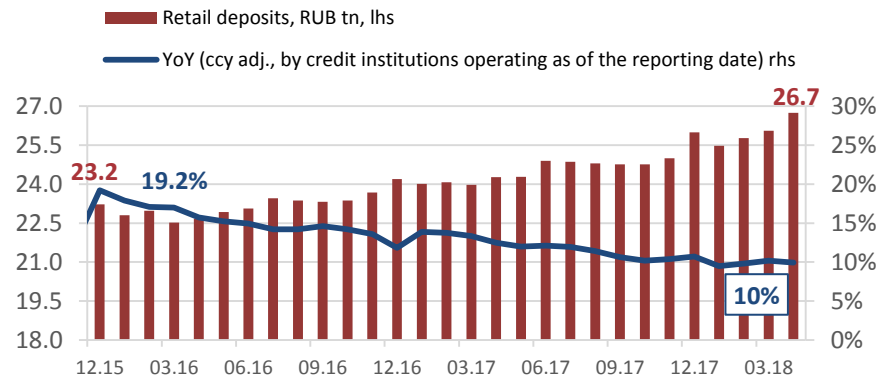
**Figure 11: Mortgage lending remains key growth driver amid falling rates**



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



**Figure 13: In April 2018 Retail deposits demonstrated growth by 10%, reaching 26.7 RUB tn**

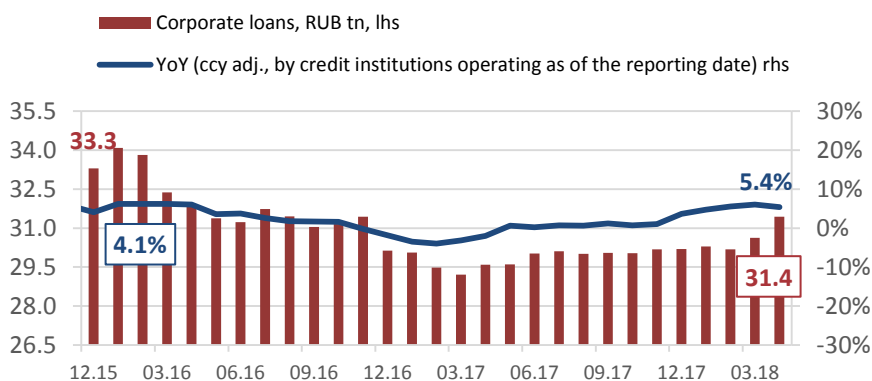




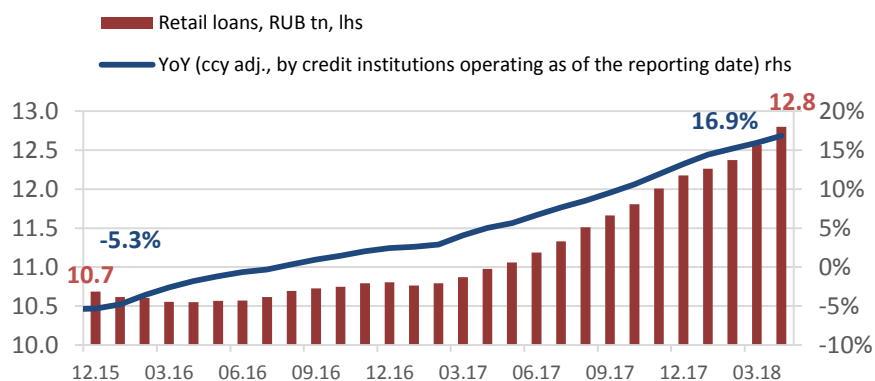
## BANKING SECTOR: KEY FIGURES (2)

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

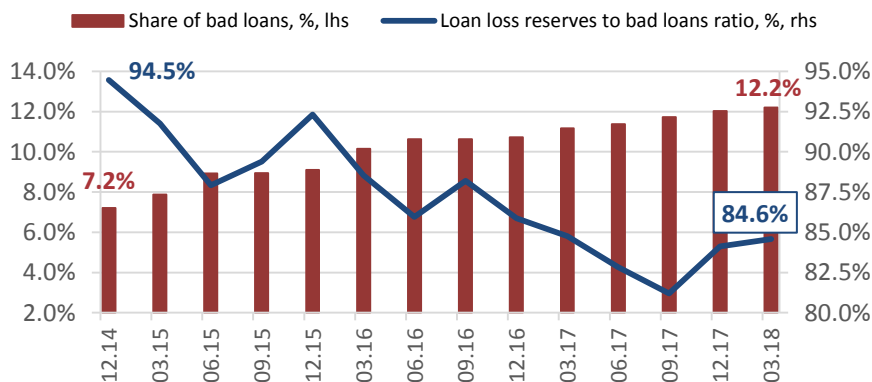
**Figure 14: Corporate lending has stabilized and shows early signs of recovery**



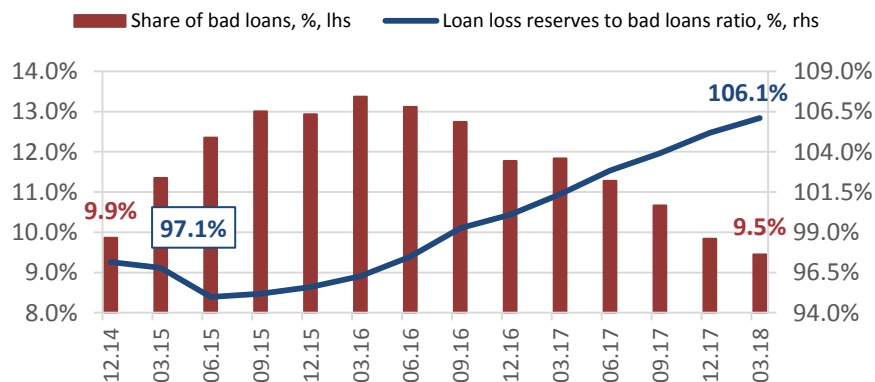
**Figure 15: Retail loans remain the key driver of credit growth**



**Figure 16: Share of bad corporate loans\* reached 12.2% (01.04.18) while loan loss reserves to bad loans ratio amounted to 84.6%**



**Figure 17: Retail loans portfolio demonstrates improved quality: the share of bad loans\* fell to 9.5% (01.04.18)**



\* 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);

