



Bank of Russia

The Central Bank of the Russian Federation



RUSSIAN FINANCIAL SECTOR Investor presentation

August 2019



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Bank of Russia

The Central Bank of the Russian Federation



BANK OF RUSSIA: OVERVIEW



EVOLUTION (1)

Central Bank of Russia (CBR): founded in 1990

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

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

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



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

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

Focus on Russian financial
market development

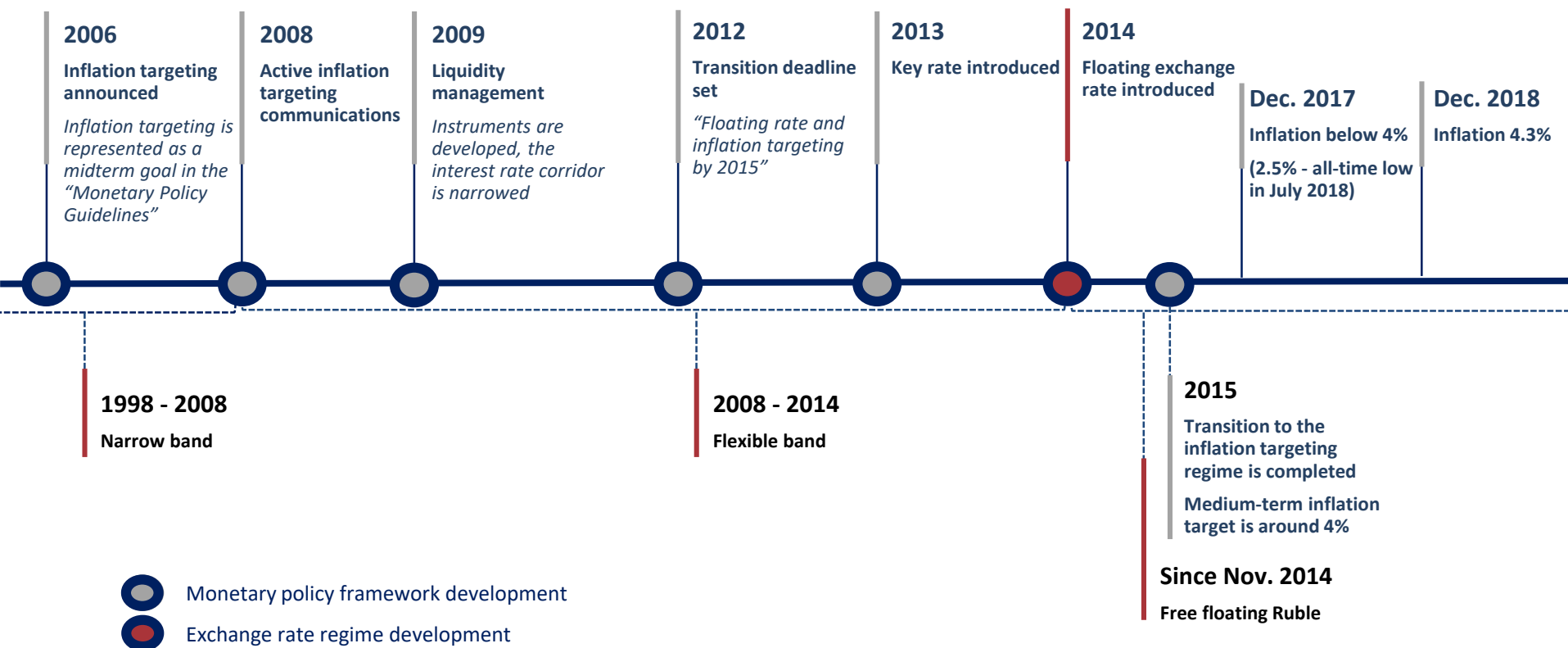
2013
CBR becomes the
megaregulator of
the Russian
financial sector

Federal Financial Markets Service (FFMS): founded in 1993



EVOLUTION (2)

Monetary policy framework development





EVOLUTION (3)

Bank of Russia supervises the following key segments

Banking sector

Payment
infrastructure

Non-state pension
funds

Market
infrastructure,
including fair pricing

Asset managers

Securities market,
including securities
market professionals

Microfinance

Credit rating
agencies

Insurance sector



REFORMS

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



Monetary policy

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



Banking regulation and supervision

- Banking sector rehabilitation in progress, new bank resolution mechanism introduced
- Proportional regulation introduced and an advanced IRB approach for the largest banks gradually phased in
- Banking regulation compliant with the Basel II, Basel 2.5 and Basel III standards, maintaining AML/CFT supervision of credit and non-credit financial institutions (according to the Regulatory Consistency Assessment Program (RCAP) 2016)
- New macroprudential regulation mechanism in force – add-ons to risk ratios are introduced and set by the Bank of Russia Board of Directors
- Setting up a national rating industry - only credit ratings of Russian national agencies may be used for regulatory purposes
- Introduction of PTI ratio for macroprudential regulation purposes



Market infrastructure

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



Corporate governance

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



Payment infrastructure

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



Pension system

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



COMPLIANCE WITH INTERNATIONAL STANDARDS

Russia complies with or implements key international standards and best practices



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



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



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



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

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



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



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



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



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



INTERNATIONAL COOPERATION

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



BANK FOR
INTERNATIONAL
SETTLEMENTS



THE WORLD BANK
IBRD • IDA

WORLD TRADE
ORGANIZATION



INTERNATIONAL ORGANISATION
OF PENSION SUPERVISORS

G20



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



EAEU
Eurasian
Economic
Union

BRICS



ISDA | Safe,
Efficient
Markets



European Securities and
Markets Authority



ICMA

International Capital Market Association



INTERNATIONAL ACTUARIAL ASSOCIATION
ASSOCIATION ACTUARIELLE INTERNATIONALE



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS



BETTER POLICIES FOR BETTER LIVES



FINANCIAL MARKET DEVELOPMENT STRATEGY

Guidelines for the Development of the Russian Financial Market in 2019 - 2021

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



Building reliable financial environment

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



Improving financial inclusion and availability of capital

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



Developing market competitiveness

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



Ensuring financial stability

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



NEWSLETTER (1)

Key news from the Russian financial market

11 June 2019	Starting from 1 October 2019, banks will be required to calculate customers' PTI (payment-to-income) ratio . Add-ons to the risk ratios applied to consumer loans will be then set by the Bank of Russia depending on both the PTI and the effective interest rate.
31 May 2019	The Bank of Russia decided to raise required reserve ratios on liabilities to individuals in foreign currency for credit institutions by 1 percentage point to 8.0% , effective from 1 July 2019.
5 June 2019	Daily amount of regular foreign currency purchases in the domestic market under the fiscal rule is: <div> <div> RUB 16.3 bn from 7 June until 4 July 2019 RUB 16.7 bn from 14 May until 6 June 2019 RUB 11.6 bn from 5 April until 13 May 2019 </div> <div> RUB 15.5 bn from 7 March until 4 April 2019 RUB 9.7 bn from 7 February until 6 March 2019 RUB 15.6 bn from 15 January until 6 February </div> </div>
28 January 2019	The Faster Payments System launched and is set to enable individuals to make instant transfers to each other 24/7/365 using a mobile phone number – regardless of in which banks the sender and recipient have their accounts.
25 January 2019	The Bank of Russia decided to commence from 1 February 2019 deferred foreign currency purchases in the domestic market under the fiscal rule to compensate for the regular purchases suspended in 2018. These purchases will be carried out gradually in the 36 months since the launch date with the daily amount of RUB 2.8 bn .
1 January 2019	<ul style="list-style-type: none"> ✓ Capital conservation buffer will be raised in accordance with the schedule approved by the Bank of Russia – it will stand at 1.875% from 1 January 2019, 2.0% from 1 April 2019, 2.125% from 1 July 2019, 2.25% from 1 October 2019, and 2.5% from 1 January 2020. ✓ The SIFI capital buffer (applied to 11 systemically important Russian banks) will remain at 0.65% throughout 2019. ✓ The minimum LCR requirements for SIFI raised from 90% to 100% in accordance with the Basel III standards. ✓ The deposit insurance system will cover small enterprises' funds up RUB to 1.4 mln deposited with Russian banks that have joined the deposit insurance system. ✓ Systemically important banks start to calculate the ratio of maximum concentration of exposure per borrower or group of related borrowers and report it to the Bank of Russia. Based on the results of monitoring this indicator, the Bank of Russia will make a decision on the terms and specifics for setting it as a required ratio.



NEWSLETTER (2)

Key news from the Russian financial market

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



Bank of Russia

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RUSSIAN MACRO UPDATE



KEY INDICATORS

Clear signs of macro stabilization across the board

Figure 1: Real GDP growth started to recover in 2016 (YoY, %)

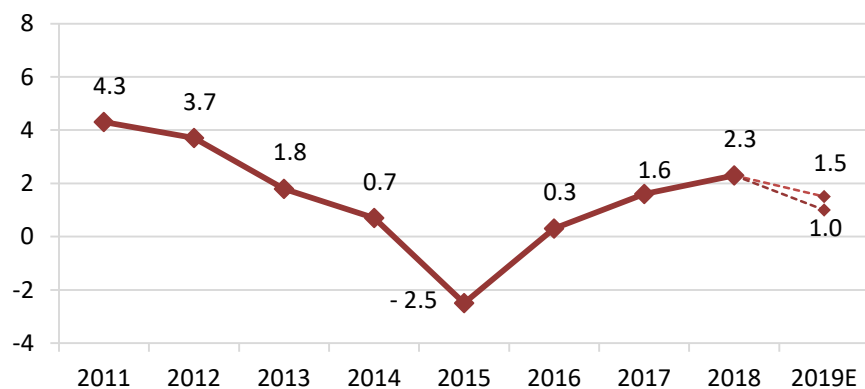


Figure 2: Private consumption and investment dynamics (YoY, %)

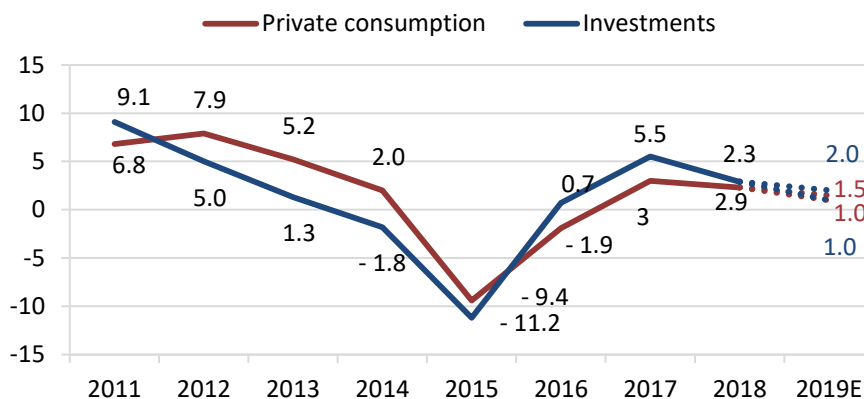
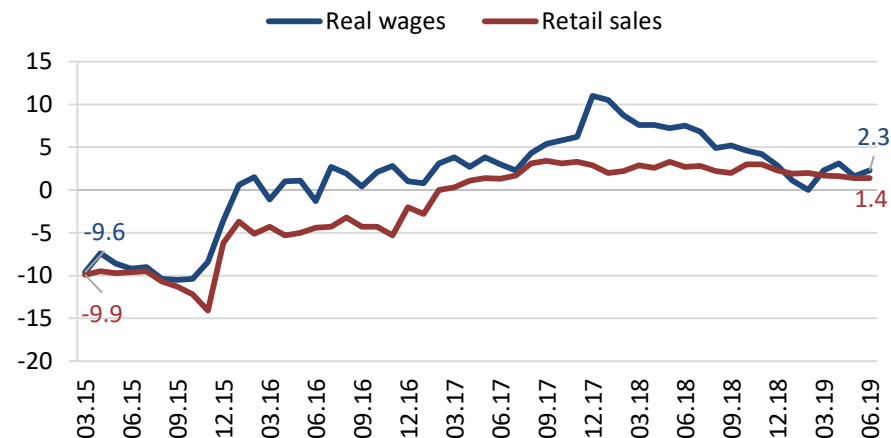


