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

1990 – Law on AML/CFT
1992 – Russia becomes a FATF member
   – Start of the IFRS reporting project
1995 – Law on deposit insurance
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

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
2015 – National Settlement Depository obtains status of the first qualified Central Counterparty (CCP) in Russia
2013 – CBR becomes the megaregulator of the Russian financial sector

Focus on Russian financial market development

Federal Financial Markets Service (FFMS):
   founded in 1993

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
EVOLUTION (2)
Monetary policy framework development

- **2006**: Inflation targeting announced
  - Inflation targeting is represented as a midterm goal in the “Monetary Policy Guidelines”

- **2008**: Active inflation targeting communications

- **2009**: Liquidity management
  - Instruments are developed, the interest rate corridor is narrowed

- **2012**: Transition deadline set
  - “Floating rate and inflation targeting by 2015”

- **2013**: Key rate introduced

- **2014**: Floating exchange rate introduced

- **Dec. 2018**: Inflation 4.3%
- **Dec. 2019**: Inflation 3.0%
- **June 2020**: Inflation 3.2%

1998 - 2008: Narrow band
2008 - 2014: Flexible band
2015: Transition to the inflation targeting regime is completed
- Medium-term inflation target is around 4%

Since Nov. 2014: Free floating Ruble
**Evolution (3)**

Bank of Russia supervises the following key segments

<table>
<thead>
<tr>
<th>Banking sector</th>
<th>Payment infrastructure</th>
<th>Non-state pension funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market infrastructure, including fair pricing</td>
<td>Asset managers</td>
<td>Securities market, including securities market professionals</td>
</tr>
<tr>
<td>Microfinance</td>
<td>Credit rating agencies</td>
<td>Insurance sector</td>
</tr>
</tbody>
</table>
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
- Introduction of PTI ratio for macroprudential regulation purposes starting October 1, 2019
- Setting up a national rating industry - only credit ratings of Russian national agencies may be used for regulatory purposes

Market infrastructure
- Benefits from infrastructure put in place, tax and regulatory reforms (T+2, CSD and access of ICSDs, up-to-date CCP, Individual Investment Accounts)
- Marketplace project infrastructure is developed – launch of the platform is planned for 2020

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

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

Pension system
- Guarantee fund mechanism introduced
- Investment horizon for non-state pension funds extended to 5 years
- Guaranteed pension plan (GPP) legislation introduced in 2019
COMPLIANCE WITH INTERNATIONAL STANDARDS
Russia complies with or implements key international standards and best practices

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

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

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

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

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

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

Upon monitoring the implementation of the PFMI, the CPMI gave Russia the highest-possible ‘4’ rating

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

Insurance sector has started implementing Solvency II European principles
INTERNATIONAL COOPERATION
Bank of Russia cooperates with international financial institutions, regulators and associations
# NEWSLETTER (1)
## Key news from the Russian financial market

<table>
<thead>
<tr>
<th>Date</th>
<th>Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2020</td>
<td>Measures taken by the Bank of Russia to stabilise the situation and mitigate the negative impact on the Russian financial system and the economy from the increased volatility in global financial markets in the context of the coronavirus infection outbreak.</td>
</tr>
<tr>
<td>22 June 2020</td>
<td>The Bank of Russia reduced the interest rate under the SME lending support programme from 3.5% to 2.5% p.a. Earlier, on May 15, the Bank of Russia allocated additional Rub 50 bln under the Programme to cover entities without the status of an SME or a systemically important organization. In March, the Programme was expanded via introduction of a new lending facility with a refinancing limit of Rub 500 bln. Under this limit, banks can receive funding from the Bank of Russia for a 1-year term including Rub 150 bln allocated for wage loans at the zero interest rate subsidised by the Government.</td>
</tr>
<tr>
<td>8 June 2020</td>
<td>The Bank of Russia issued a report for public consultations to discuss the prospects for estimating and monitoring of climate risks in the activities of Russian financial institutions. The regulator also considers it necessary to create balanced approaches to sustainable development, and responsible financing and investment in Russia.</td>
</tr>
<tr>
<td>May 2020</td>
<td>25 May 2020: The Bank of Russia under an agreement with the self-regulatory organisation ‘National Finance Association’ (SRO NFA) took charge for administering the RUONIA interest rate.</td>
</tr>
<tr>
<td></td>
<td>14 May 2020: The Bank of Russia launched long-term 1-month and 1-year ruble repo auctions.</td>
</tr>
<tr>
<td></td>
<td>12 May 2020: The State Duma adopted a bill in the second reading to increase the maximum amount of insurance compensation for individuals’ deposits in some cases to Rub 10 mln.</td>
</tr>
<tr>
<td></td>
<td>6 May 2020: Fine-tuning repo auction in the amount of Rub 1 tn.</td>
</tr>
<tr>
<td>April 2020</td>
<td>20 April 2020: Starting from Q3 2020, the base rate of insurance premiums to compulsory deposit insurance fund will be reduced from 0.15% to 0.1% of the calculation base.</td>
</tr>
<tr>
<td></td>
<td>17 April 2020: Temporary regulatory forbearance: (1) banks are allowed not to increase loan loss provisions for retail borrowers whose financial situation has worsened following the pandemic, as well as for restructured loans (both under Federal Law No. 106-FZ and own bank programmes) until 30 September 2020; (2) the previous regulatory easing as regards provisioning for restructured corporate loans will apply to all sectors beyond the list of affected industries. The Bank of Russia will speed up the implementation of credit risk assessment approach under Basel III standard for mortgage loans. By mid-2020, risk weights will be set in the range from 20% to 100% depending on the values of LTV and PTI ratios (currently, risk ratios are in the 35-100% range).</td>
</tr>
<tr>
<td>Date</td>
<td>Event Description</td>
</tr>
</tbody>
</table>
## NEWSLETTER (3)
Key news from the Russian financial market