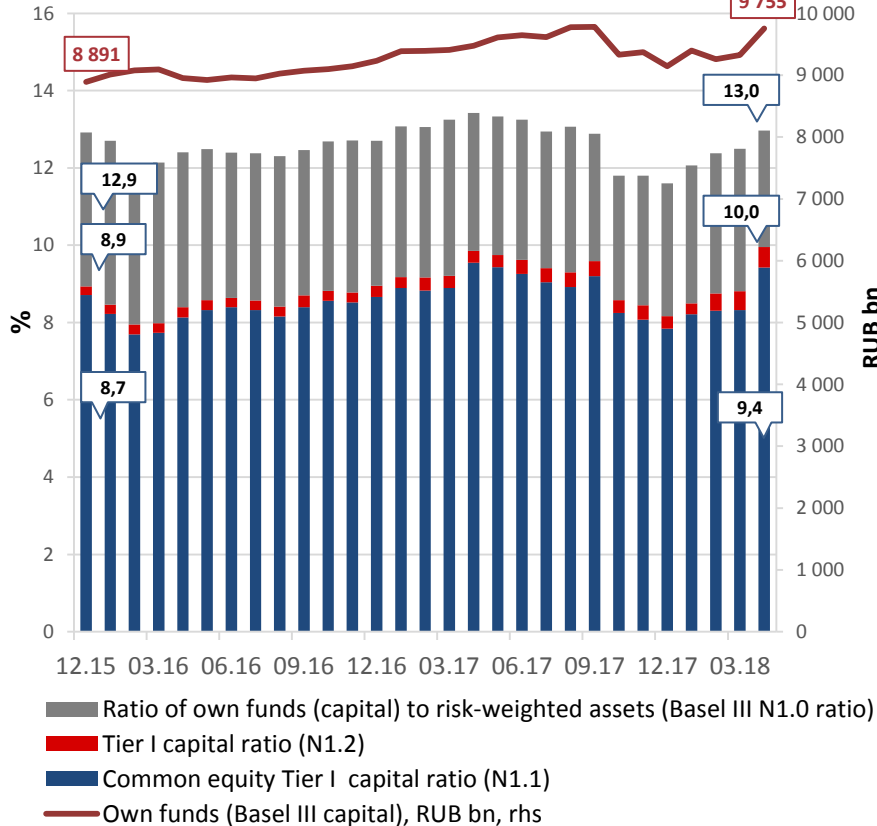
Quality category V – no possibility of loan repayment due to the borrower's inability or refusal to meet loan commitments, which requires complete (100 per cent) depreciation of the loan.



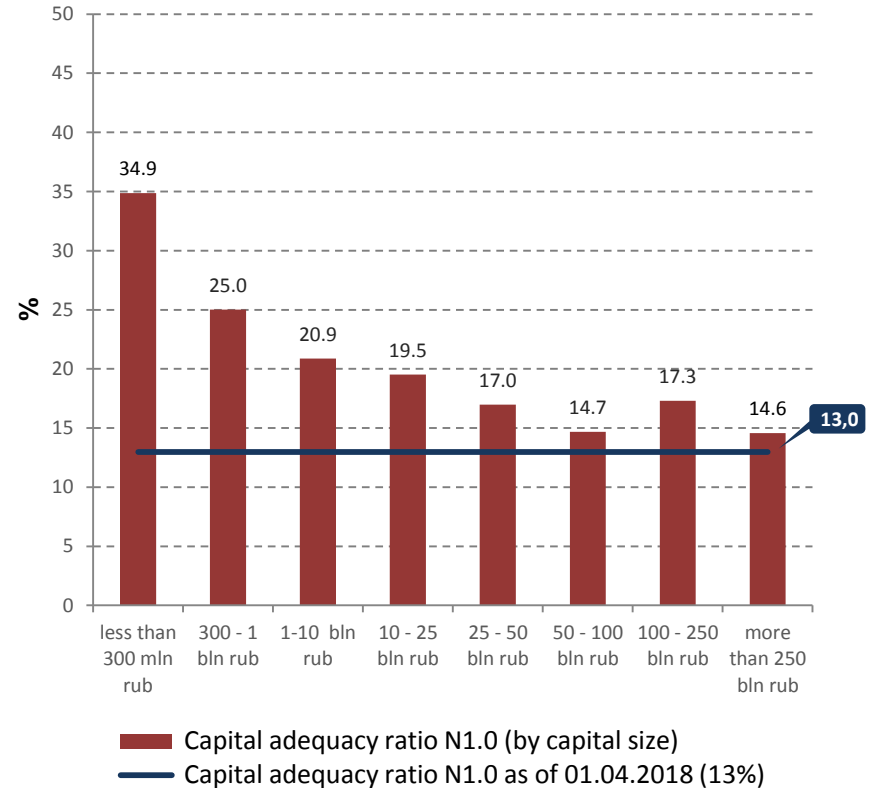
## BANKING SECTOR: CAPITAL ADEQUACY

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

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



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





## MICROFINANCE

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

# MFIs

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

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

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

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

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



## SECURITIES MARKET (1)

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



### Crisis-proven market infrastructure

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



### Simplified market access

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



### Upgraded corporate governance

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



### Increased transparency

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



## SECURITIES MARKET (2)

Russian equity market remains undervalued despite strong performance in recent years

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

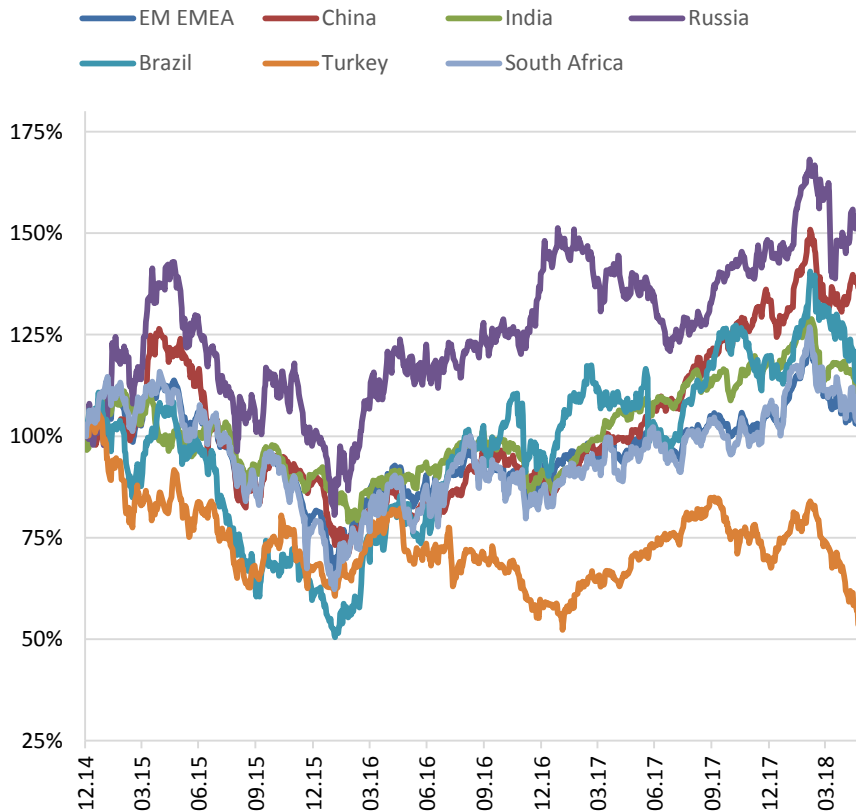
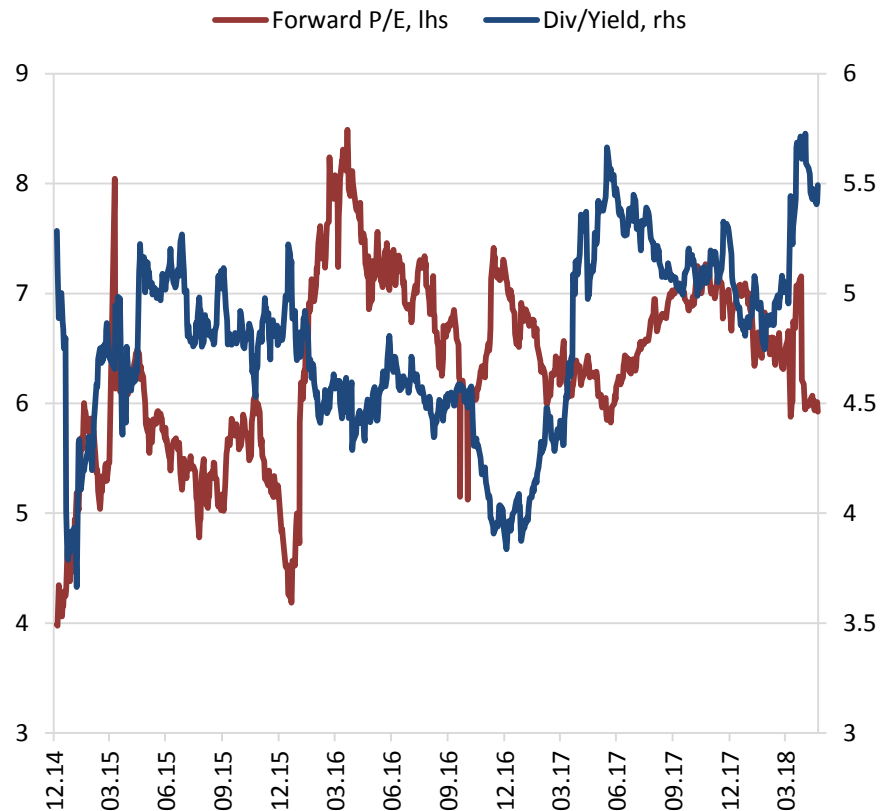