Figure 3: Russian Ruble volatility remains low while in free-floating



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





MACROFINANCE

Solid fiscal and external positions

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

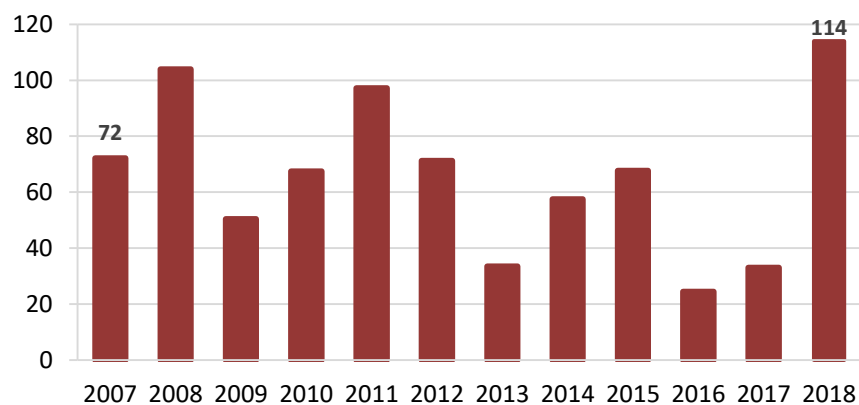


Figure 6: Strong fiscal position: budget consolidation and fiscal rule

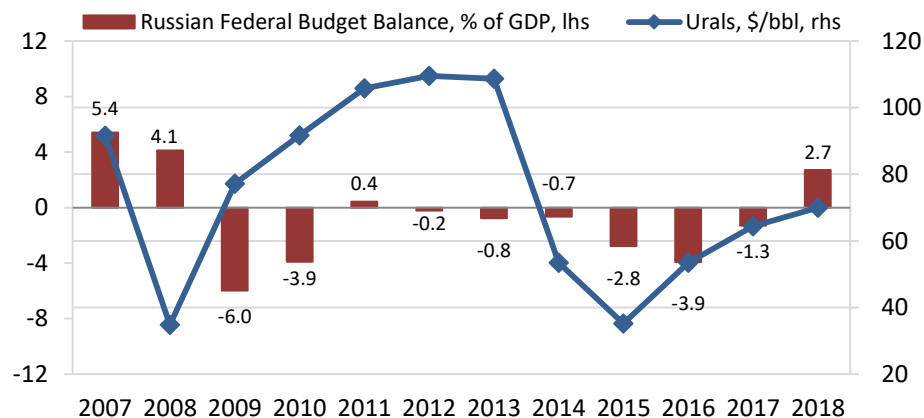


Figure 7: Significant international reserves assuring financial stability

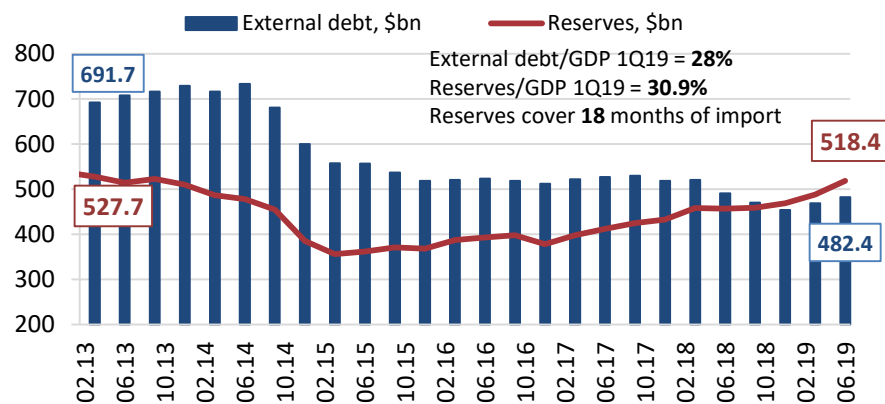
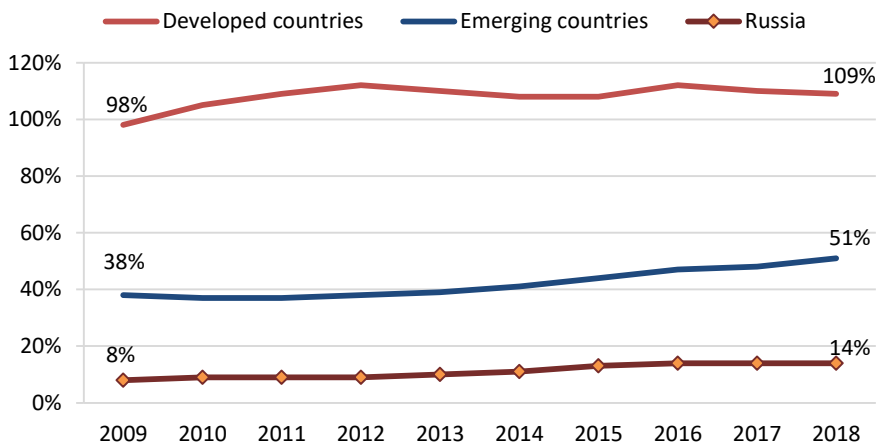


Figure 8: Sovereign debt to GDP lowest in both EM and DM spaces

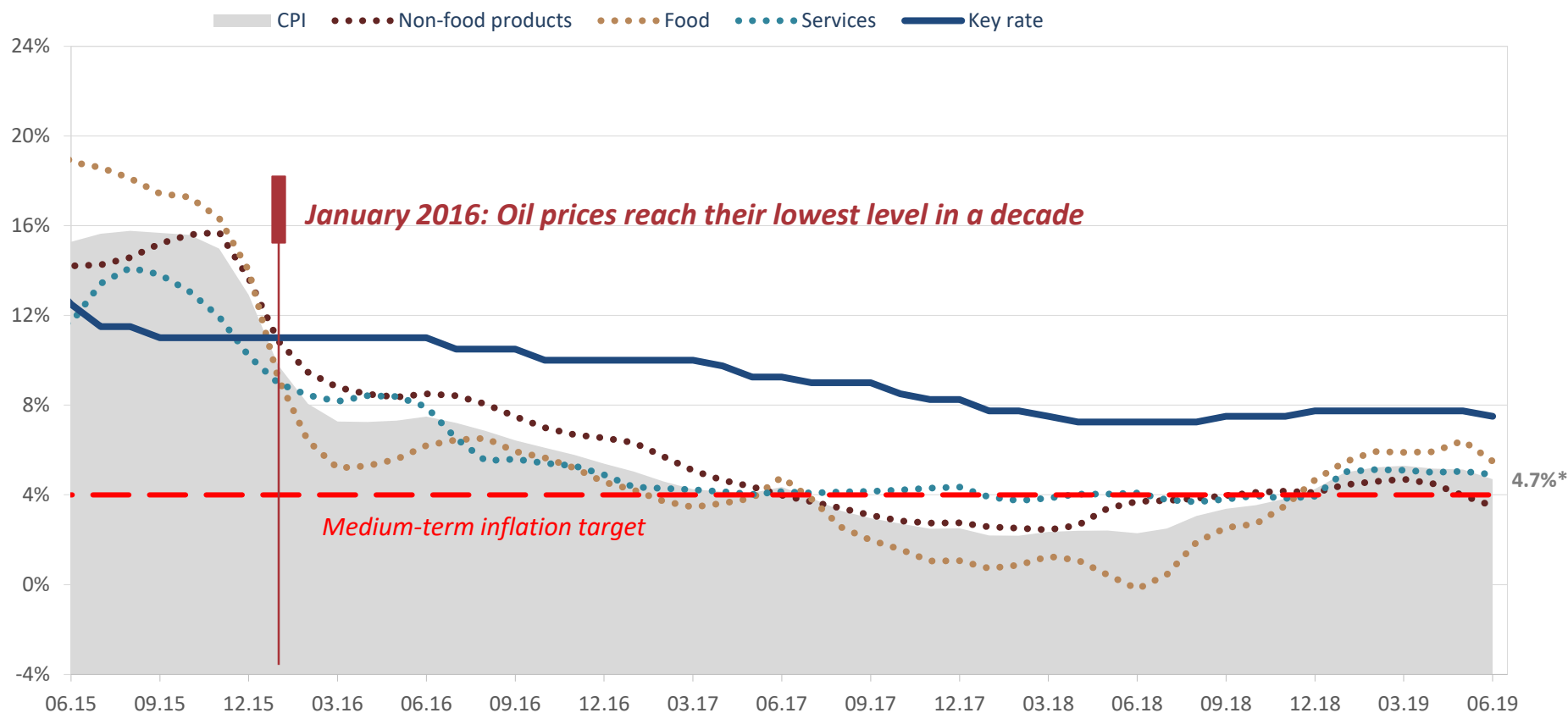




INFLATION

Medium-term inflation target successfully met in 2017-2018

Figure 9: Inflation (YoY, %)





INFLATION EXPECTATIONS

Households and businesses inflation expectations remain elevated

Horizon		2017				2018												2019				
		I	II	III	IV	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Inflation expectations (absolute numbers), %																						
Households																						
FOM	Next 12 months	11.2	10.3	9.6	8.7	8.9	8.4	8.5	7.8	8.6	9.8	9.7	9.9	10.1	9.3	9.8	10.2	10.4	10.1	9.1	9.4	9.3
FOM (observed inflation)	Prev. 12 months	14.0	12.4	11.2	10.0	9.9	9.4	9.2	8.3	9.2	10.6	10.3	10.4	10.2	10.1	10.1	10.2	10.1	10.6	10.0	10.5	10.4
FOM (Bank of Russia calculations)	Next 12 months	4.0	4.0	2.8	2.5	2.1	2.1	2.2	2.2	2.2	2.6	2.8	3.5	3.8	3.8	4.4	5.4	6.2	5.9	5.7	5.5	5.4
Professional analysts																						
Bloomberg	2019									4.0	4.0	4.2	4.4	4.7	4.5	4.6	4.5	4.7	4.6	4.7	4.5	4.5
Interfax	2019					3.6	3.7	3.8	4.1	4.0	4.1	4.3	4.4	4.3	4.2	4.4	4.7	4.8	4.7	4.6	4.5	4.5
Reuters	2019								3.9	3.9	4.0	4.3	4.5	4.5	4.5	4.7	5.0	4.8	4.8	4.8	4.8	4.6
Financial markets																						
OFZ IN (option not subtracted)	2023	4.9	4.6	4.2	5.1	4.0	3.9	3.8	4.1	4.2	4.5	4.6	5.2	5.3	5.1	5.1	5.1	5.1	5.0	4.9	4.6	4.3
OFZ IN (option not subtracted)	2028									4.3	4.6	4.6	5.0	5.4	5.2	5.2	5.1	4.9	4.9	4.8	4.7	4.3
Inflation expectations (balanced index*)																						
Households																						
FOM	Next 12 months	0.0	-1.3	-5.5	-5.3	-5.6	-0.5	-0.4	1.0	3.7	10.3	8.2	10.2	6.3	8.9	11.6	14.8	14.5	11.9	9.2	13.0	13.3
FOM	Next month	-12.2	-12.3	-16.1	-16.1	-23.0	-18.0	-14.6	-16.5	-11.7	-3.4	-8.4	-4.9	-4.8	-5.5	-5.9	-3.3	1.6	-6.6	-7.9	-6.7	-8.9
Businesses																						
Bank of Russia monitoring	Next 3 months	7.9	8.6	7.5	7.3	6.8	6.3	7.0	8.8	10.1	10.3	11.0	11.2	12.5	13.0	13.7	16.1	18.1	12.7	11.0	9.9	9.5
PMI input prices	Next month	7.8	9.0	12.2	10.6	9.2	11.4	12.2	27.4	27.2	28.4	21.6	22.8	24.2	23.4	22.6	22.0	35.0	26.8	23.6	19.8	14.2
PMI output prices	Next month	1.0	3.4	6.8	3.0	2.8	2.8	4.0	13.6	6.4	6.6	8.2	6.6	5.8	7.6	7.6	5.6	20.4	14.4	10.0	8.8	5.6
Retail prices (Rosstat)	Next quarter	27	24	24	22	-	-	20	-	-	20	-	-	20	-	-	19	-	-	21	-	-
Tariffs (Rosstat)	Next quarter	4	3	0	0	-	-	5	-	-	5	-	-	0	-	-	1	-	-	...	-	-

Change:

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

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

Source: FOM, Rosstat, Bloomberg, Interfax, Thompson Reuters, Bank of Russia



ECONOMIC FORECASTS (1)

Medium-term outlook for the Russian economy

Key parameters of the Bank of Russia's forecast scenarios (growth as % of previous year, if not indicated otherwise)	2018 (actual)	BASELINE			HIGH OIL PRICES		
		2019	2020	2021	2019	2020	2021
Urals price, average for the year, US dollars per barrel	69.8	65	60	55	70	75	75
Inflation, as % in December year-on-year	4.3	4.2-4.7	4.0	4.0	4.2-4.7	4.0	4.0
Inflation, average for the year, as % year-on-year	2.9	4.7-4.9	4.0	4.0	4.7-4.9	4.0	4.0
Gross domestic product	2.3	1.0-1.5	1.8-2.3	2.0-3.0	1.0-1.5	2.0-2.5	2.0-3.0
Final consumption expenditure	1.8	1.0-1.5	1.8-2.3	2.0-2.5	1.0-1.5	2.0-2.5	2.0-2.5
– households	2.3	1.0-1.5	1.8-2.3	2.5-3.0	1.0-1.5	2.3-2.8	2.5-3.0
Gross capital formation	0.8	0.5-1.5	3.5-4.5	3.5-4.5	0.5-1.5	3.5-4.5	3.5-4.5
– gross fixed capital formation	2.9	1.0-2.0	3.5-4.5	3.5-4.5	1.0-2.0	3.5-4.5	3.5-4.5
Exports	5.5	0.8-1.3	2.7-3.2	2.7-3.2	0.8-1.3	2.7-3.2	2.7-3.2
Imports	2.7	1.0-1.5	3.8-4.2	4.5-5.0	1.0-1.5	4.0-4.5	4.5-5.0
Money supply in national definition	11.0	8-12	7-12	7-12	9-13	8-13	8-13
Claims on organisations and households in rubles and foreign currency¹	11.5	8-12	7-12	7-12	9-13	7-12	7-12
– claims on non-financial and financial organisations in rubles and foreign currency, growth as % over year	8.4	7-10	6-10	6-10	8-11	6-10	6-10
– claims on households in rubles and foreign currency, growth as % over year	22.0	15-20	11-16	10-15	16-21	12-17	10-15

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



ECONOMIC FORECASTS (2)

Medium-term outlook for the Russian economy

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

¹ 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

Disinflationary risks exceed pro-inflationary risks over the short-term horizon

Inflation and inflation expectations

- Inflation slowdown is continuing. CPI declined in June to 4.7% YoY and was close to 4.6% YoY as of 22 July.
- Core inflation declined in June for the first time since March 2018 and reached 4.6% YoY.
- In June MoM SA inflation slowed down to 0.1% vs 0.3-0.4% in February-May. Most MoM SA indicators reflecting the most sustainable price movements are close to 4% (annualised).
- Inflation expectations remain elevated. Inflation slowdown paves the way for their further decline.
- According to the Bank of Russia's forecast, taking into account the pursued monetary policy, annual inflation will return to 4% in early 2020.

Monetary conditions:

- Monetary conditions continued to ease since the last Board meeting.
- OFZ yields and deposit interest rates continued to decline.
- The Bank of Russia's decisions to cut the key rate and the decline in OFZ yields observed since the beginning of 2019 create conditions for the decrease in deposit and lending rates in the future.
- In June, real sector lending continued to grow on the back of eased monetary conditions.

Economic activity

- Economic growth since the beginning of 2019 has been lower than the Bank of Russia's expectations. This was caused by weak investment activity dynamics and a significant drop in annual export growth rates.
- Q2 saw an increase in annual industrial production growth, which may not be steady.
- Retail trade turnover growth continued to decline YoY amid falling real disposable household incomes.
- Unemployment remains at the historic lows, however, it does not create any additional inflationary pressure.
- In H1 2019, fiscal policy had additional constraining effect on the economic activity.