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>23 January 2020</td>
<td>The Bank of Russia issued the report “On determining systemically important financial institutions (SIFI) and approaches to their regulation” (in Russian) for public consultations. The report invites to discuss: (1) differentiated requirements for the SIFI capital buffer depending on a bank’s size and its impact on the financial system; (2) implementation of a new credit risk concentration ratio in accordance with “Basel III: Supervisory framework for measuring and controlling large exposures”; (3) make it obligatory for SIFI to apply the internal ratings-based (IRB) approach to credit risk assessment.</td>
</tr>
</tbody>
</table>
| 1 January 2020 | **New standardised approach to credit risk assessment** in accordance with “Basel III: Finalising post-crisis reforms”:  
- **Corporate exposures** received a 100% risk weight, except: (1) “investment class” corporates (65%); (2) 85% risk weight for claims to small and medium-sized enterprises (SMEs) assessed on an individual basis, with the current 75% risk weight remaining for SMEs assessed on a portfolio basis; and (3) ‘special-purpose lending’ class with differentiated risk ratios (80-130%) depending on a lending type (project finance, object or commodity finance).  
- Earlier, in June 2019, lower risk-weights for **sovereign exposures in foreign currency** and for **lending with export guarantees** were introduced (50% instead of 100%).  
- Higher risk ratios (instead of the current 150% ratio) applies to **investments in legal entities’ unlisted shares** (stocks): 400% for short-term speculative investments and 250% for other investments (with a five-year transition period established).  
- For **loans invested by borrowers in other legal entities’ authorised capital**, the risk ratio has been increased from the current 150% to 200%, effective 1 January 2020.  
- Effective from 1 January 2021, 150% risk ratio set for the **unsecured part of default loans** (without collateral recognised to reduce credit risk) where estimated loan loss provision is below 20%.  
- The total insider risk ratio (N10.1) has been cancelled. |
| 1 October 2019 | Starting 1 October 2019, banks are required to calculate customers’ **PTI (payment-to-income) ratio**. Add-ons to the risk-weights applied to consumer loans are set by the Bank of Russia depending on both the PTI and the effective interest rate. |
KEY INDICATORS

Russian economy started to recover in 2016 and has moderated in 2019

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

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

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

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

Source: Bank of Russia, Rosstat
MACROFINANCE
Solid fiscal and external positions

Figure 5: Current account surplus amounted to USD 65 bn in 2019

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

Figure 7: Significant international reserves assuring financial stability

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

Source: Bank of Russia, Bloomberg, Ministry of Finance
INFLATION
Medium-term inflation target is set at around 4%

Figure 9: Inflation (YoY, %)