Figure 21: Forward P/E ratio of just 5.9x and a dividend yield above 5.4%



Source: Thomson Reuters, Moscow Exchange



## SECURITIES MARKET (3)

Equity market provides strong growth potential

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

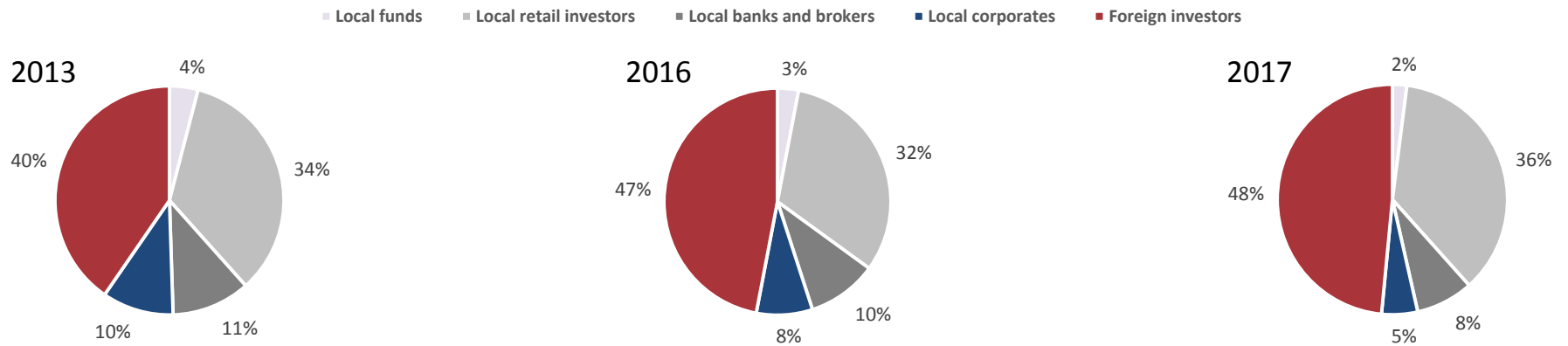


Figure 25: Russian equities market volume proves stable (RUB tn)

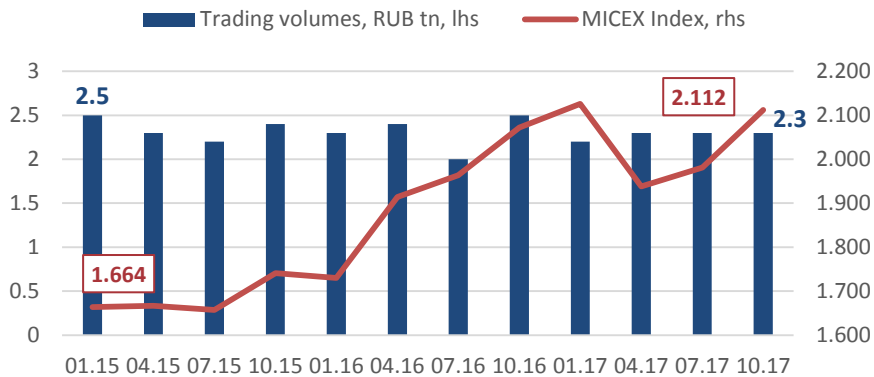
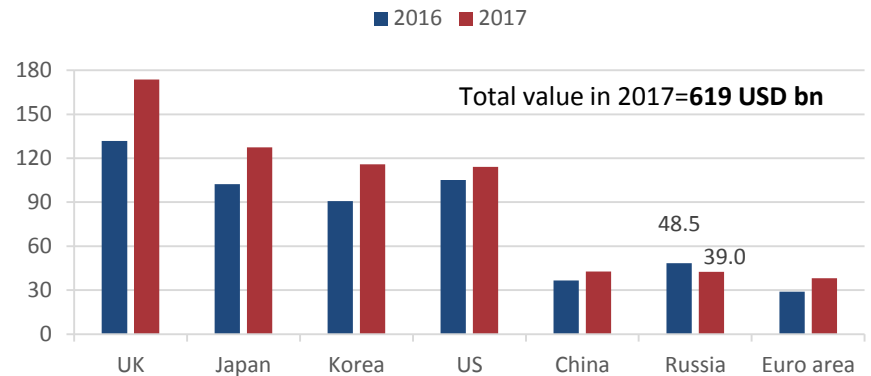


Figure 26: Domestic market capitalization to GDP ratio reflects undervalued Russian financial market (of GDP, %)



Source: Thomson Reuters, Moscow Exchange, International Monetary Fund and World Federation of Exchanges