Internal risks

- Elevated and unanchored inflation expectations
- Short-term and medium-term fiscal policy parameters

Moderate risks – estimates are mostly unchanged:

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

External risks

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

Decision

as of July 26, 2019

**The Bank of Russia
cuts the key rate by 25 bp
to 7.25% p.a.**

Signal

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

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



Bank of Russia

The Central Bank of the Russian Federation



FINANCIAL SECTOR OVERVIEW



BANKING SECTOR: CURRENT AGENDA

Shaping a favourable operating environment and supporting market competition

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

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

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

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

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

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

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

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



BANKING SECTOR: PROPORTIONAL REGULATION

Differentiating regulatory burden for banks depending on their size

Regulatory burden depending on license type



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

BASIC LICENSE



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

UNIVERSAL LICENSE



Systemically important financial institutions (SIFI) are subject to:

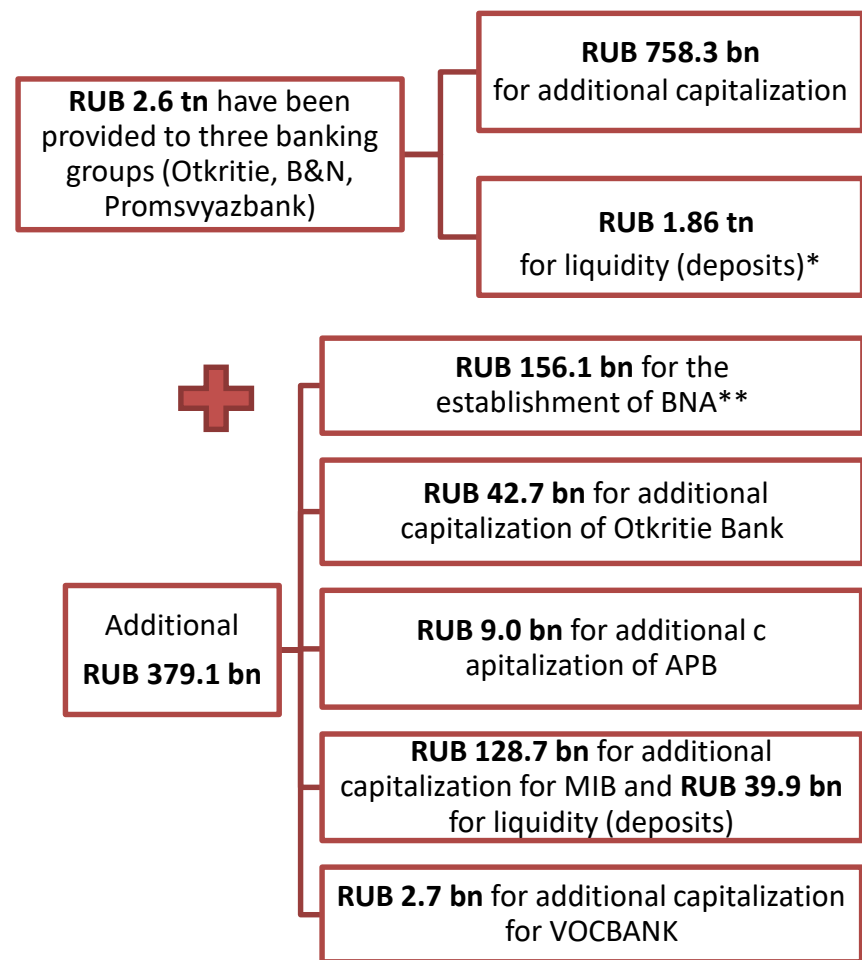
- Higher capital adequacy requirements
- Advanced risk management approach

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. 149 banks hold basic license, as of December 2018.



BANKING SECTOR: NEW RESOLUTION MECHANISM

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



List of banks under financial rehabilitation procedure	
1	Bank FC Otkritie (merged with B&N Bank)
2	Promsvyazbank
3	National Bank TRUST (with ROST Bank and AVB Bank)
4	Asian-Pacific Bank (APB)
5	Moscow Industrial Bank (MIB)
6	Volga-Oka Bank (VOCBANK)

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

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

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

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

* Have been fully repaid by the end of 2018

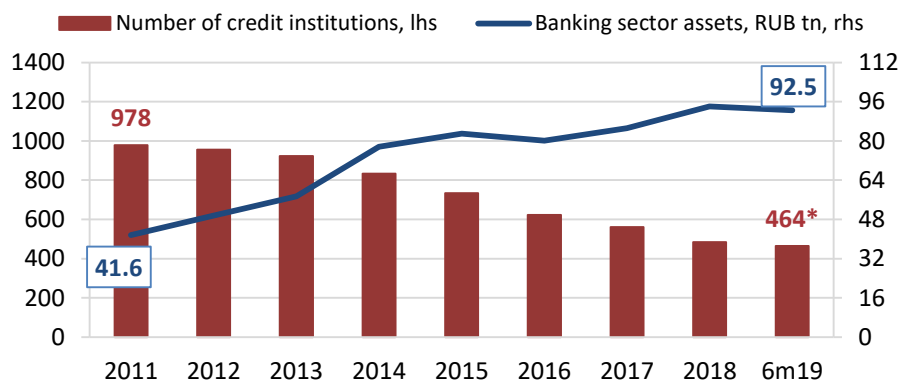
**BNA – Bank of non-core assets based on NB TRUST, ROST BANK and Bank AVB



BANKING SECTOR: KEY FIGURES

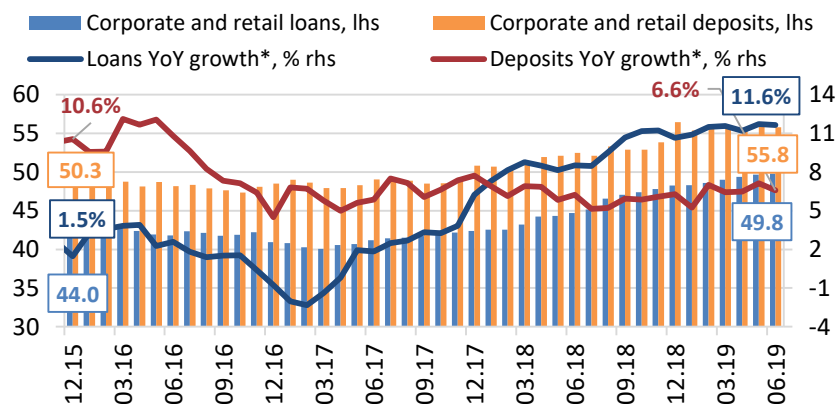
Active supervision and tighter regulation allowed to strengthen the health of the banking sector

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



*421 banks and 43 non-banking credit organisations

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



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

Source: Bank of Russia

Figure 11: Banking sector profitability restored to record high levels

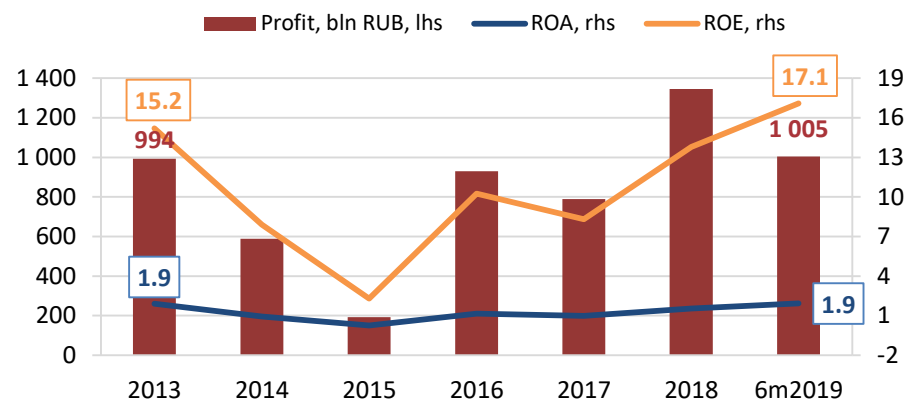
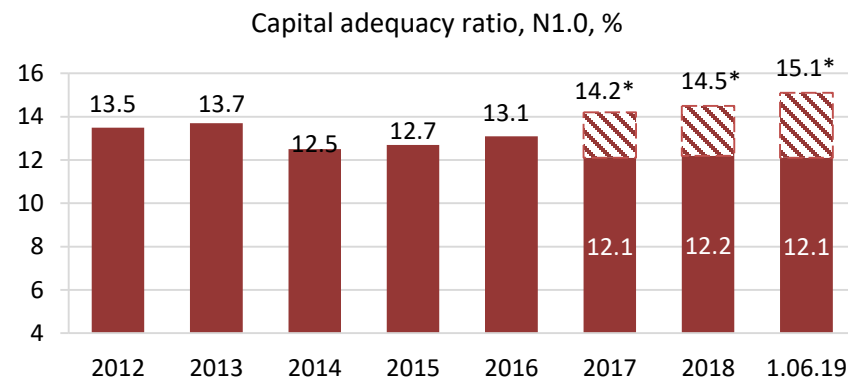


Figure 13: Banks hold an acceptable level of capital under Basel III



*excluding credit institutions under financial rehabilitation procedure



BANKING SECTOR: FUNDING

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

Figure 14: In June 2019 corporate deposits grew by 5.1% YoY to RUB 26.8 tn

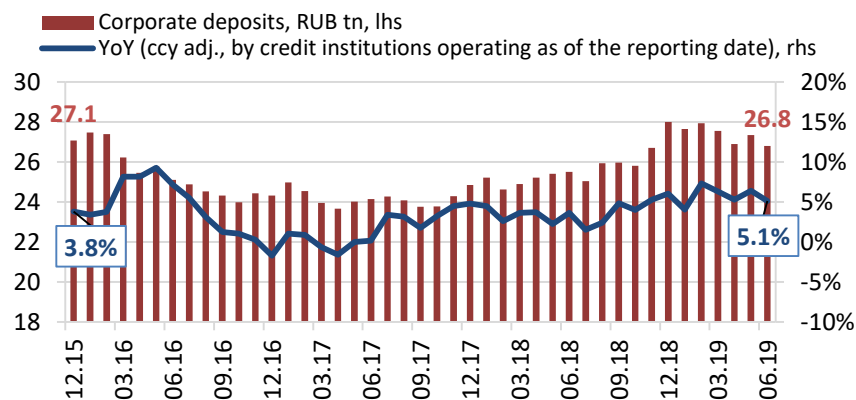


Figure 15: In June 2019 retail deposits demonstrated growth of 8.0% YoY, reaching RUB 29 tn

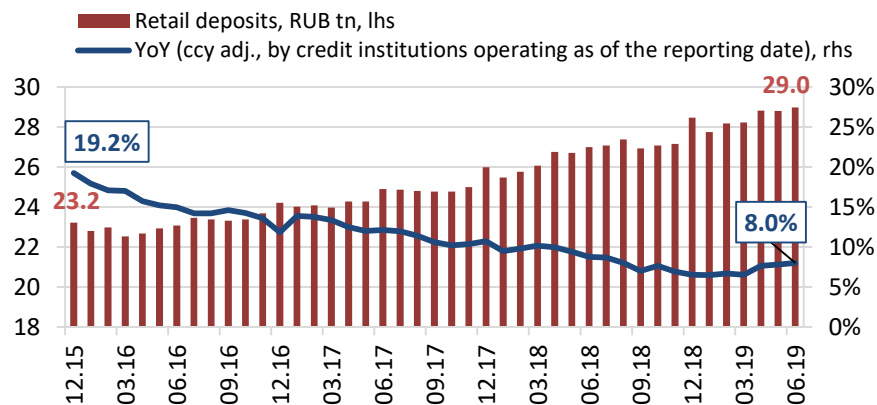


Figure 16: Operations with the Bank of Russia, tn RUB

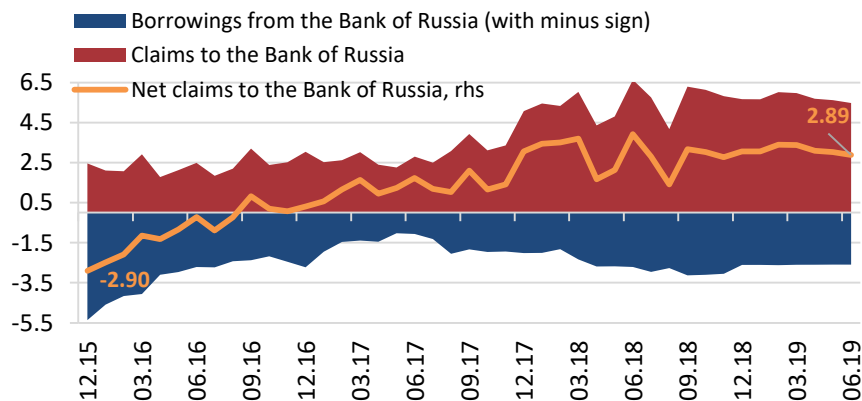
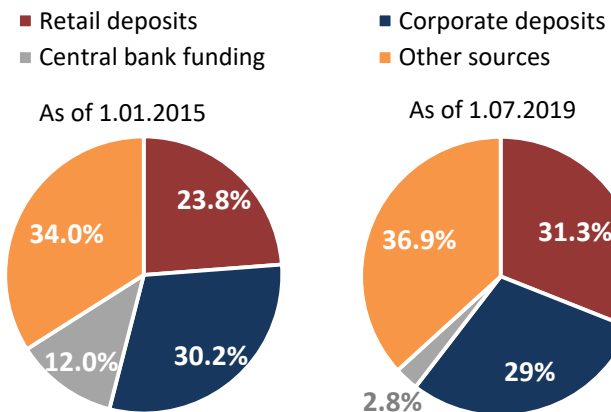


Figure 17: Sources of funding, % of total liabilities





BANKING SECTOR: LENDING

Retail loans remain the key driver of credit growth

Figure 18: Corporate lending has stabilized around 6.8% YoY

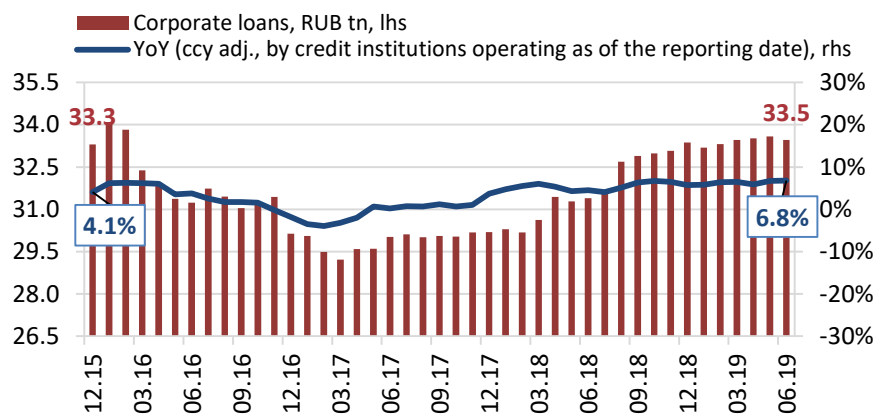


Figure 19: Retail lending increased 23.1% YoY in June 2019

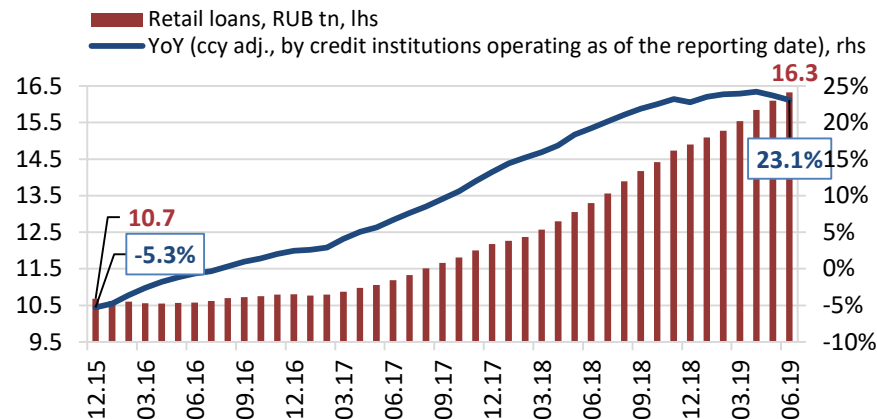


Figure 20: Share of bad corporate loans* reached 12.4%, while the loan loss reserves to bad loans ratio amounted to 83.8%