Source: Bank of Russia, Rosstat

*Inflation is 3.2% as of July 1, 2020
### INFLATION EXPECTATIONS

Household and business inflation expectations have abated

<table>
<thead>
<tr>
<th>Expectation horizon</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>I II III IV</td>
<td>I II III Oct Nov Dec</td>
<td>Jan Feb Mar Apr May Jun</td>
</tr>
</tbody>
</table>
| **Inflation expectations (absolute numbers), %**
| Households**        |          |          |          |
| FOM (median, expected inflation) | Next 12 months | 8.5 9.8 10.1 10.2 | 9.1 9.4 8.9 8.6 8.3 9.0 | 8.3 7.9 7.9 - - - |
| FOM (subgroup with savings) | Next 12 months | 8.0 9.0 9.2 9.1 | 8.0 8.3 8.4 7.6 7.3 8.3 | 7.6 6.9 6.9 - - - |
| FOM (subgroup without savings) | Next 12 months | 8.8 10.3 10.5 10.8 | 9.8 10.0 9.2 9.5 8.9 9.4 | 8.5 8.7 8.5 - - - |
| FOM (median, observed inflation) | Past 12 months | 9.2 10.6 10.2 10.2 | 10.0 10.2 9.9 9.4 8.7 9.4 | 8.6 8.7 8.3 - - - |
| FOM (subgroup with savings) | Past 12 months | 8.4 9.7 10.0 9.2 | 9.2 9.0 9.4 8.2 7.6 8.7 | 8.0 8.0 7.2 - - - |
| FOM (subgroup without savings) | Past 12 months | 9.6 11.2 10.4 10.8 | 10.8 11.1 10.4 10.2 9.2 9.6 | 8.9 9.2 8.6 - - - |

<table>
<thead>
<tr>
<th>Professional analysts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bloomberg</td>
</tr>
<tr>
<td>2020</td>
</tr>
<tr>
<td>Bloomberg</td>
</tr>
<tr>
<td>2021</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>OFZ IN (option not subtracted)</td>
</tr>
<tr>
<td>OFZ IN (option not subtracted)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Inflation expectations (balanced index*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Businesses</td>
</tr>
<tr>
<td>Bank of Russia monitoring</td>
</tr>
</tbody>
</table>

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

**Households survey results for Apr-Jun will be available later.

Source: FOM, Rosstat, Bloomberg, Bank of Russia
ECONOMIC FORECASTS (1)
Medium-term outlook for the Russian economy

<table>
<thead>
<tr>
<th>Key parameters of the Bank of Russia’s forecast scenarios (growth as % of previous year, if not indicated otherwise)</th>
<th>2019 (actual)</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urals price, average for the year, US dollars per barrel</td>
<td>64</td>
<td>27</td>
<td>35</td>
<td>45</td>
</tr>
<tr>
<td>Inflation, as % in December year-on-year</td>
<td>3.0</td>
<td>3.8-4.8</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Inflation, average for the year, as % year-on-year</td>
<td>4.5</td>
<td>3.1-3.9</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Gross domestic product</td>
<td>1.3</td>
<td>-(4.0-6.0)</td>
<td>2.8-4.8</td>
<td>1.5-3.5</td>
</tr>
<tr>
<td>Final consumption expenditure</td>
<td>2.4</td>
<td>-(0.6-2.6)</td>
<td>2.3-4.3</td>
<td>0.8-2.8</td>
</tr>
<tr>
<td>– households</td>
<td>2.5</td>
<td>-(1.6-3.6)</td>
<td>3.2-5.2</td>
<td>1.0-3.0</td>
</tr>
<tr>
<td>Gross capital formation</td>
<td>3.8</td>
<td>-(7.0-13.0)</td>
<td>2.3-6.3</td>
<td>1.8-5.8</td>
</tr>
<tr>
<td>– gross fixed capital formation</td>
<td>1.5</td>
<td>-(5.6-9.6)</td>
<td>2.2-6.2</td>
<td>2.2-6.2</td>
</tr>
<tr>
<td>Exports</td>
<td>-2.3</td>
<td>-(10.6-14.6)</td>
<td>3.7-7.7</td>
<td>2.3-6.3</td>
</tr>
<tr>
<td>Imports</td>
<td>3.4</td>
<td>-(5.6-11.6)</td>
<td>4.9-8.9</td>
<td>2.0-6.0</td>
</tr>
<tr>
<td>Money supply in national definition</td>
<td>9.7</td>
<td>6-11</td>
<td>6-11</td>
<td>6-11</td>
</tr>
<tr>
<td>Claims on organisations and households in rubles and foreign currency*</td>
<td>10.1</td>
<td>3-8</td>
<td>6-11</td>
<td>6-11</td>
</tr>
<tr>
<td>– on organisations</td>
<td>7.1</td>
<td>4-9</td>
<td>5-10</td>
<td>5-10</td>
</tr>
<tr>
<td>– on households</td>
<td>19.0</td>
<td>(-2)-2</td>
<td>9-14</td>
<td>10-15</td>
</tr>
</tbody>
</table>