# SECURITIES MARKET (4)

## Growing a deeper Russian bond market with strong potential

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

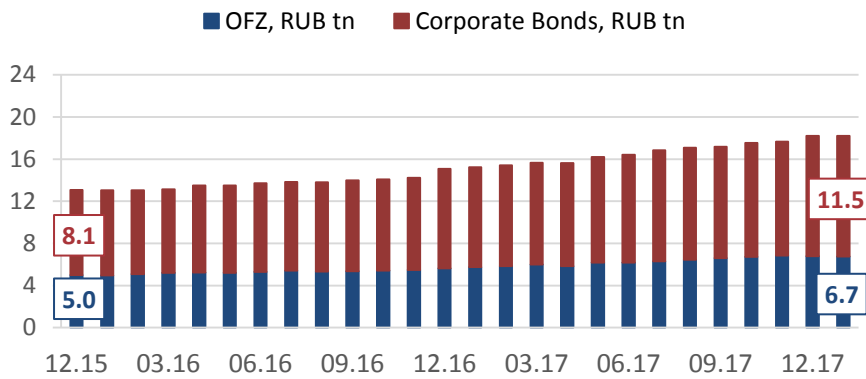


Figure 28: Debt market volume breakdown by investor type

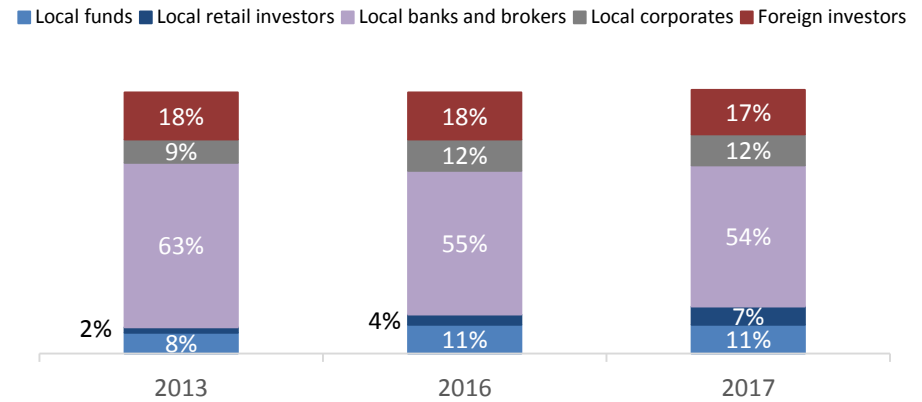


Figure 29: Bond market yields, key rate and RUONIA (%)

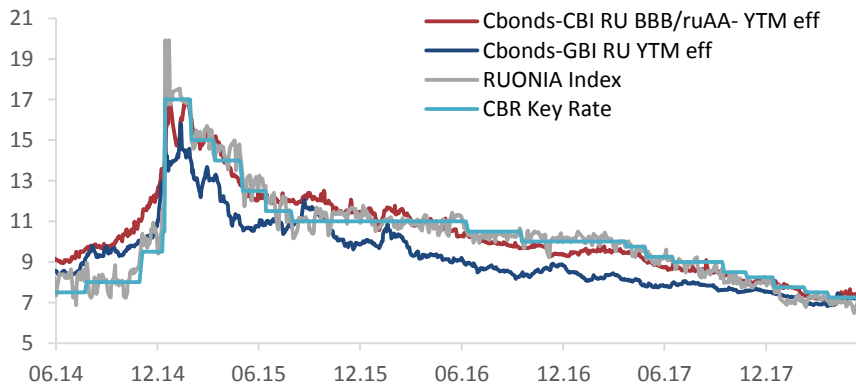
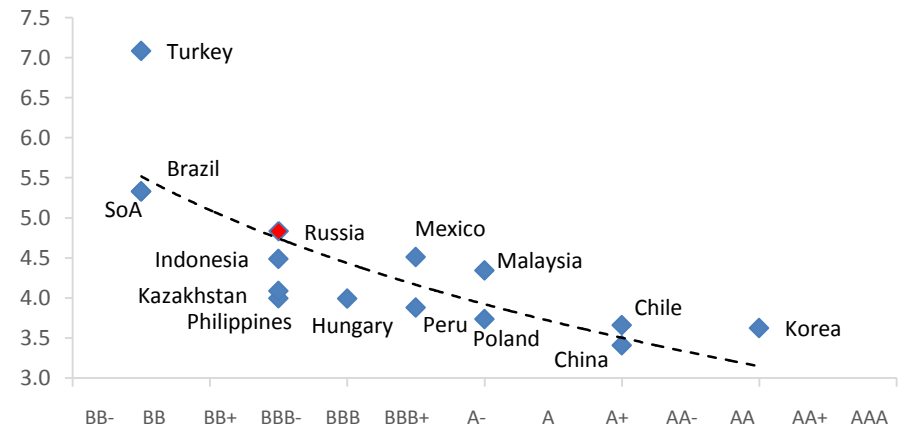


Figure 30: EM 10Y bond yields on the background of credit ratings



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



## SECURITIES MARKET (5)

Growing a deeper Russian bond market with strong potential

Figure 31: Ageing fixed assets require long-term investments

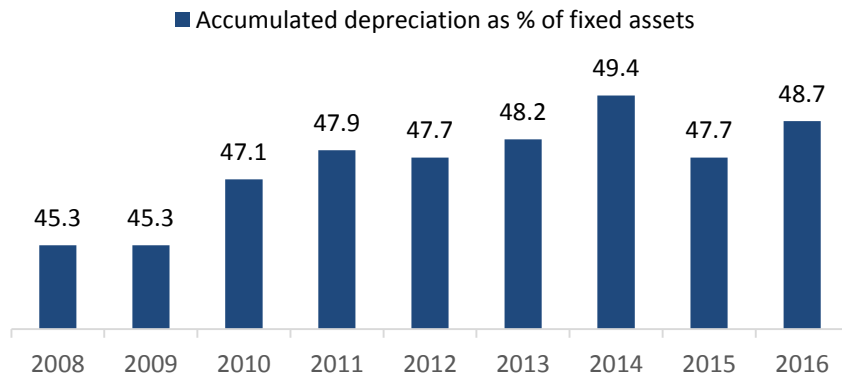


Figure 32: Breakdown of bond issuers by industry, as of March 1, 2018

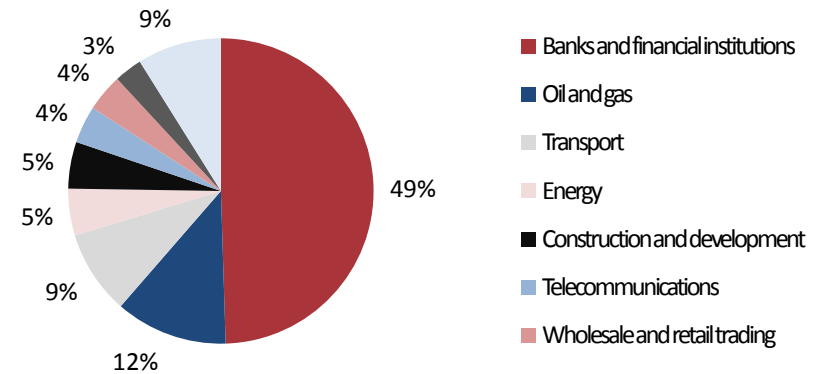


Figure 33: Corporate loans vs corporate bonds in Russia (tn)