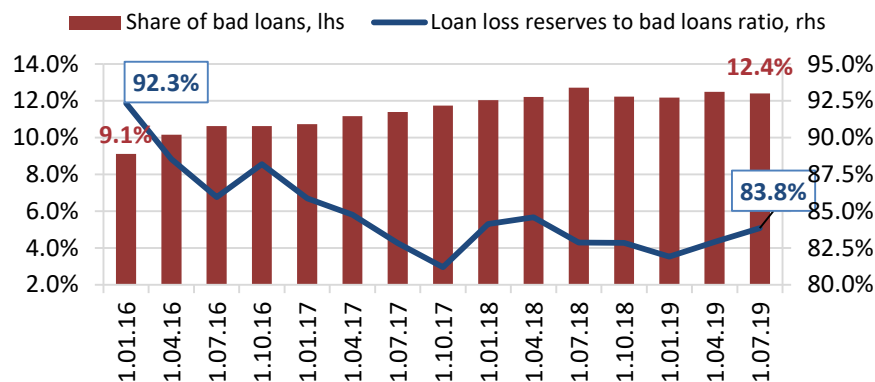
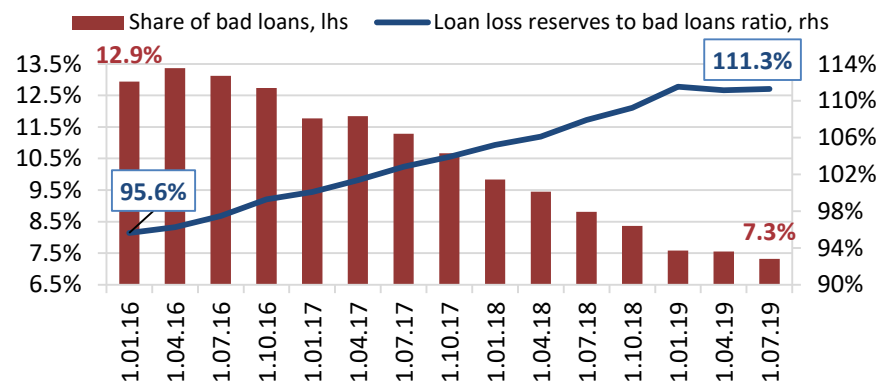


Figure 21: Retail loans portfolio demonstrates improved quality: the share of bad loans* reached 7.3%



* Loans classified into quality category of IV and V according to the requirements of Regulation No.590-P2.

Quality category IV – high credit risk (probability of financial losses due to non-performance or improper performance of obligations by the borrower requires its depreciation by 51 to 100 per cent);

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



BANKING SECTOR: UNSECURED CONSUMER LENDING

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

Figure 22: Consumer lending increased 24.7% YoY in June 2019

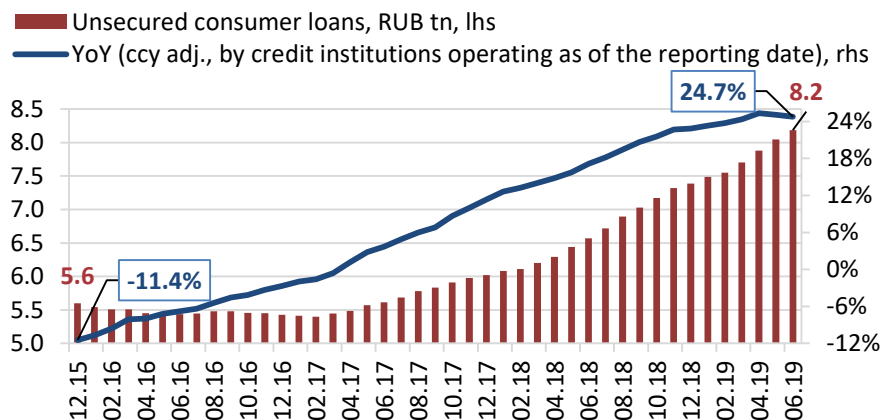
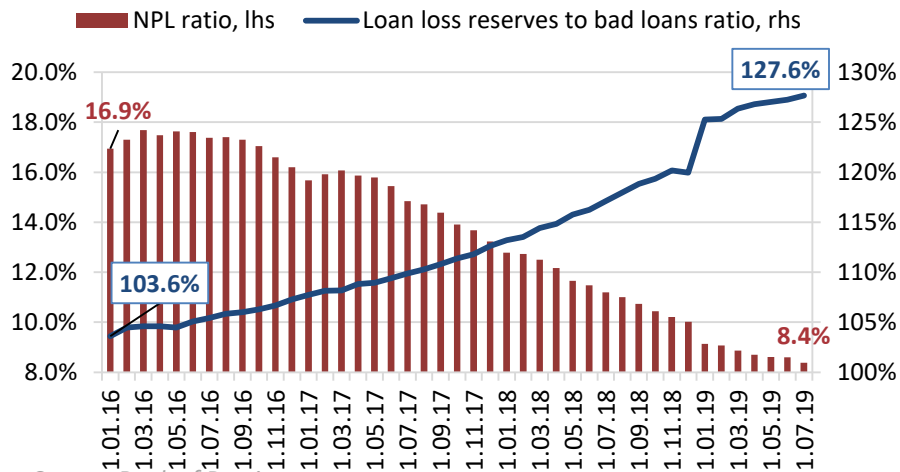


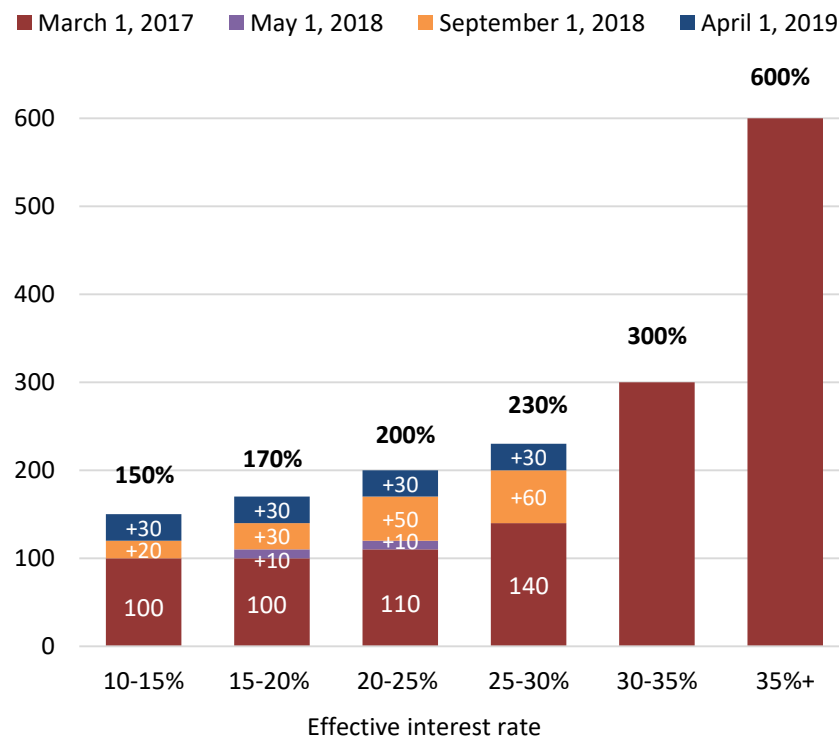
Figure 23: Share of NPLs decreased to 8.4%



Source: Bank of Russia

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

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





BANKING SECTOR: MORTGAGE SEGMENT

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

Figure 25: Mortgage lending increased 21.7% YoY in June 2019

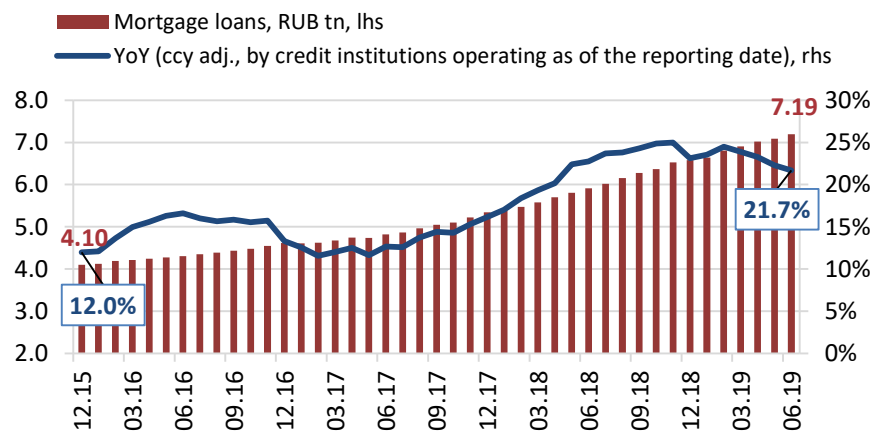


Figure 26: Share of NPLs remains at historically low levels

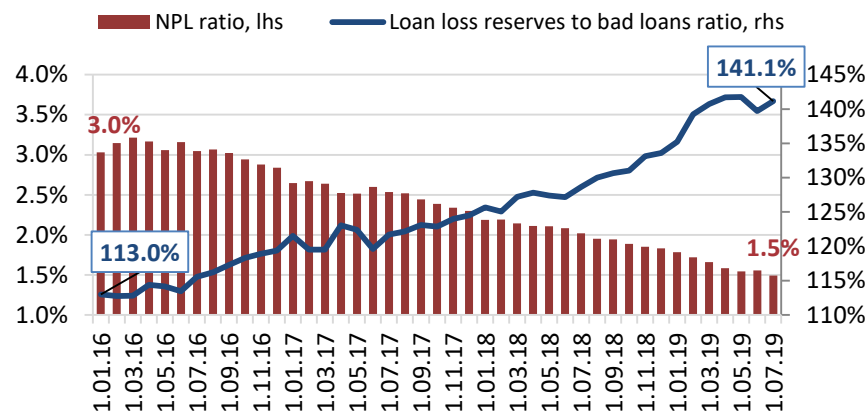


Figure 27: Distribution of mortgage borrowers by LTV

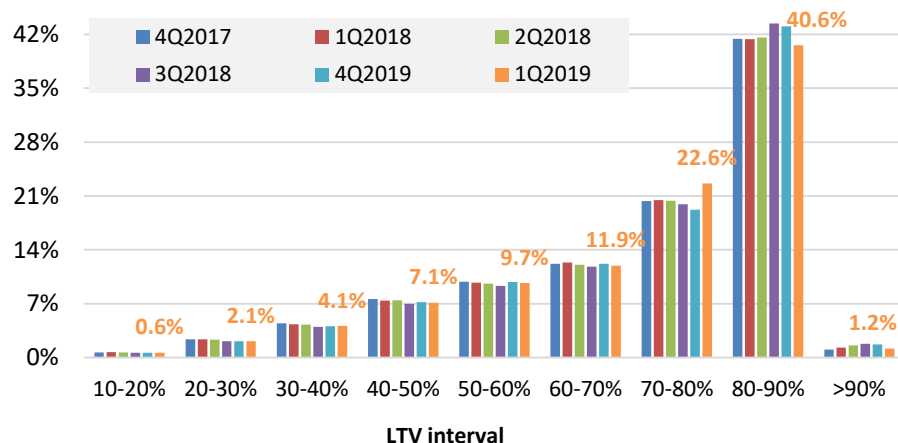
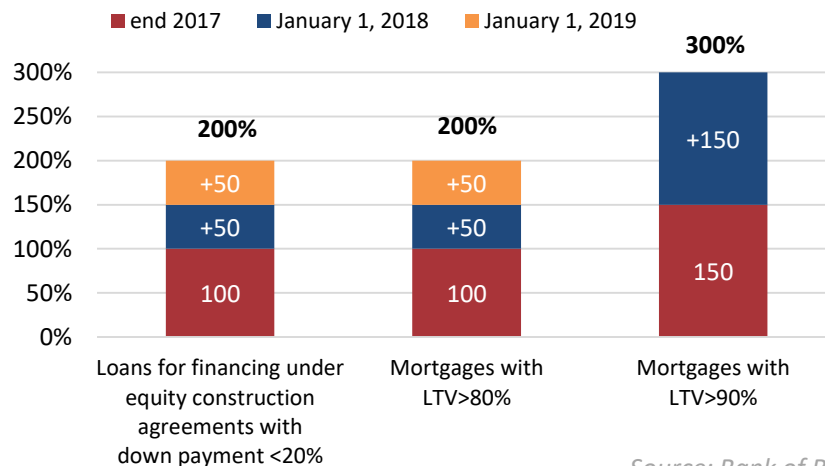


Figure 28: Risk weights applied to mortgage loans





BANKING SECTOR: INTRODUCTION OF PTI

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

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

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

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

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

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

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

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



BANKING SECTOR: DEDOLLARISATION

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

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

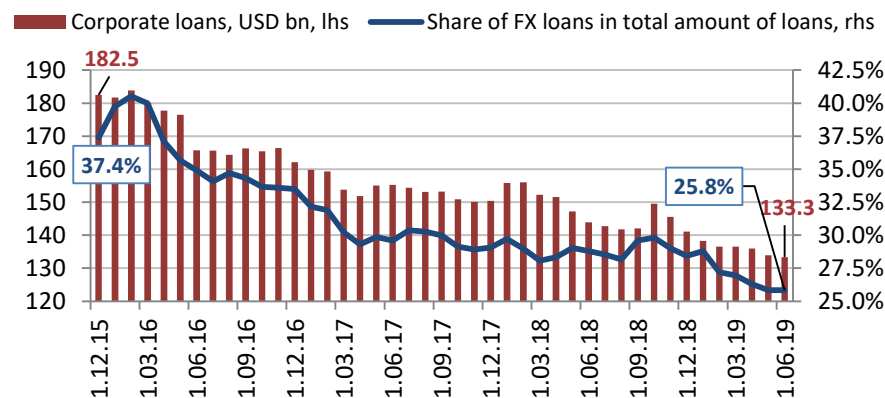


Figure 30: Retail FX loan portfolio is insignificant in size

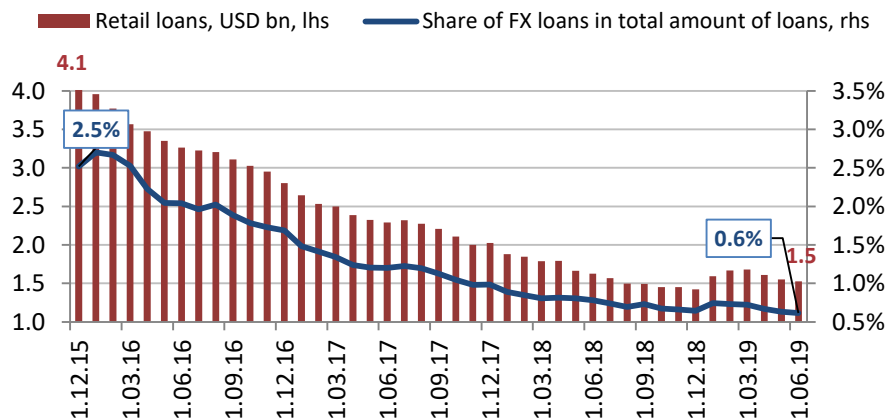


Figure 31: Share of corporate and retail FX deposits in total amount of deposits has fallen