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

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

Source: Bank of Russia
ECONOMIC FORECASTS (2)
Medium-term outlook for the Russian economy

<table>
<thead>
<tr>
<th>Russia's balance of payments indicators* (billions of US dollars)</th>
<th>2019</th>
<th>BASELINE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2020</td>
</tr>
<tr>
<td>Current account</td>
<td>65</td>
<td>-35</td>
</tr>
<tr>
<td>Balance of trade</td>
<td>164</td>
<td>43</td>
</tr>
<tr>
<td>Exports</td>
<td>419</td>
<td>250</td>
</tr>
<tr>
<td>Imports</td>
<td>254</td>
<td>207</td>
</tr>
<tr>
<td>Balance of services</td>
<td>-36</td>
<td>-34</td>
</tr>
<tr>
<td>Exports</td>
<td>63</td>
<td>46</td>
</tr>
<tr>
<td>Imports</td>
<td>99</td>
<td>80</td>
</tr>
<tr>
<td>Balance of primary and secondary income</td>
<td>-64</td>
<td>-44</td>
</tr>
<tr>
<td>Current and capital account balance</td>
<td>64</td>
<td>-35</td>
</tr>
<tr>
<td>Financial account (excluding reserve assets)</td>
<td>-5</td>
<td>11</td>
</tr>
<tr>
<td>Government and the central bank</td>
<td>-23</td>
<td>-4</td>
</tr>
<tr>
<td>Private sector</td>
<td>18</td>
<td>15</td>
</tr>
<tr>
<td>Net errors and omissions</td>
<td>-2</td>
<td>-1</td>
</tr>
<tr>
<td>Change in reserve assets ('+' – increase, '-' – decrease)</td>
<td>66</td>
<td>-47</td>
</tr>
</tbody>
</table>

* 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.

Source: Bank of Russia
MONETARY POLICY

- Disinflationary factors have been more profound than expected due to a longer duration of restrictive measures in Russia and across the world. The effect of short term pro-inflationary factors has been largely exhausted.
- In the context of prevailing disinflationary factors, there is a risk that in 2021 inflation might significantly deviate downwards from the 4% target. While monthly annualized inflation will continue to decline, annual inflation rate will rise in 2020 due to low base effect of 2019.
- The Russian economy is gaining support from the Russian Government and the Bank of Russia’s additional measures aimed at the mitigation of economic effects of the coronavirus pandemic.
- Accommodative fiscal and monetary policies will help the economy regain its potential and stabilise inflation around the 4% target.

```
Decision
as of June 19, 2020

The Bank of Russia
cuts the key rate
to 4.50% p.a.

Signaler

“...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. ...”
```

Source: Bank of Russia
INTERNATIONAL RESERVES

Foreign exchange and gold assets by asset class

<table>
<thead>
<tr>
<th>Assets</th>
<th>As of 31 December 2018</th>
<th></th>
<th>As of 30 December 2019</th>
<th></th>
<th>Change in 2019, billions of US dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>billions of US dollars</td>
<td>share of assets, %</td>
<td>billions of US dollars</td>
<td>share of assets, %</td>
<td></td>
</tr>
<tr>
<td>Government securities of foreign issuers*</td>
<td>191.1</td>
<td>40.3</td>
<td>203.1</td>
<td>36.3</td>
<td>12.0</td>
</tr>
<tr>
<td>Deposits and account balances with foreign counterparties</td>
<td>148.2</td>
<td>31.3</td>
<td>175.4</td>
<td>31.4</td>
<td>27.2</td>
</tr>
<tr>
<td>Gold</td>
<td>85.6</td>
<td>18.1</td>
<td>109.2</td>
<td>19.5</td>
<td>23.7</td>
</tr>
<tr>
<td>Non-government securities of foreign issuers</td>
<td>26.6</td>
<td>5.6</td>
<td>34.4</td>
<td>6.2</td>
<td>7.8</td>
</tr>
<tr>
<td>International organisations securities</td>
<td>7.4</td>
<td>1.6</td>
<td>21.5</td>
<td>3.9</td>
<td>14.1</td>
</tr>
<tr>
<td>Reverse repo operations with foreign counterparties</td>
<td>10.7</td>
<td>2.2</td>
<td>10.8</td>
<td>1.9</td>
<td>0.2</td>
</tr>
<tr>
<td>Claims in foreign currency on Russian counterparties and issuers**</td>
<td>2</td>
<td>0.4</td>
<td>2.8</td>
<td>0.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Net position with the IMF</td>
<td>2.5</td>
<td>0.5</td>
<td>1.7</td>
<td>0.3</td>
<td>-0.8</td>
</tr>
<tr>
<td>Claims on foreign counterparties on foreign currency supply</td>
<td>-0.2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Total</strong>*</td>
<td><strong>473.9</strong></td>
<td><strong>100</strong></td>
<td><strong>559.1</strong></td>
<td><strong>100</strong></td>
<td><strong>85.1</strong></td>
</tr>
</tbody>
</table>