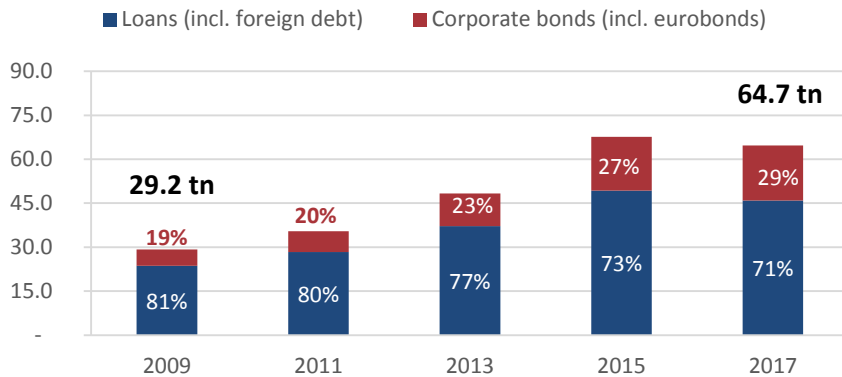
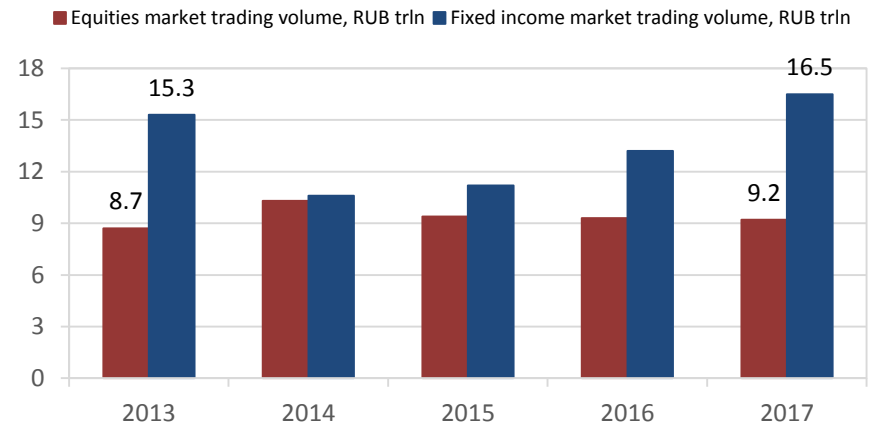


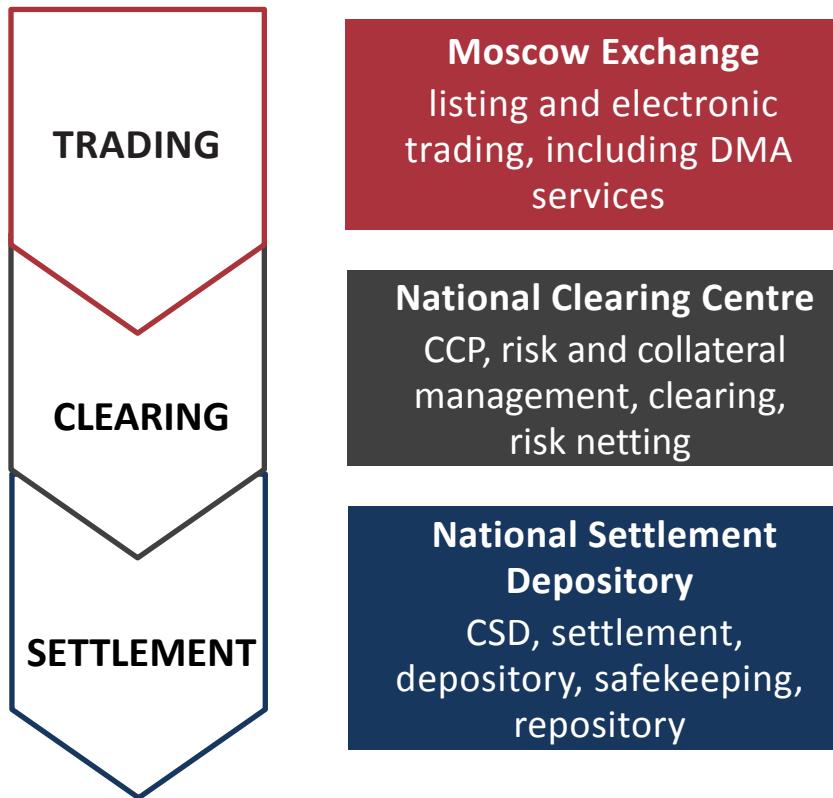
Figure 34: "Bondization" of Russian financial market





## SECURITIES MARKET (6)

Moscow Exchange group offers the best infrastructure in its class



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



## SECURITIES MARKET (7)

Russian financial market has necessary infrastructure and regulation for trading OTC

### Robust legal protection in place

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

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

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

### Variety of instruments and service providers

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

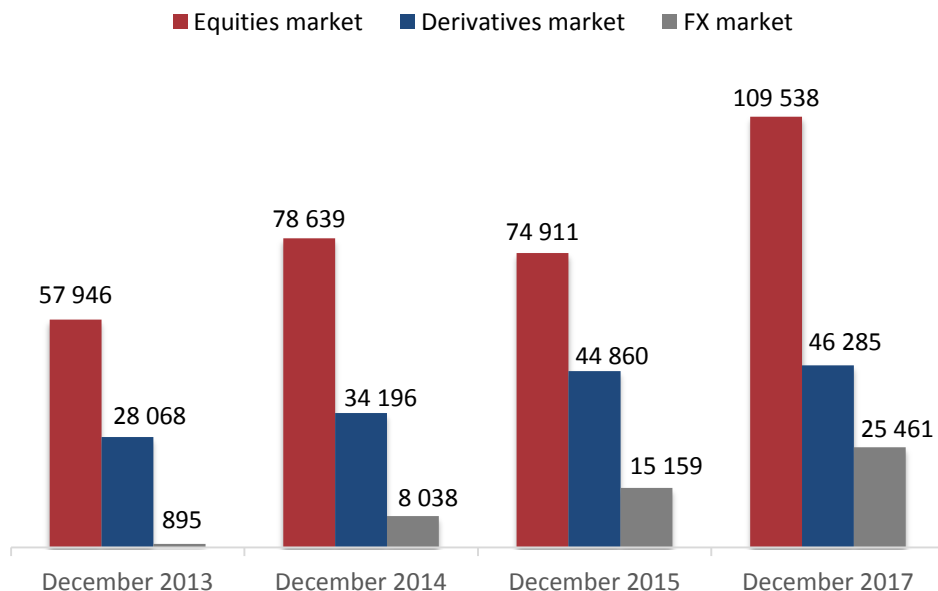


# SECURITIES MARKET (8)

Rapidly developing retail market with strong tax incentives and accelerating FinTech