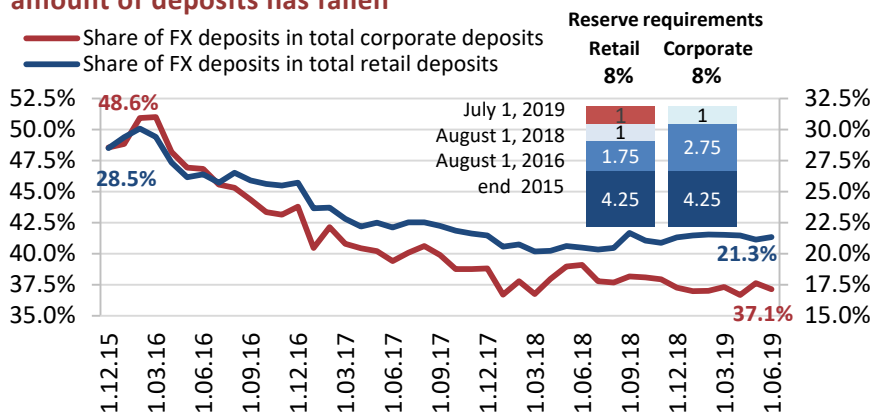
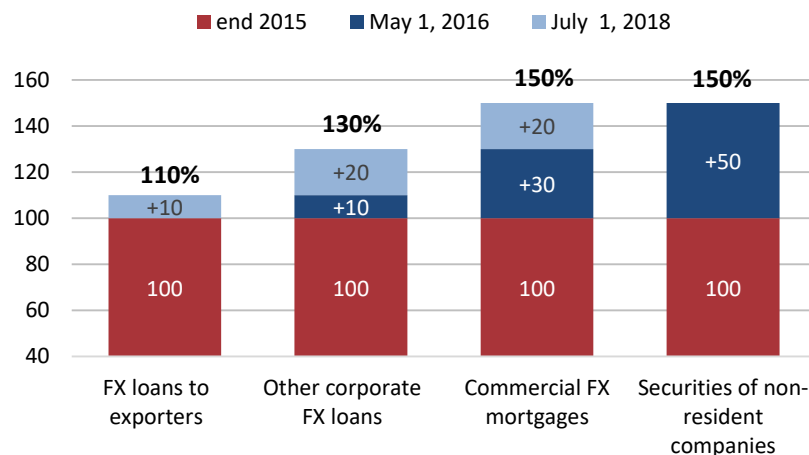


Figure 32: Risk weights applied to the FX assets, %





BANKING SECTOR: CAPITAL ADEQUACY

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

Figure 33: Capital adequacy ratio for the banking sector decreased over from 12.9% (1.01.16) to 11.8% (1.07.19) mostly due to the procedures of financial rehabilitation of the large credit institutions

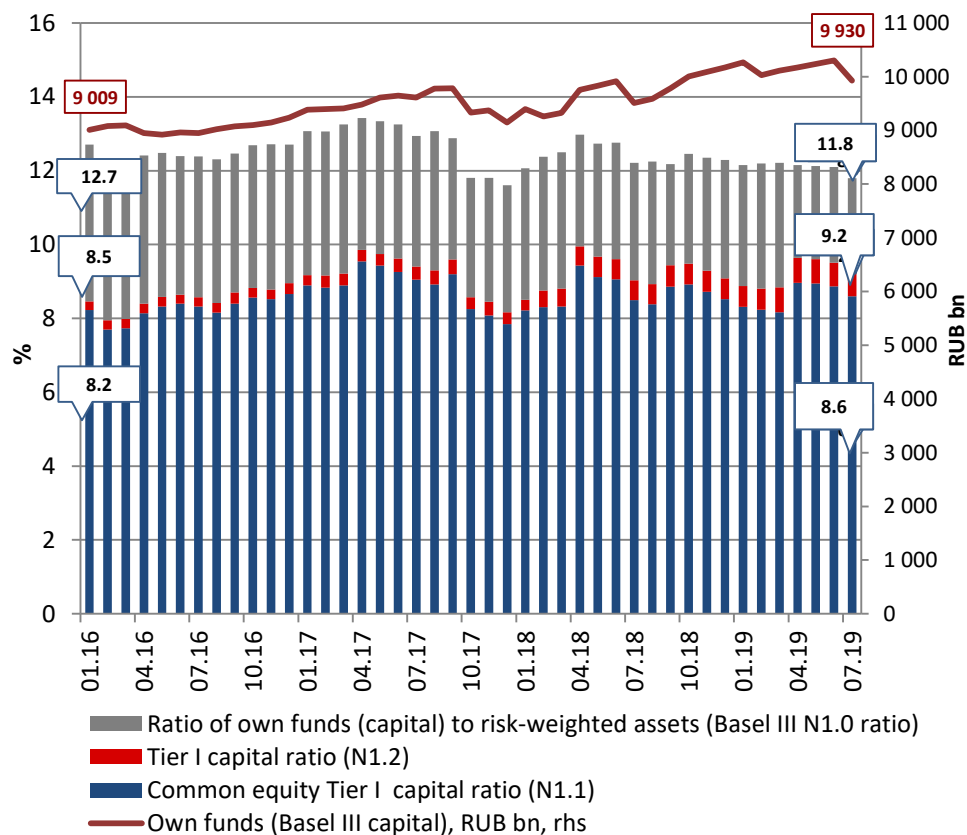
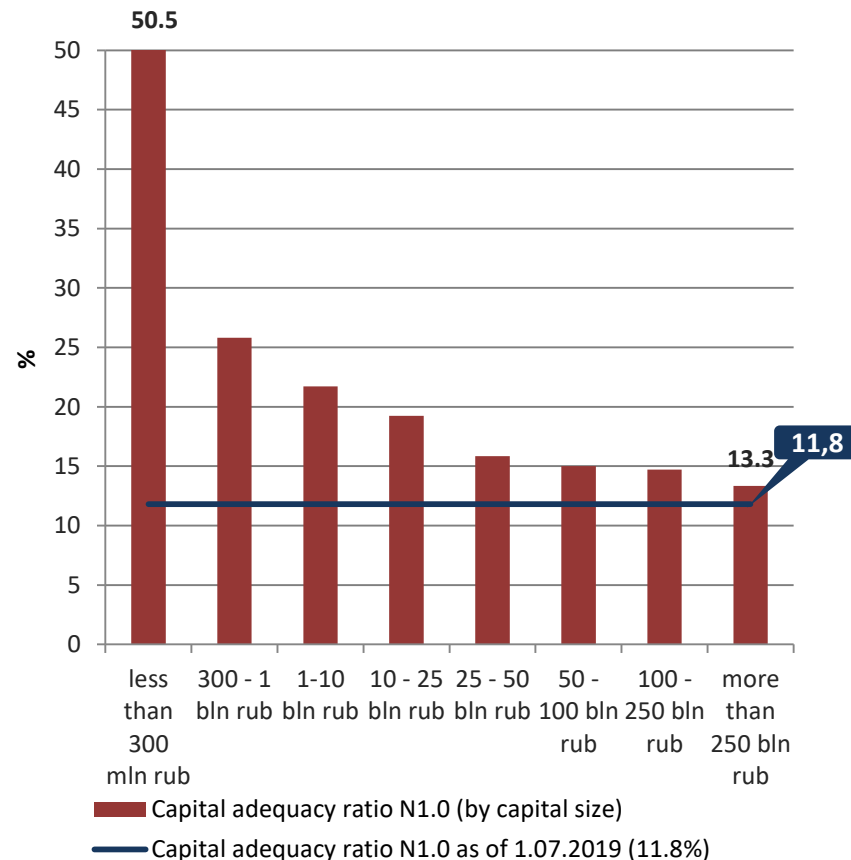


Figure 34: Credit organizations with capital exceeding RUB 25 bn have lower buffer vs N1.0 minimum requirement due to the economies of scale





BANKING SECTOR: SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS

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

List of systemically important financial institutions

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

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

Capital adequacy requirements

Minimum Bank of Russia requirements for capital adequacy ratios

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

Values of capital buffers

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

Minimum capital adequacy ratios for SIFI

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

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



FINANCIAL STABILITY

Macroprudential policy aimed at Identifying and preventing potential systemic risks

Credit activity

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

Retail lending risks

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

Mortgage loans grow at a steady rate, however, borrowers' debt burden remaining at the same level shows that the current growth does not present any significant risk to the financial stability. The Bank of Russia aims to prevent the build-up of risks related to loans with a high loan-to-value ratio, thus the risk weights for such loans issued after 1 January 2019 were raised from 150% to 200%. These measures are aimed at sustainable development of the mortgage lending segment.

Capital adequacy

The capital adequacy (Basel III N1.0 ratio) for the banking sector remains at comfortable level of 15.1% as of 1 June, 2019 (*except for banks undergoing resolution, including with the involvement of the Banking Sector Consolidation Fund*).

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

Decision

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



SECURITIES MARKET (1)

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



Crisis-proven market infrastructure

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



Upgraded corporate governance

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



Simplified market access

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



Increased transparency

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



SECURITIES MARKET (2)

Growing a deeper Russian bond market with strong potential

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

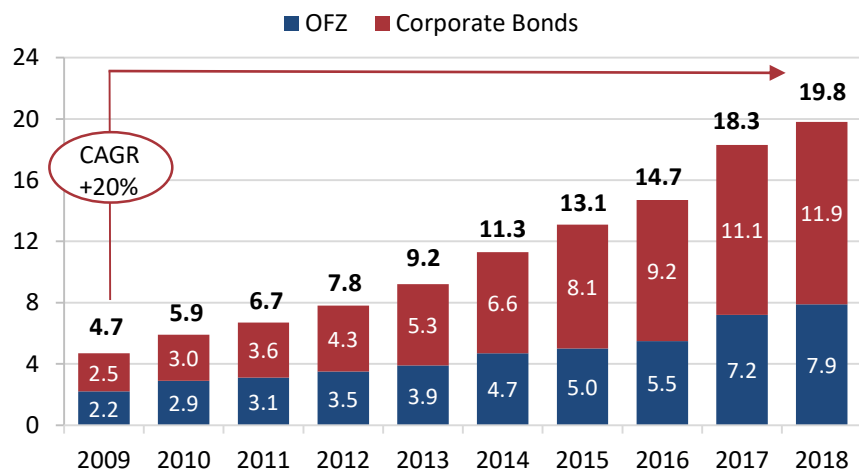


Figure 36: Volume of the Russian corporate bond market, RUB tn

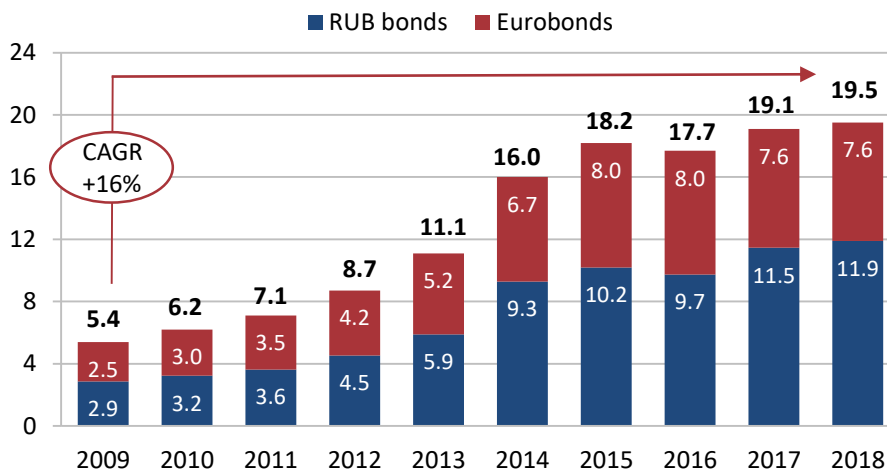


Figure 37: “Bondization” of the Russian financial market

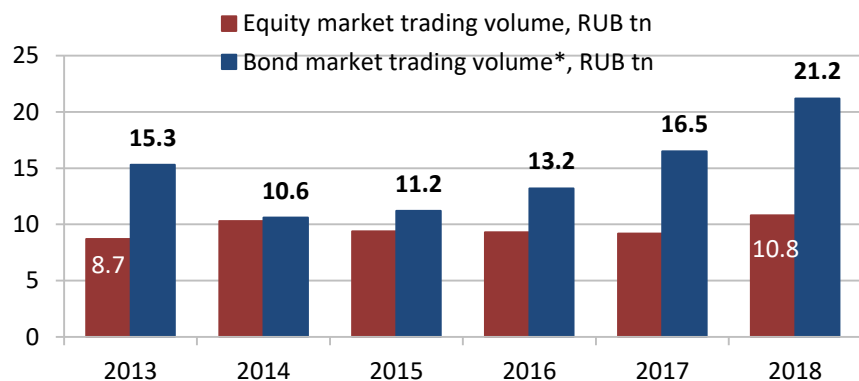
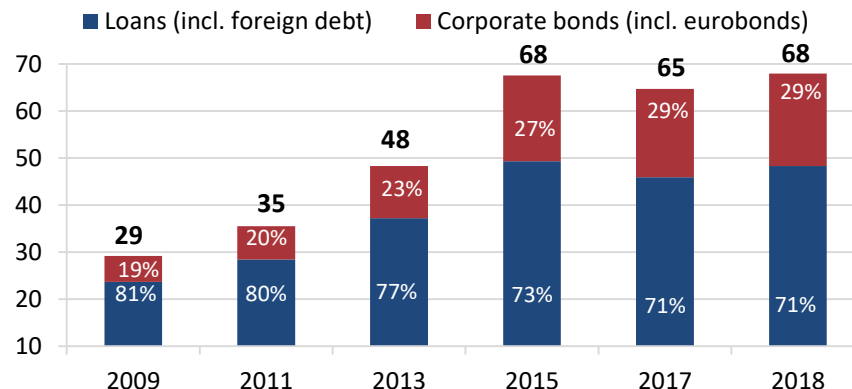