* Securities issued by a foreign government or foreign issuers with explicit government guarantee.
** Claims on Russian credit institutions, Eurobonds of the Russian Federation and other Russian issuers.
*** The total value may differ from the sum of asset classes values due to rounding.

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

<table>
<thead>
<tr>
<th>Currency</th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro</td>
<td>7.3</td>
<td>6.4</td>
</tr>
<tr>
<td>US dollar</td>
<td>14.2</td>
<td>12.3</td>
</tr>
<tr>
<td>Gold</td>
<td>18.1</td>
<td>19.5</td>
</tr>
<tr>
<td>Yuan</td>
<td>22.7</td>
<td>24.5</td>
</tr>
<tr>
<td>Pounds sterling</td>
<td>31.7</td>
<td>30.8</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Credit rating</th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>7.6</td>
<td>18.1</td>
</tr>
<tr>
<td>AA</td>
<td>29.9</td>
<td>36.5</td>
</tr>
<tr>
<td>A</td>
<td>25.6</td>
<td>22.4</td>
</tr>
<tr>
<td>Gold</td>
<td>18.8</td>
<td></td>
</tr>
<tr>
<td>Other*</td>
<td>14.4</td>
<td></td>
</tr>
</tbody>
</table>

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

Source: Bank of Russia
FINANCIAL MARKET DEVELOPMENT STRATEGY

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
BANKING SECTOR: CURRENT AGENDA
Shaping a favourable operating environment and supporting market competition

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

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

Introduction of PTI ratio in order to regulate the consumer lending market more efficiently

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

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

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

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

Basel II and III in force: Leverage ratio (except for banks with basic license), NSFR – for Domestic-SIBs
BANKING SECTOR: PROPORTIONAL REGULATION
Differentiating regulatory burden for banks depending on their size

Regulatory burden depends on license type

**BASIC LICENSE**

- 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

**UNIVERSAL 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

*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. 133 banks hold basic license, as of 1 May 2020.
BANKING SECTOR: NEW RESOLUTION MECHANISM
Under new mechanism both costs of resolution and time required have been reduced significantly

RUB 2.6 tn have been provided to three banking groups (Otkritie, B&N, Promsvyazbank)

RUB 758.3 bn for additional capitalization

RUB 1.86 tn for liquidity (deposits)*

RUB 156.1 bn for the establishment of BNA**

RUB 42.7 bn for additional capitalization of Otkritie Bank

RUB 9.0 bn for additional capitalization of APB

RUB 128.7 bn for additional capitalization for MIB and RUB 39.9 bn for liquidity (deposits)

RUB 2.7 bn for additional capitalization for VOCBANK

List of banks under financial rehabilitation procedure

<table>
<thead>
<tr>
<th>No.</th>
<th>Bank Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Promsvyazbank</td>
</tr>
<tr>
<td>2</td>
<td>National Bank TRUST (with ROST Bank and AVB Bank)</td>
</tr>
<tr>
<td>3</td>
<td>Asian-Pacific Bank (APB)</td>
</tr>
<tr>
<td>4</td>
<td>Moscow Industrial Bank (merged with Volga-Oka Bank, VOCBANK in November 2019)</td>
</tr>
</tbody>
</table>

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 12: In 2013-2020 more than 450 licenses were revoked causing almost no impact on the banking sector’s total assets