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

Figure 35: Number of active retail client accounts



Source: Moscow Exchange

## Recent regulatory changes

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

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

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

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

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



## CORPORATE GOVERNANCE

New corporate governance standards reflect best international practices

### Listing reform on Moscow Exchange

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

### Next stage 2018

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

### Corporate actions reform

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

### Blockchain technology

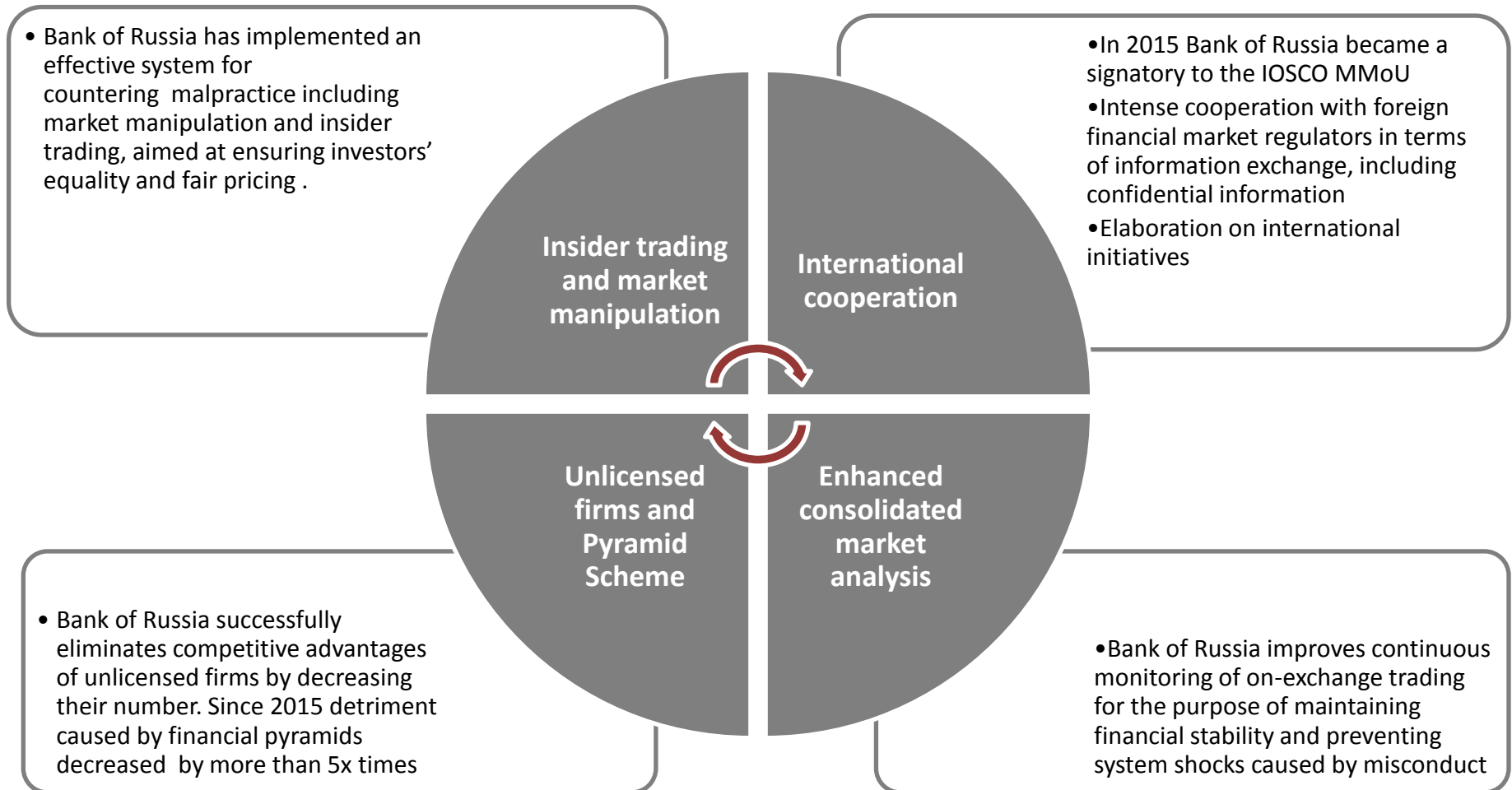
NSD used a blockchain-based settlement platform to complete an inaugural placement of a RUB 500 mln bond issue in 2017

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



## COUNTERING MALPRACTICE

Bank of Russia supervises conduct of financial market participants to promote fair competition





# INSURANCE

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

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

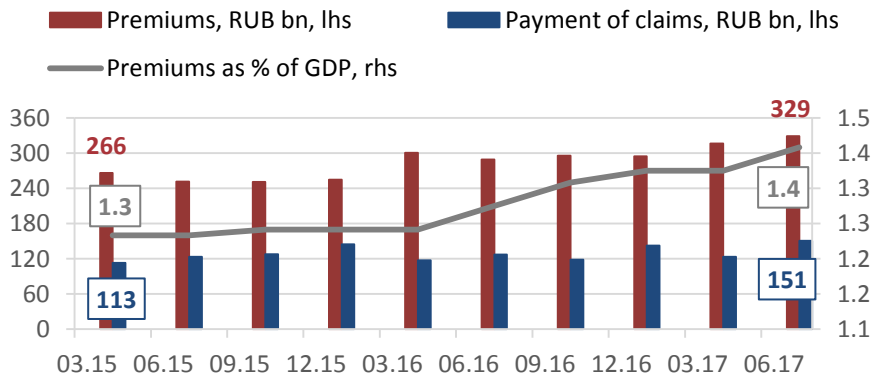


Figure 37: Assets and reserves hit 2.5% of GDP

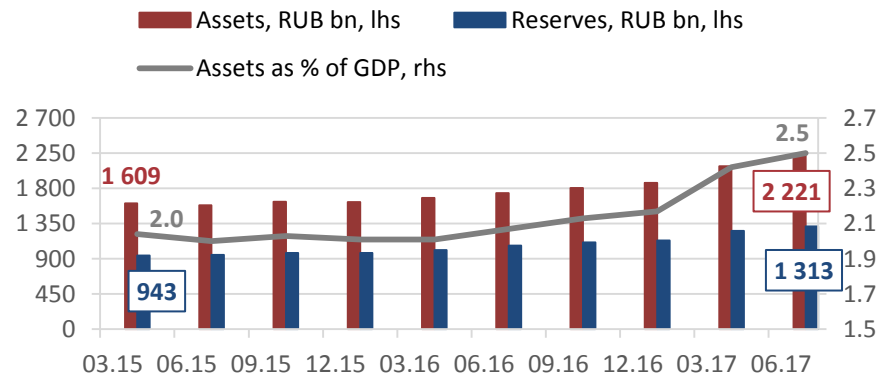


Figure 38: Premium structure shows high level of market diversification

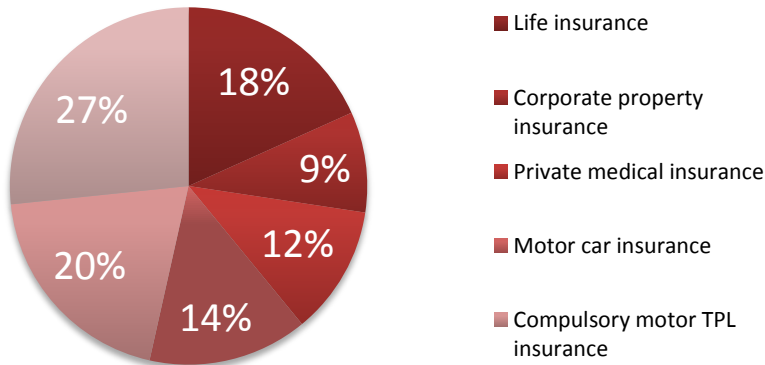
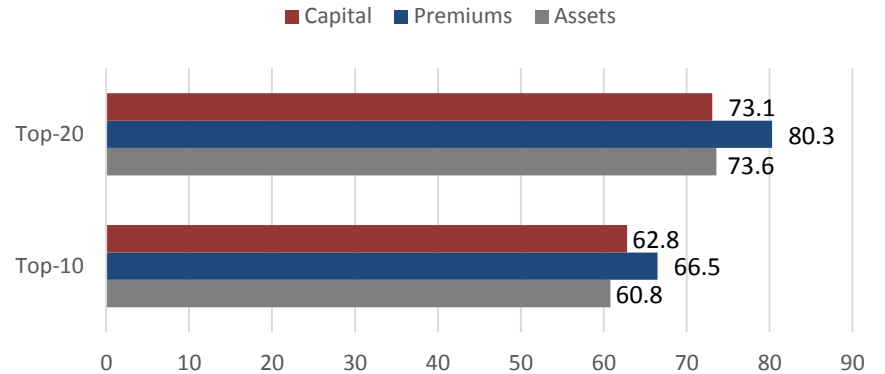