Figure 38: Corporate loans vs corporate bonds in Russia, RUB tn



* Except overnight bonds

Source: Cbonds, Moscow Exchange



SECURITIES MARKET (3)

Russian OFZ market provides relatively high yields amid investment grade reliability

Figure 39: Russian OFZ market volume keeps growing

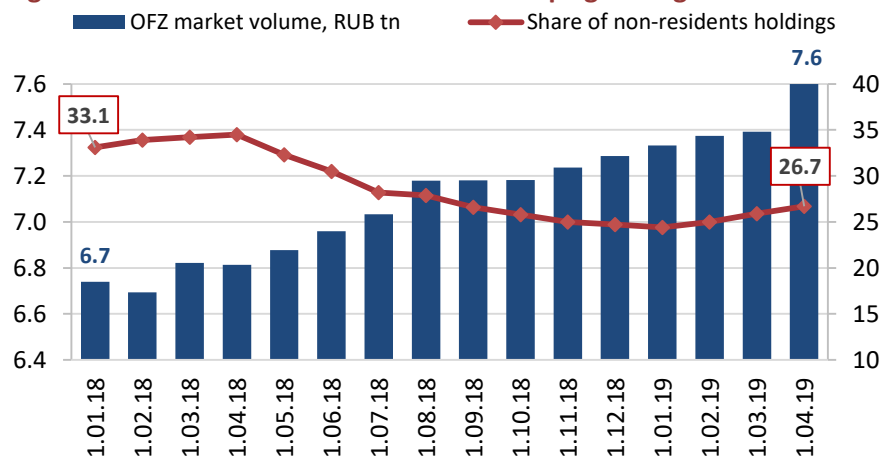


Figure 41: Bond market yields, key rate and RUONIA (% RUB)

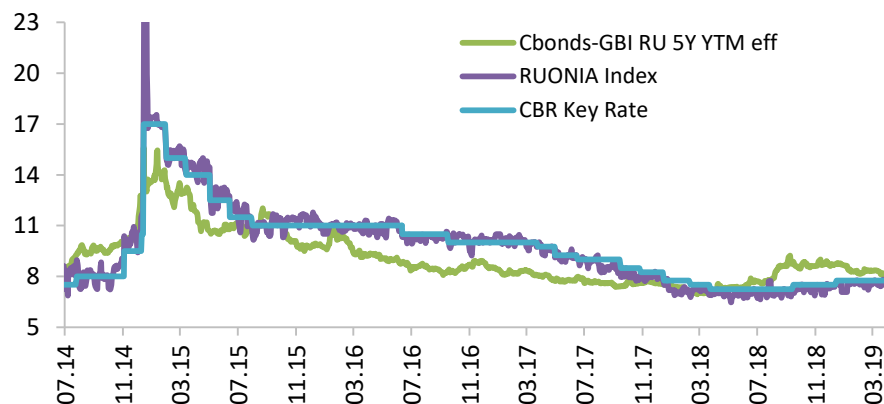


Figure 40: Zero-coupon OFZ yield curve, %

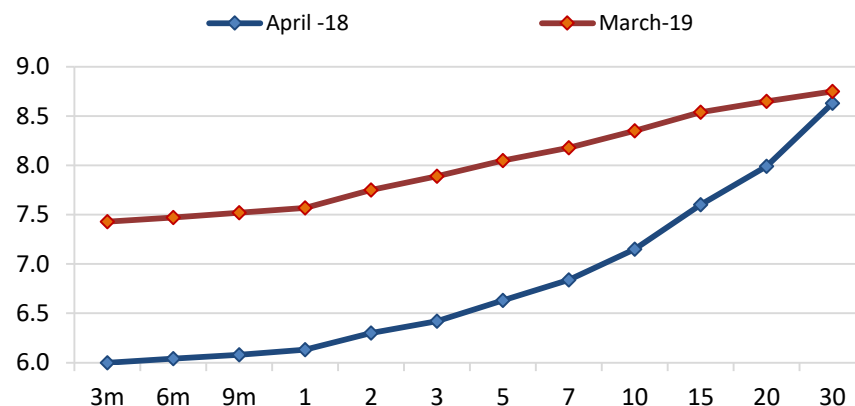
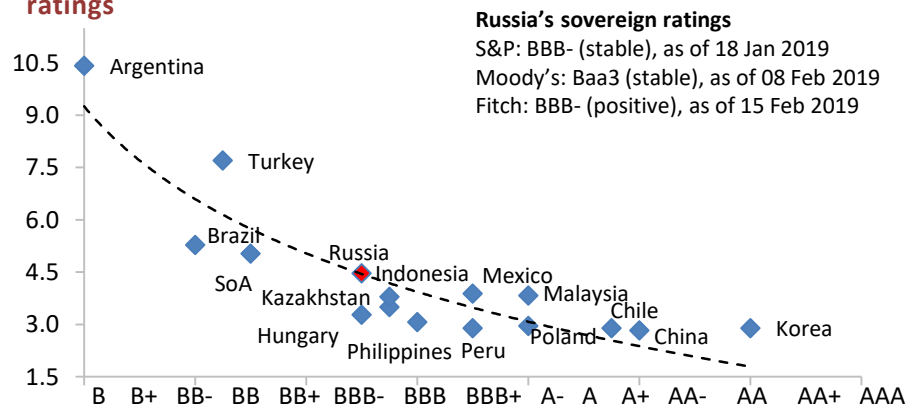


Figure 42: EM 10Y bond yields (% USD) on the background of credit ratings

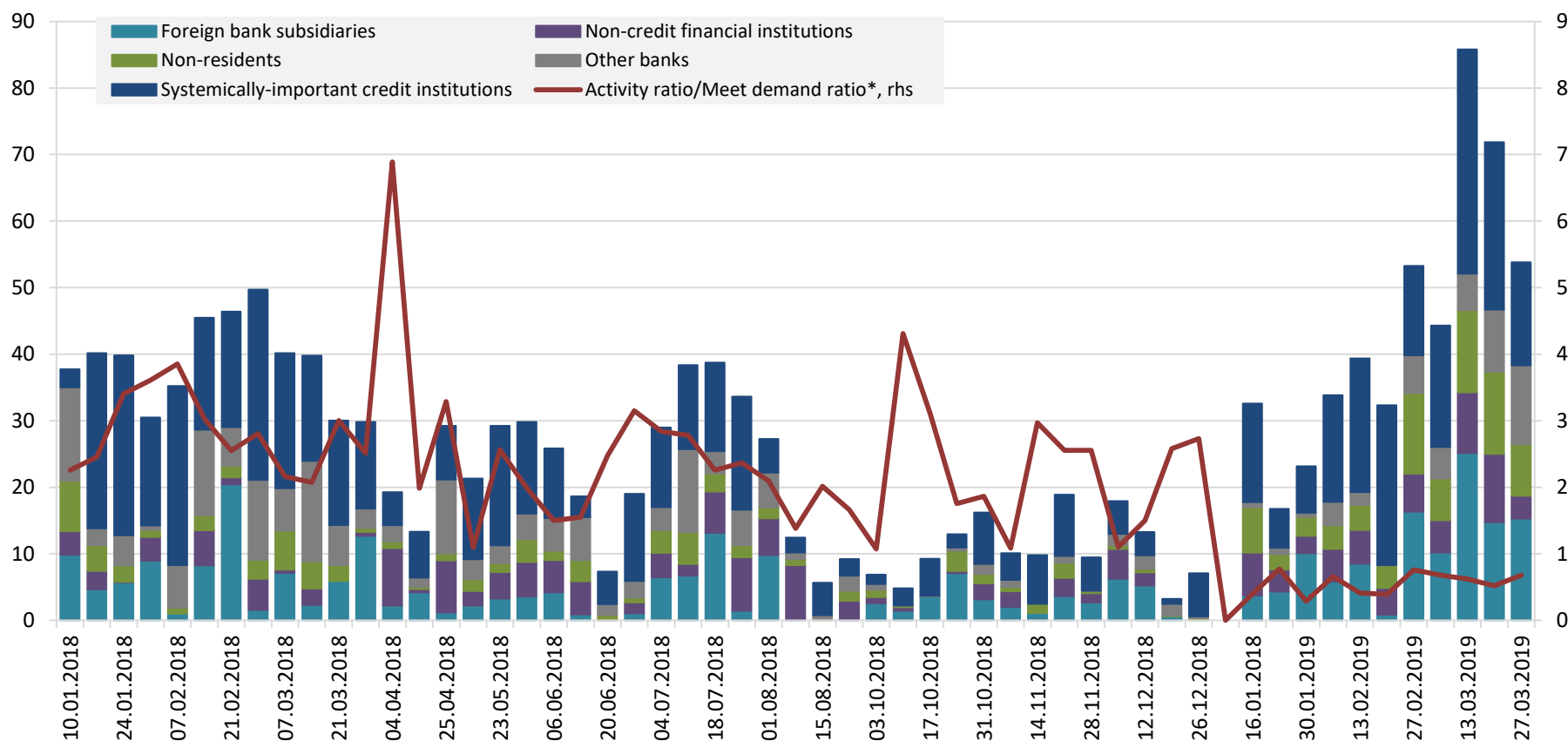




SECURITIES MARKET (4)

Demand for OFZs placements remains sustainably high

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



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



SECURITIES MARKET (5)

Russian equity market provides growth potential and attractive dividend yields

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

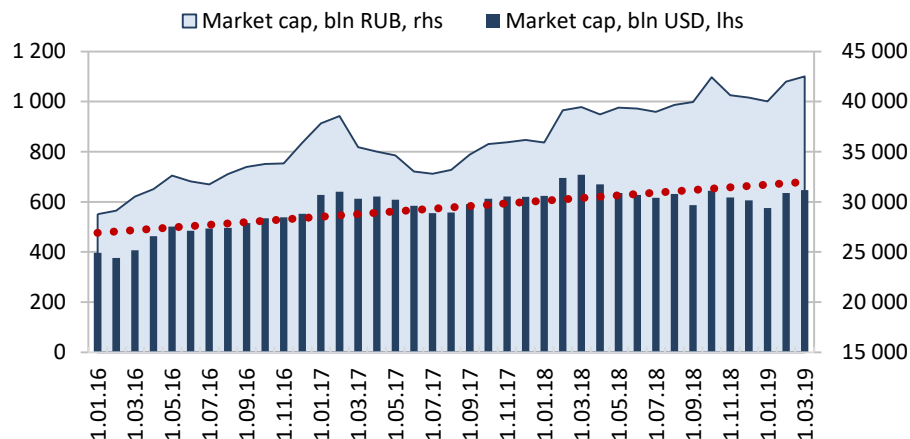


Figure 46: Russian equities market trading volumes proves stable

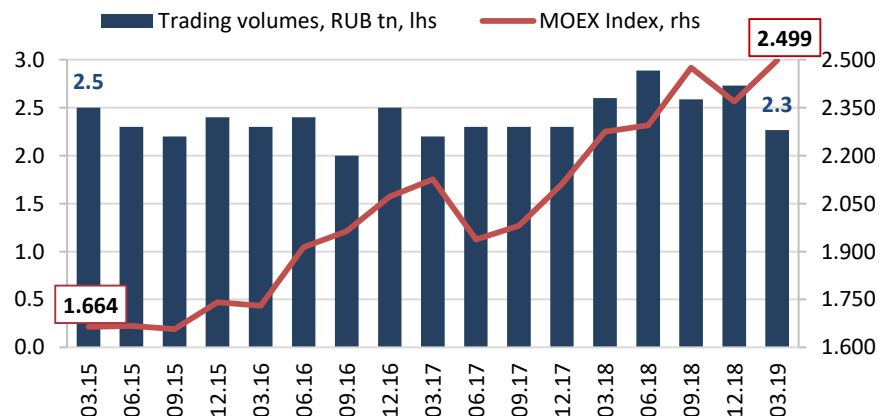
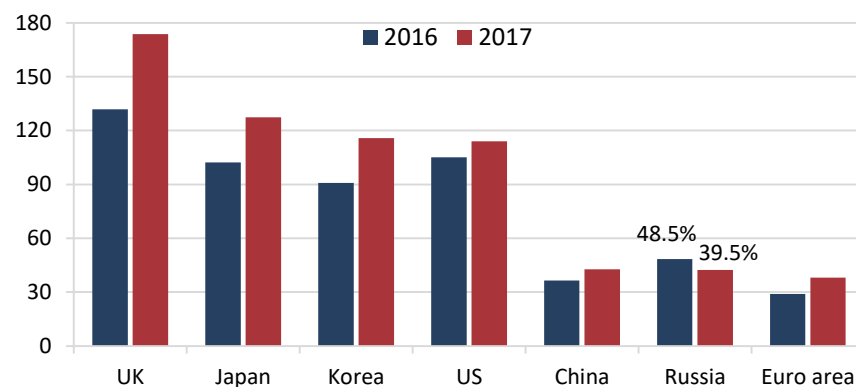
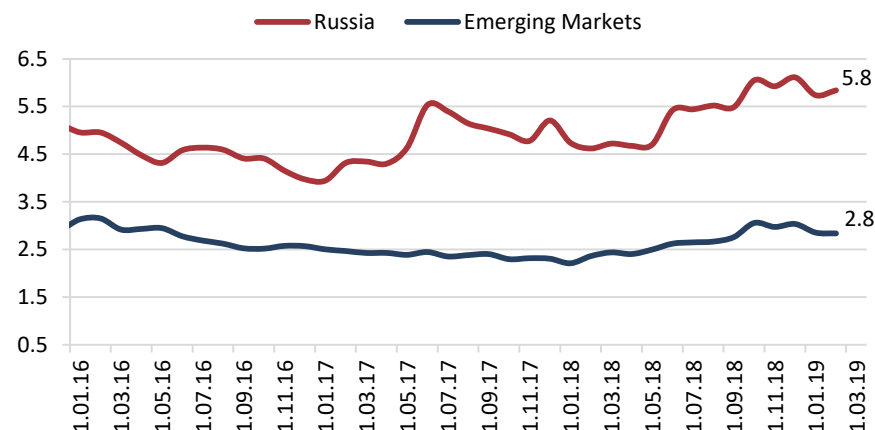


Figure 45: Domestic market capitalization to GDP ratio reflects undervalued Russian financial market (of GDP, %)



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

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





SECURITIES MARKET (6)

Russian equity market remains undervalued despite strong performance in recent years