Figure 13: Banking sector profitability restored to record high levels

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

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

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

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

Source: Bank of Russia
BANKING SECTOR: FUNDING

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

Figure 16: In May 2020 corporate deposits grew by 6.2% YoY to RUB 29.8 tn*

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

Figure 17: In May 2020 retail deposits demonstrated growth of 6.6% YoY, reaching RUB 31.2 tn*

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

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

Figure 19: Sources of funding, % of total liabilities

Source: Bank of Russia
BANKING SECTOR: LENDING
Retail loans remain the key driver of credit expansion although the pace of growth has started to moderate

Figure 20: Corporate lending increased 7.3% YoY in May 2020*

![Graph showing corporate loans growth]

Figure 21: Retail lending increased 13.1% YoY in May 2020*

![Graph showing retail loans growth]

Figure 22: Share of bad corporate loans** reached 11.2% in May 2020, while the bad loan loss reserves to bad loans ratio accounted for 72.5%

![Graph showing share of bad loans and bad loan loss reserves]

Figure 23: Retail loans portfolio demonstrates improved quality: the share of bad loans** reached 7.7% in May 2020

![Graph showing share of bad loans and bad loan loss reserves]

** Loans classified into quality category of IV and V according to the requirements of Regulation No.590-P.
Quality category IV – high credit risk (probability of financial losses due to non-performance or improper performance of obligations by the borrower requires its depreciation by 51 to 100 per cent);
Quality category V – no possibility of loan repayment due to the borrower’s inability or refusal to meet loan commitments, which requires complete (100 per cent) depreciation of the loan.

*Since 01.01.2020 corporate loans include loans to financial and non-financial organizations (excl. credit organizations). Data for retrospective periods restated
*Since 01.01.2020 annual growth rate is based on chain method. Data for retrospective periods restated

Source: Bank of Russia
**BANKING SECTOR: MORTGAGE SEGMENT**

Mortgage lending is characterised by high (although falling) growth rates and decent asset quality.

Figure 24: Mortgage lending increased 13.9% YoY in May 2020*

![Graph showing mortgage lending growth](image)

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

Figure 25: Share of NPLs remains at historically low levels

![Graph showing NPL ratio](image)

Figure 26: Distribution of mortgage borrowers by LTV

![Graph showing LTV distribution](image)

Figure 27: Risk weight add-ons applied to RUB mortgage loans depending on the LTV and the PTI (applied from 1 April 2020)

<table>
<thead>
<tr>
<th>PTI interval, %</th>
<th>0-30</th>
<th>30-40</th>
<th>40-50</th>
<th>50-60</th>
<th>60-70</th>
<th>70-80</th>
<th>80+</th>
<th>PTI not calculated</th>
</tr>
</thead>
<tbody>
<tr>
<td>80-85</td>
<td>0.2</td>
<td>0.3</td>
<td>0.4</td>
<td>0.5</td>
<td>0.6</td>
<td>0.7</td>
<td>0.8</td>
<td>0.5</td>
</tr>
<tr>
<td>85-90</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>90+</td>
<td>2.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.0 for the whole term (excl. loans repaid with the use of the maternity capital)</td>
</tr>
</tbody>
</table>

*Risk weight add-ons applied from 1 April 2020 to mortgage loans issued from 1 April 2020

Source: Bank of Russia
BANKING SECTOR: UNSECURED CONSUMER LENDING

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

Figure 28: Unsecured consumer lending growth decreased to 12.7% YoY in May 2020*

Figure 29: Risk weights applied to unsecured consumer loans, %

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 30: Share of NPLs increased to 8.6% in May 2020

*Since 01.01.2020 annual growth rate is based on chain method. Data for retrospective periods restated.
The Bank of Russia introduces a payment to income ratio (PTI) for regulatory purposes. Effective from 1 October 2019, the Bank of Russia set add-ons to the risk coefficients depending on the payment to income ratio (PTI) and the effective interest rate (EIR).