Figure 39: In Q2/2017 market remained highly competitive with the Herfindahl-Hirschman Index equal to 588.6







## NON-STATE PENSION FUNDS

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

Non-government pension system has gone through a number of changes:

- ✓ ‘one-year non-loss’ rule was extended to ‘five-year non-loss’ rule;
- ✓ stress-testing mechanism introduced;
- ✓ customers are now encouraged to stay with the same fund for not less than 5 years;
- ✓ since 2014 the Deposit Insurance Agency (DIA) guarantees the nominal value of mandatory savings;
- ✓ non-state pension funds are to bear fiduciary responsibility (since March 18, 2018);
- ✓ non-state pension funds are to disclose their investment portfolios.

Figure 40: Pension assets in Russia (RUB tn)

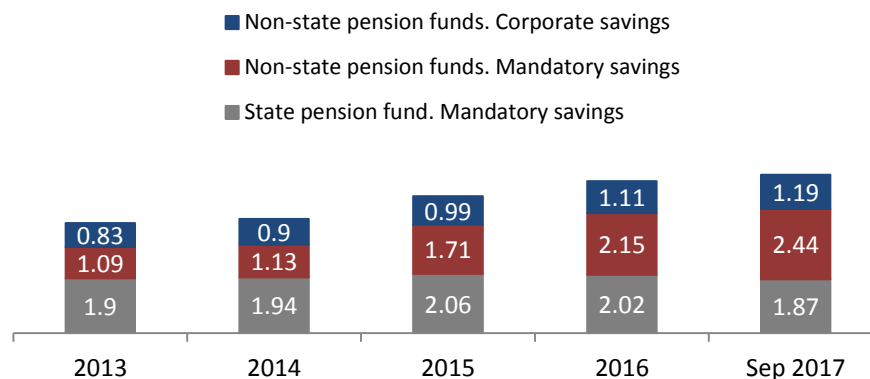
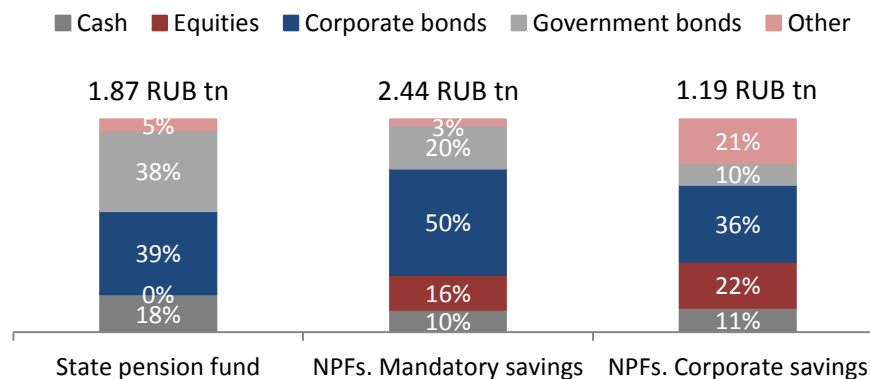


Figure 41: Pension system asset allocation (as of September 30, 2017, %)





## INVESTMENT FUNDS

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

Figure 42: Number of investment funds by types and assets to GDP

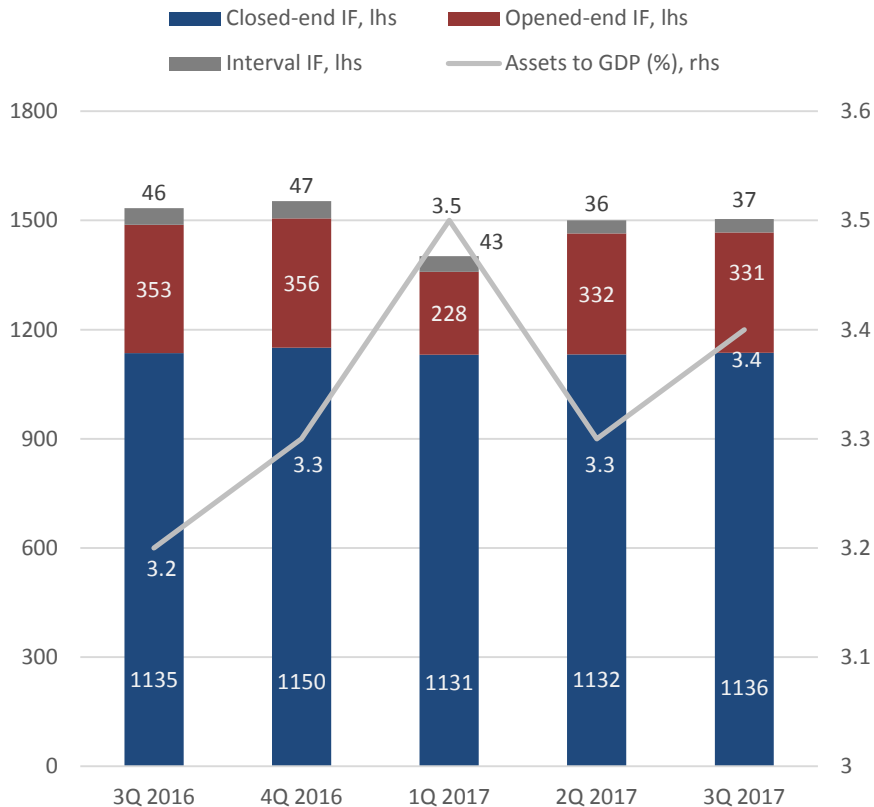
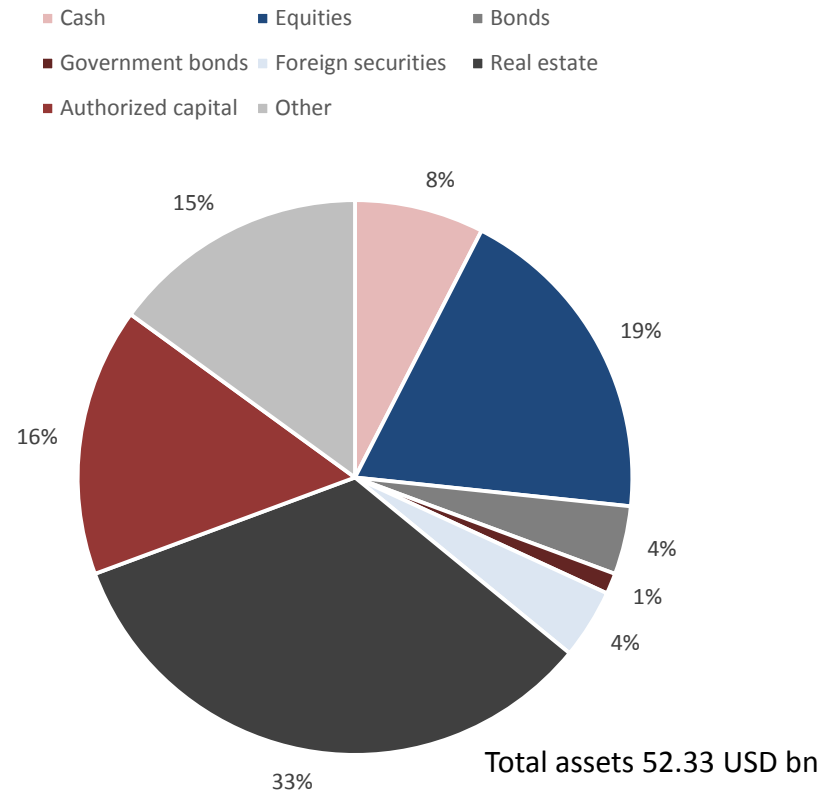