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

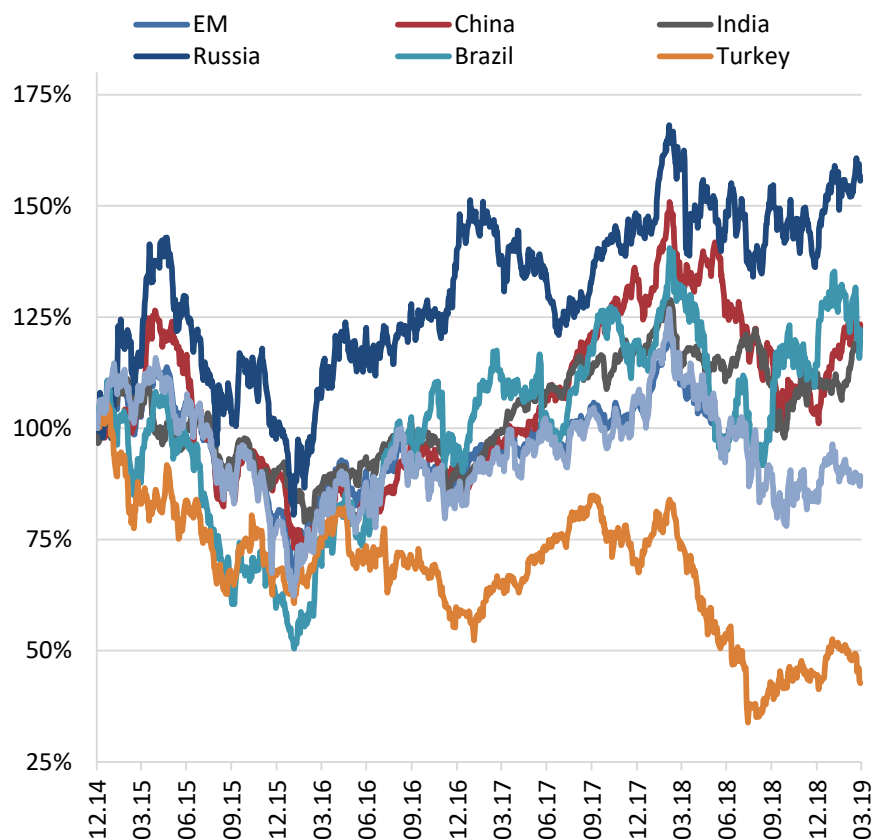
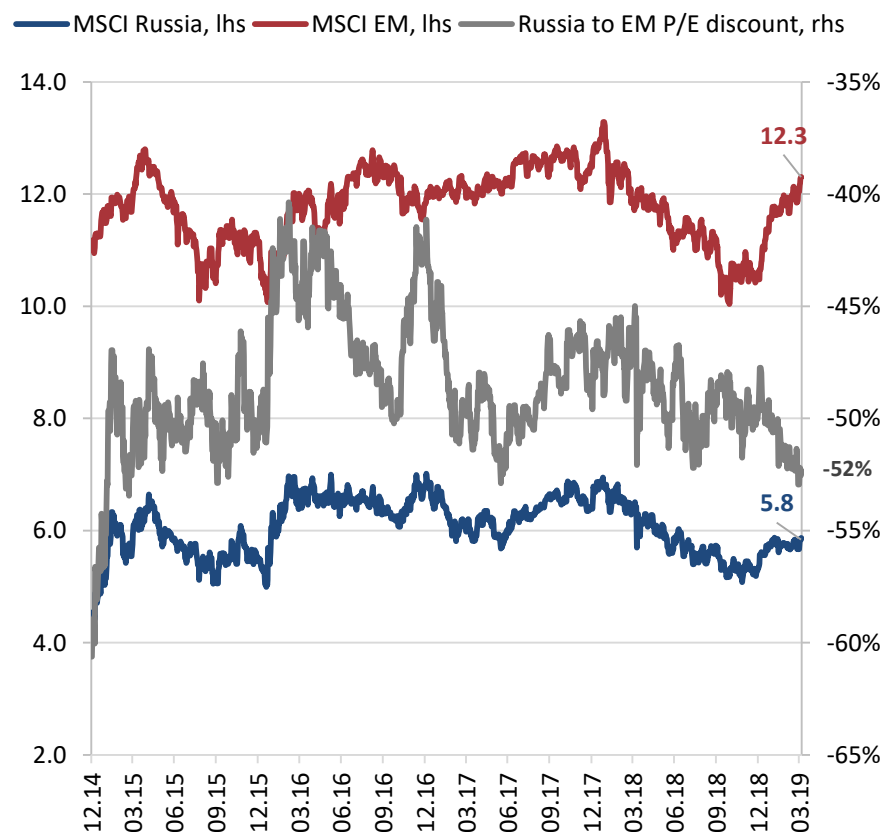


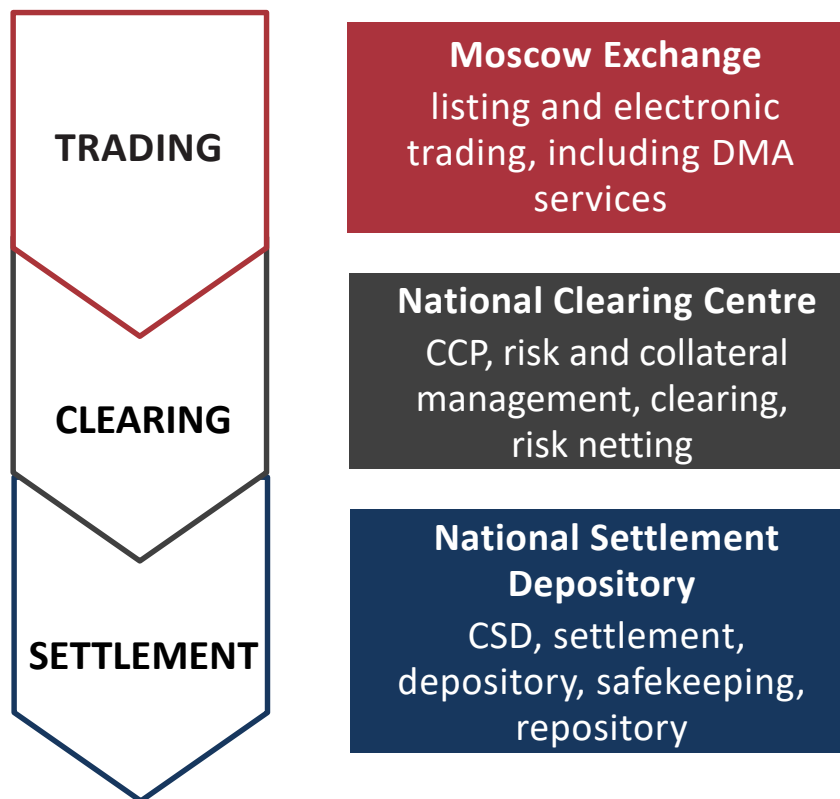
Figure 49: Forward P/E ratio (12m), MSCI Russia vs MSCI EM





SECURITIES MARKET (7)

Moscow Exchange group offers the best infrastructure in its class



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



SECURITIES MARKET (8)

Russian financial market has necessary infrastructure and regulation for trading OTC

Robust legal protection in place

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

Russia adheres to G20 decisions in respect of OTC derivatives reforms

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

Variety of instruments and service providers

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

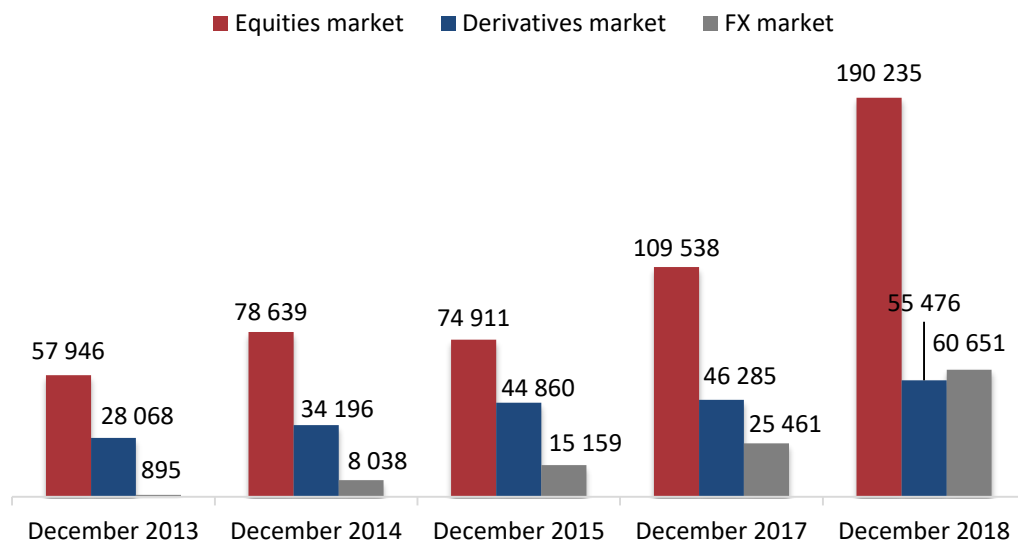


SECURITIES MARKET (9)

Rapidly developing retail market with strong tax incentives and accelerating FinTech

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

Figure 50: Number of active retail client accounts



Source: Moscow Exchange

Recent regulatory changes

Individual Investment Accounts for private investors since 2015.

- RUB 1 mln – max sum to invest in a year.
- More than 528k accounts opened as of December 2018

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

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

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

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



CORPORATE GOVERNANCE

New corporate governance standards reflect best international practices

Corporate governance

JSC Law amended July 2018:

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

Listing reform on Moscow Exchange

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

Next stage 2019

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

Corporate actions reform

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

Securities

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

Blockchain technology

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

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



COUNTERING MALPRACTICE

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

- Bank of Russia has implemented an effective system for countering malpractice including market manipulation and insider trading, aimed at ensuring investors' equality and fair pricing .

Insider trading
and market
manipulation

International
cooperation

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

Unlicensed
firms and
Pyramid
Scheme

Enhanced
consolidated
market
analysis

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

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



INVESTMENT FUNDS

Local institutional investor base: the potential of investment funds

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

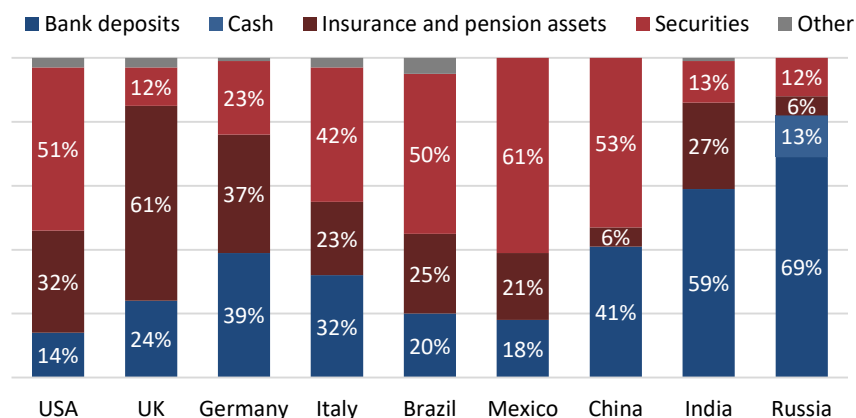
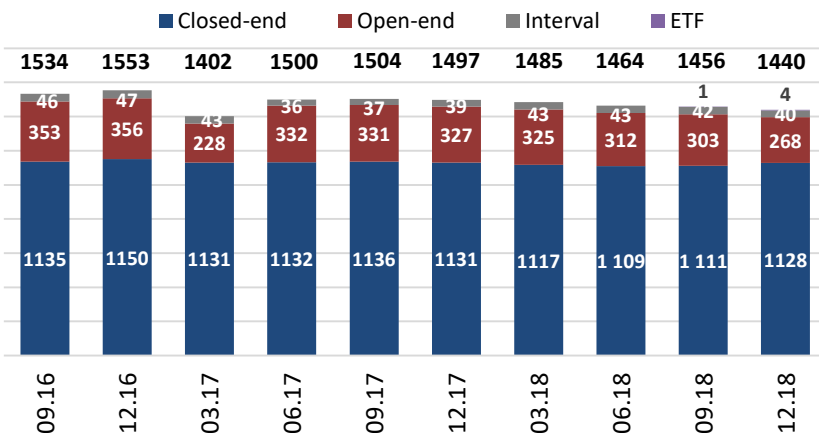


Figure 53: Number of investments funds in Russia by the type



* As of the end of 2017

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

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

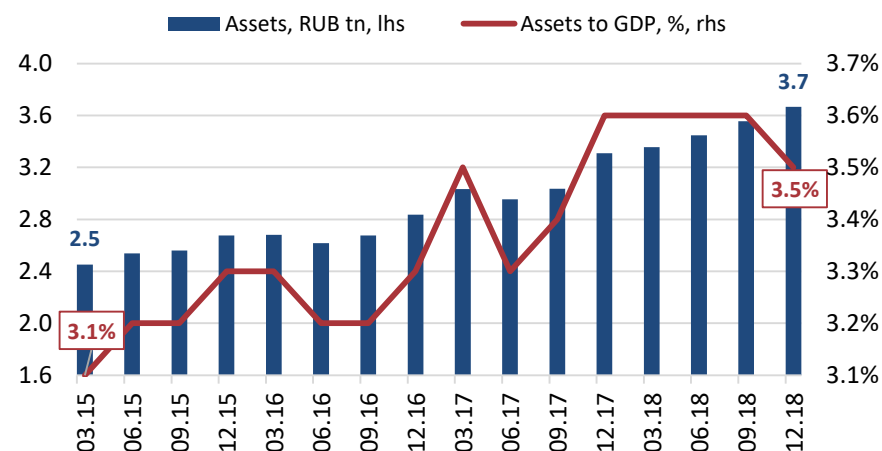
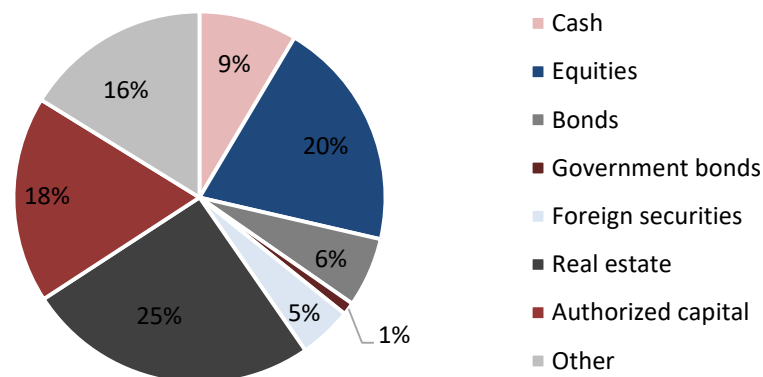