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

<table>
<thead>
<tr>
<th>EIR interval, %</th>
<th>0-10</th>
<th>10-15</th>
<th>15-20</th>
<th>20-25</th>
<th>25-30</th>
<th>30-35</th>
<th>35+</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-10</td>
<td>0.3</td>
<td>0.5</td>
<td>0.7</td>
<td>1.0</td>
<td>1.3</td>
<td>2.0</td>
<td>2.5</td>
</tr>
<tr>
<td>10-15</td>
<td>0.3</td>
<td>0.5</td>
<td>0.7</td>
<td>1.1</td>
<td>1.3</td>
<td>1.8</td>
<td>2.2</td>
</tr>
<tr>
<td>15-20</td>
<td>0.5</td>
<td>0.7</td>
<td>1.1</td>
<td>1.5</td>
<td>1.8</td>
<td>2.0</td>
<td>2.5</td>
</tr>
<tr>
<td>20-25</td>
<td>0.7</td>
<td>0.7</td>
<td>1.3</td>
<td>1.5</td>
<td>1.9</td>
<td>2.0</td>
<td>2.2</td>
</tr>
<tr>
<td>25-30</td>
<td>1.0</td>
<td>1.0</td>
<td>1.3</td>
<td>1.8</td>
<td>2.0</td>
<td>2.3</td>
<td>2.5</td>
</tr>
<tr>
<td>30-35</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
<td>2.1</td>
<td>2.2</td>
<td>2.3</td>
<td>2.5</td>
</tr>
<tr>
<td>35+</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.1</td>
<td>2.2</td>
<td>2.3</td>
<td>2.5</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>EIR interval, %</th>
<th>0-10</th>
<th>10-15</th>
<th>15-20</th>
<th>20-25</th>
<th>25-30</th>
<th>30-35</th>
<th>35+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of add-ons</td>
<td>0.6</td>
<td>0.7</td>
<td>1.1</td>
<td>1.5</td>
<td>1.8</td>
<td>2.1</td>
<td>5.0</td>
</tr>
</tbody>
</table>

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

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

Source: Bank of Russia
BANKING SECTOR: INTEREST RATES

Interest rates trending down again after a temporary pickup over 2019

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

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

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

Source: Bank of Russia
BANKING SECTOR: DEDOLLARISATION

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

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

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

Figure 36: Share of corporate and retail FX deposits in total amount of deposits has fallen

Figure 35: Retail FX loan portfolio is insignificant in size

Figure 37: Risk weights applied to the FX assets, %

Source: Bank of Russia
Banking Sector: Capital Adequacy

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

Figure 38: Capital adequacy ratio for the banking sector remained stable at 12.7% (as of 1.06.20) as compared to 1.01.2016

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

Source: Bank of Russia
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

<table>
<thead>
<tr>
<th>№</th>
<th>Company name</th>
<th>Assets, RUB tn</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sberbank</td>
<td>30.8</td>
</tr>
<tr>
<td>2</td>
<td>VTB Bank</td>
<td>15.0</td>
</tr>
<tr>
<td>3</td>
<td>Gazprombank</td>
<td>7.1</td>
</tr>
<tr>
<td>4</td>
<td>Alfa-Bank</td>
<td>3.9</td>
</tr>
<tr>
<td>5</td>
<td>Russian Agricultural Bank</td>
<td>3.5</td>
</tr>
<tr>
<td>6</td>
<td>Bank FC Otkritie</td>
<td>2.7</td>
</tr>
<tr>
<td>7</td>
<td>Credit Bank of Moscow</td>
<td>2.7</td>
</tr>
<tr>
<td>8</td>
<td>Promsvyazbank</td>
<td>n/a</td>
</tr>
<tr>
<td>9</td>
<td>UniCredit Bank</td>
<td>1.5</td>
</tr>
<tr>
<td>10</td>
<td>Rosbank</td>
<td>1.4</td>
</tr>
<tr>
<td>11</td>
<td>Raiffeisenbank</td>
<td>1.3</td>
</tr>
</tbody>
</table>

*Assets as of June 2020

Systemically important financial institutions account for 69% 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**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital conservation buffer</td>
<td>1.25%</td>
<td>1.875%</td>
<td>2.25%</td>
<td>2.50%*</td>
</tr>
<tr>
<td>SIFI buffer</td>
<td>0.35%</td>
<td>0.65%</td>
<td>0.65%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Countercyclical buffer</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

**Minimum capital adequacy ratios for SIFI**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>N1.1</td>
<td>6.1%</td>
<td>7.0%</td>
<td>7.65%</td>
<td>8.0%</td>
</tr>
<tr>
<td>N1.2</td>
<td>7.6%</td>
<td>8.5%</td>
<td>9.15%</td>
<td>9.5%</td>
</tr>
<tr>
<td>N1.0</td>
<td>9.6%</td>
<td>10.5%</td>
<td>11.15%</td>
<td>11.5%</td>
</tr>
</tbody>
</table>