Figure 43: Breakdown of assets by type (3Q 2017)



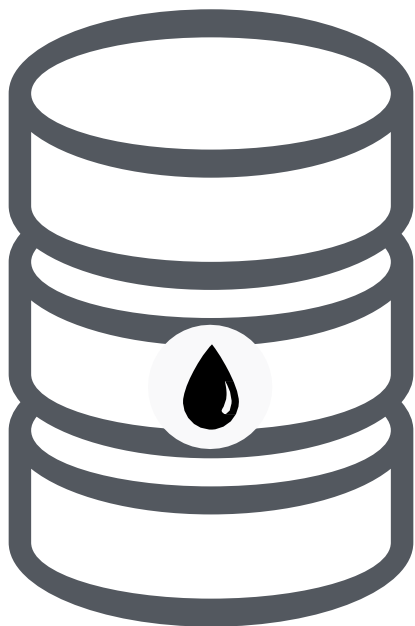
Bank of Russia Regulation No. 572-P came into force in August 2017 and regulated activities on shareholders' roster management.

Source: Bank of Russia



## COMMODITIES

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



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



## PAYMENT INFRASTRUCTURE (1)

### Bank of Russia Payment System

- ✓ Money transfer services are provided to:
  - ✓ all credit institutions (financial market infrastructure included);
  - ✓ Russia's Federal Treasury and its agencies;
  - ✓ other Bank of Russia clients.
- ✓ Average daily figures: **6 million payments, 5.6 trillion rubles**
- ✓ Real-time and non-real-time payments provided through the RTGS system with **80% of the funds** transferred via the real-time service
- ✓ Providing tools for completing financial market infrastructure settlements in the Central Bank (RUB accounts)
- ✓ Transfer timeframe is adapted to Russia's **11 time zones**. In near future it will operate from 1 a.m. to 9 p.m., Moscow time
- ✓ Providing settlement services and intraday settlements on fund transfers conducted within Russia through payment cards (in collaboration with NSPK – the National Payment Card System)



## PAYMENT INFRASTRUCTURE (2)

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

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

### Figures for early 2018:

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

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

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

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



## NATIONAL PAYMENT CARDS SYSTEM

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



- ✓ **Russian national payment system “Mir”** was created on 23 July 2014
- ✓ Operator of Mir Card Payment System is **National Card Payment System Joint-Stock Company**, 100% of its shares belong to the Bank of Russia
- ✓ Strong authentication MirAccept at online payment is provided
- ✓ 1.0 3D-Secure standards and technologies have been developed and implemented
- ✓ Co-badging projects with international payment systems: Maestro, JCB, AmEx and UnionPay
- ✓ Support of mobile payment service Samsung Pay
- ✓ PayPass system has been successfully implemented
- ✓ Payment system “Mir” launched a loyalty program which allows card holders to receive cashback
- ✓ More than 30 mln “Mir” payment cards were issued by year end 2017 in Russia



## CONSUMER PROTECTION

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

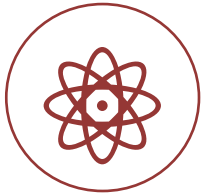
### KEY FINANCIAL CONSUMER PROTECTION WORKSTREAMS



Consumer and investor complaints handling



Differentiation of consumer protection requirements



Conduct supervision model



Financial awareness improvement



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



Disclosure requirements for consumers and investors



Dispute resolution (ombudsman)



Disclosure requirements for information on risks



## FINANCIAL INCLUSION

Strong international background helps to promote financial inclusion

### G20 GLOBAL PARTNERSHIP FOR FINANCIAL INCLUSION (GPFI)

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

### Financial Inclusion Promotion by the Bank of Russia

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

### ALLIANCE FOR FINANCIAL INCLUSION (AFI)

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

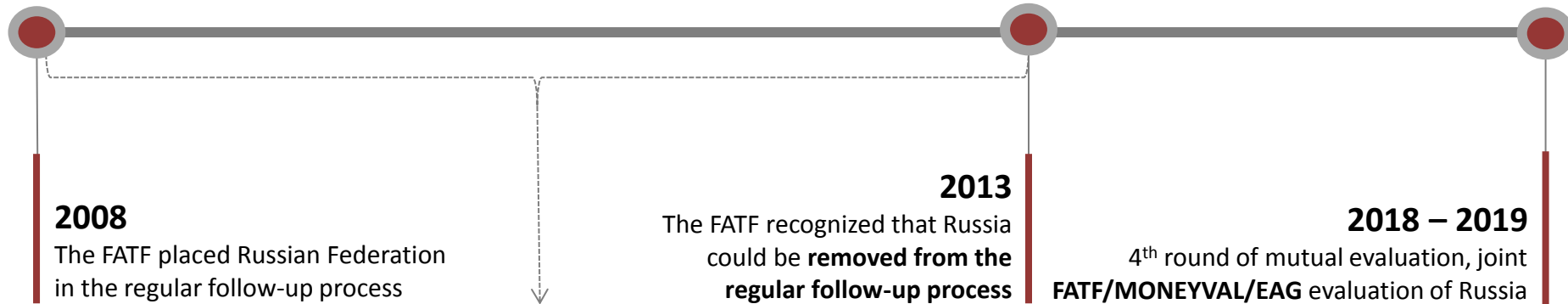




## AML/CFT

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

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



#### Key measures taken in 2008-2013:

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



## CYBERSECURITY

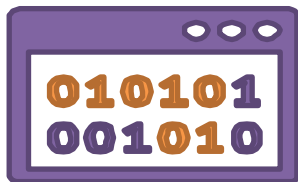
### Key initiatives in information security and cybersecurity



Countering international and cross-border crime



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



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



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

### Key avenues of cooperation in the sphere of information security

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



## INVESTOR CONTACTS AND REGULAR MEETINGS SCHEDULE FOR 2018

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

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

### International Cooperation Department

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