Figure 50: Breakdown of investment funds' assets by the type (as of December 31, 2018)





NON-STATE PENSION FUNDS

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

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

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

Figure 54: Pension assets in Russia (RUB tn)

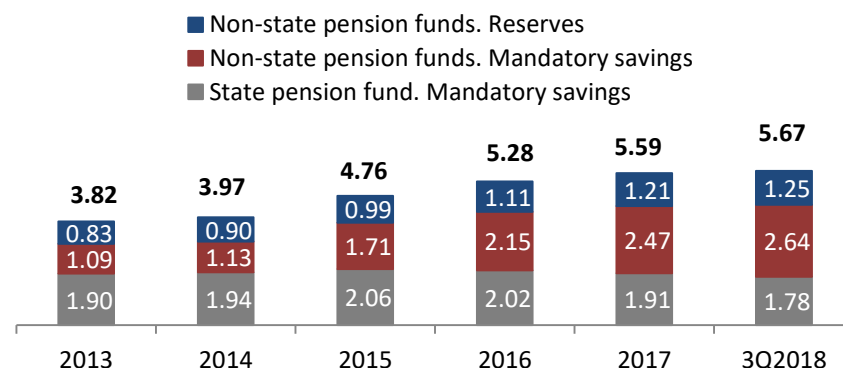
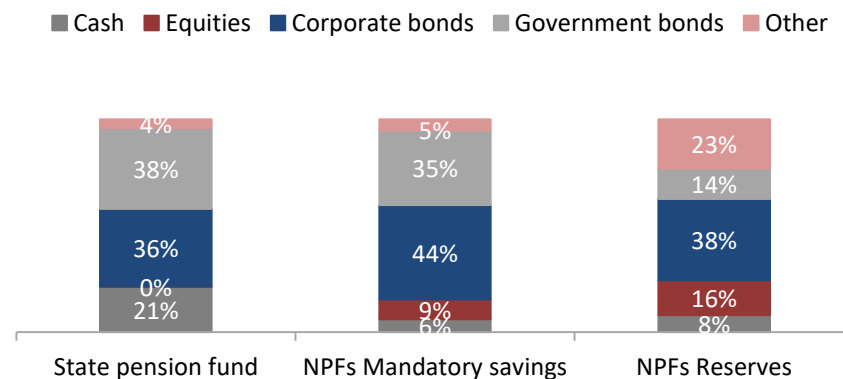


Figure 55: Pension system asset allocation (as of September 31, 2018, %)





INSURANCE

Local institutional investor base: the potential of insurance market

Figure 56: Premium volume is gradually growing

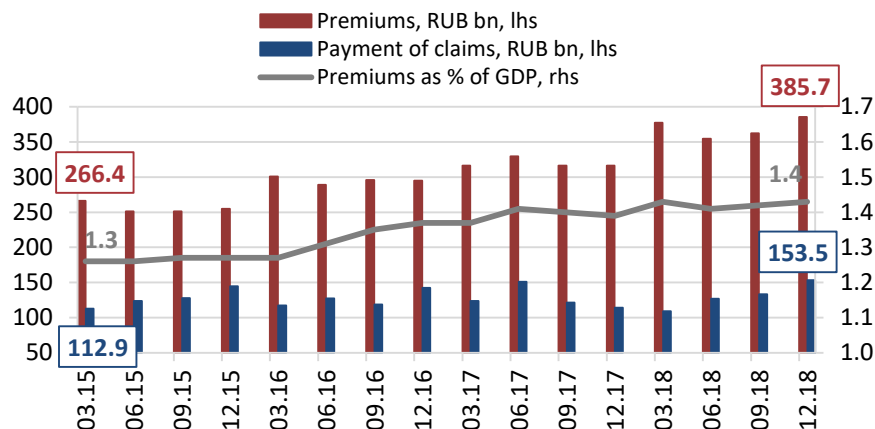


Figure 58: Premium structure in 2018 shows high level of market diversification

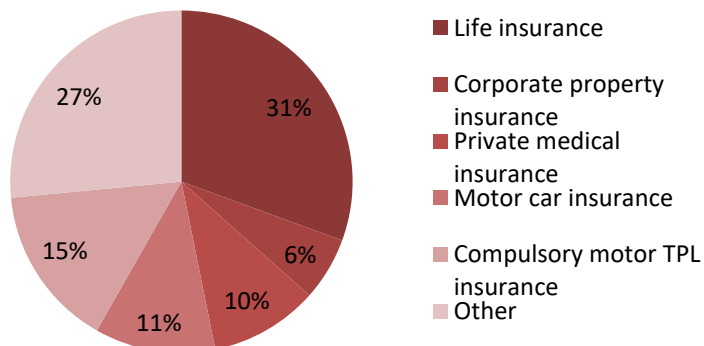


Figure 57: Assets hit 2.8% of GDP

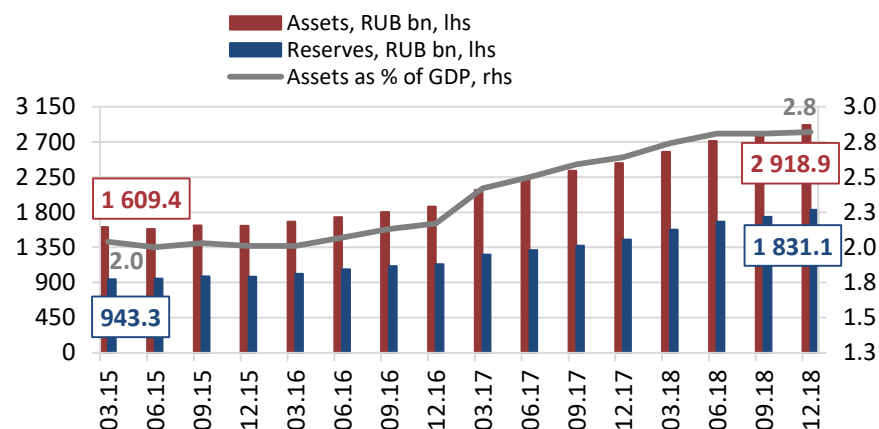
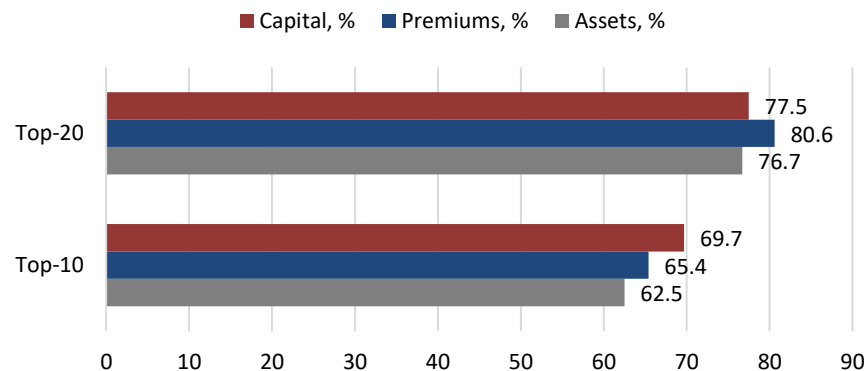


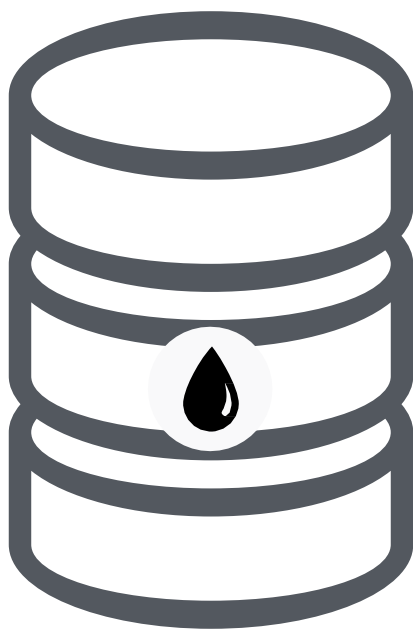
Figure 59: In 2018 market remained highly competitive with the Herfindahl-Hirschman Index equal to 550.6





COMMODITIES

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



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



MICROFINANCE

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

MFIs

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

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

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

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

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



FINTECH (1)

Russia provides a favorable environment for FinTech development

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

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

Key areas of development

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



FINTECH (2)

Russia provides a favorable environment for FinTech development



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

Main goals

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

Main activities (2017-2018)

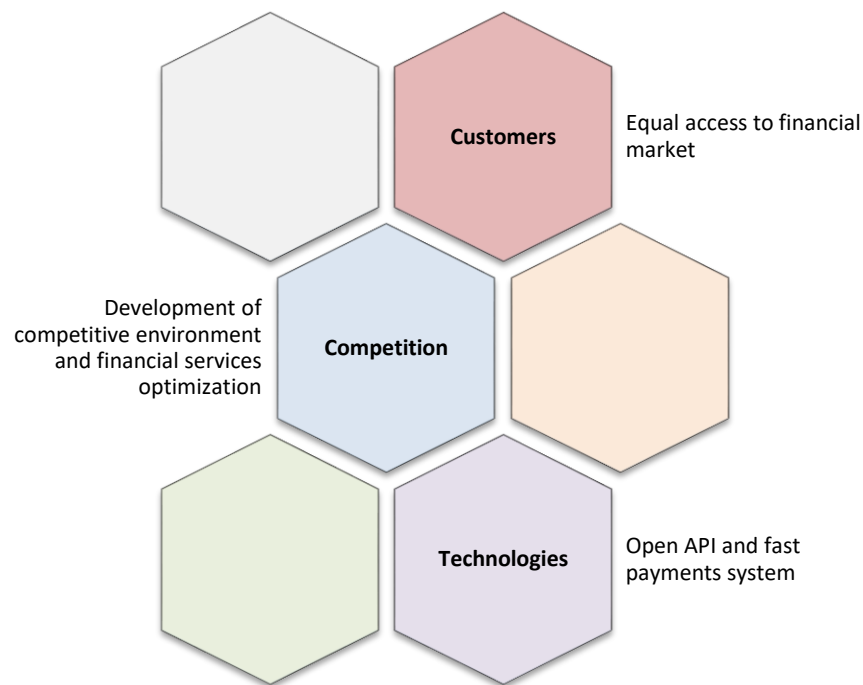
- ☑ Digital identification
- ☑ Distributed ledger technology
- ☑ Faster payment system
- ☑ Open API
- ☑ Big Data



MARKET PLACE

Shaping future of financial services experience in Russia

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





PAYMENT INFRASTRUCTURE (1)

Bank of Russia Payment System

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



PAYMENT INFRASTRUCTURE (2)

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

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

Figures for early 2019 :

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

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

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

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



NATIONAL PAYMENT CARDS SYSTEM

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



- ✓ **Russian national payment system “Mir”** was created on 23 July 2014
- ✓ Operator of Mir Card Payment System is **National Card Payment System Joint-Stock Company**, 100% of its shares belong to the Bank of Russia
- ✓ More than **53 mln** “Mir” payment cards were issued by year end 2018 in Russia
- ✓ Co-badging projects with international payment systems: Maestro, JCB, AmEx and UnionPay
- ✓ Support of mobile payment service Samsung Pay
- ✓ Mobile payments service MirPay is launched
- ✓ PayPass system has been successfully implemented
- ✓ Payment system “Mir” launched a loyalty program which allows card holders to receive cashback
- ✓ “Mir” payment cards are accepted in the Republic of Armenia, Kyrgyz Republic, as well as in the infrastructure of VTB Bank in the Republic of Kazakhstan and the Republic of Belarus



CONSUMER PROTECTION

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

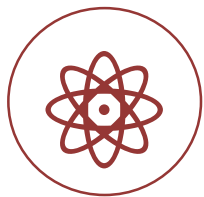
KEY FINANCIAL CONSUMER PROTECTION WORKSTREAMS



Consumer and investor
complaints handling



Differentiation of
consumer protection
requirements



Conduct supervision
model



Financial awareness
improvement



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



Disclosure requirements
for consumers and
investors



Dispute resolution
(ombudsman)



Disclosure requirements
for information on risks



FINANCIAL INCLUSION

Strong international background helps to promote financial inclusion

G20 GLOBAL PARTNERSHIP FOR FINANCIAL INCLUSION (GPFI)

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

Financial Inclusion Promotion by the Bank of Russia

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

ALLIANCE FOR FINANCIAL INCLUSION (AFI)

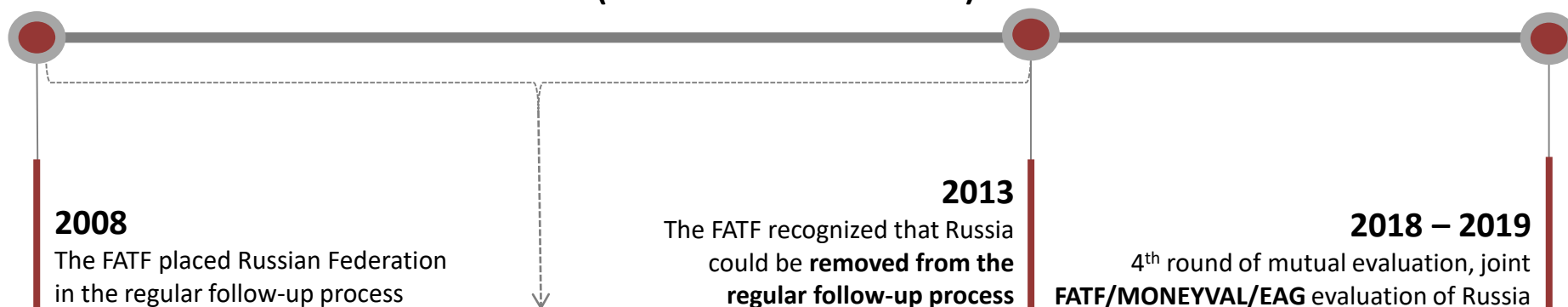
- The global knowledge exchange network empowering policymakers to increase access to quality financial services for the less well-off communities and households
- The Bank of Russia became a member of AFI in February 2014
- In September 2014 the Bank of Russia joined the Maya Declaration setting up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



AML/CFT

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

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



Key measures taken in 2008-2013:

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



CYBERSECURITY

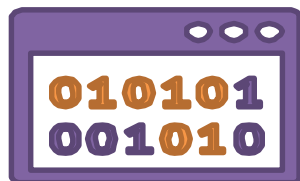
Key initiatives in information security and cybersecurity



Countering international and cross-border crime



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



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



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

Key avenues of cooperation in the sphere of information security

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



INVESTOR CONTACTS AND REGULAR MEETINGS SCHEDULE FOR 2019

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

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