*Capital conservation buffer* was raised in accordance with the schedule approved by the Bank of Russia throughout 2019 – it was set at 1.875% from 1 January 2019, 2.0% from 1 April 2019, 2.125% from 1 July 2019, 2.25% from 1 October 2019, and 2.5% from 1 January 2020.
MICROFINANCE
Microfinance is a vital part of financial system complementing banks to provide better financial inclusion

MFIs

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

Microfinance institutions (MFIs) provide financial services for customers with no access to banking products, service regions with an insufficient bank presence, offer financial products missing from bank product lines, boost financial 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 7,900 MFI companies.

19% of the entire MFO microloan portfolio are microloans to small to medium enterprises (bearing 5-10% interest rate thanks to state support via MFOs).

Payday Loans, i.e. small, short-term unsecured loans (up to RUB 30k for 30 days) at high rates, are not a development priority and account for 24% of the entire MFO microloan portfolio.

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

For the loans with PTI of the borrower in excess of 50%, the level of add-on to the risk coefficients is set at 50% (65% starting from 1 January 2020).
FINANCIAL STABILITY
Macroprudential policy aimed at identifying and preventing potential systemic risks

Credit activity
In April-May 2020, while the counter-pandemic measures were in place, the pace of growth in outstanding amounts on household and corporate loans was mixed.

In April-May, outstanding amounts on household loans decreased by 0.5%.1 Outstanding amounts on corporate loans posted an 1.4% increase over the same period. These exceed the readings in April-May 2019 (0.1%) and in the first months of the stress period in 2015 (-0.1% in January-February 2015). Moreover, April and May 2020 saw an increase in outstanding amounts on the corporate bonds of non-financial organisations (by 1.2% over the two months). However, following the slack in economic activity, future growth rates of outstanding amounts on corporate loans may slow down.

Effect of coronavirus outbreak on the asset quality of the banking sector
The measures of regulatory easing by the Bank of Russia and the restructuring of household and corporate loans by banks help the financial sector to gradually adapt to economic changes and support borrowers.

No material impairment of the credit quality has been observed following the restructuring of loans and the deferred realisation of credit risk. The proportion of unsecured consumer loans overdue more than 90 days is 8.2% as of 1 May 2020 (7.5% as of 1 January 2020), and that of mortgage loans is 1.4% (1.3% as of 1 January 2020). The proportion of corporate loans referred to quality categories IV and V is 10.9% as of 1 May 2020 (11% as of 1 January 2020).

Capital adequacy
Banks will be able to cover the potential increase in losses on loans out of accumulated capital buffers, including macroprudential capital buffers. Banks’ capital buffers, including capital conservation buffer and systemic importance capital buffer, total 5.6 trillion rubles.2 Additionally, the macroprudential capital buffer for consumer loans totalled 574 billion rubles as of 1 May 2020, whereas for foreign currency claims on companies — 161 billion rubles.3

Decision as of June 19, 2020
“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...”

“...In anticipation of forthcoming impairment in the quality of credit portfolio and given the need to support lending to the economy, the positive value of the national countercyclical buffer does not deem feasible.”

---

1 Adjusted for FX revaluation (exchange rate as of 1 June 2020).
2 The calculation was made as of 1 May 2020, inclusive of the reclassification of non-audited profit in the core capital as well as the positive effect of the loss on the risk-weighted assets.
3 If add-ons to risk weights for consumer loans decrease to zero, banks will be able to absorb losses either totalising 574 billion rubles and to preserve the current value of the capital adequacy ratio, or totalising 456 billion rubles and to preserve the current values of three capital adequacy ratios. For foreign currency claims on companies, these readings stand at 161 and 123 billion rubles respectively.
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

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

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

**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

**Financing sector overview**
- Capital gains on securities held for more than 3 years are tax-exempt
- Tax deductions for Individual Investment Accounts (IIA) type A – max RUB 52 000; for IIA type B – at the rate of investment income;
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**Crises-proven market infrastructure**
- 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.
- Retail investors allowed to open brokerage and management accounts online

**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 40: Volume of the Russian local bond market, RUB tn

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

Figure 42: “Bondization” of the Russian financial market

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

*excl. overnight bonds
Source: Moscow Exchange
SECURITIES MARKET (3)

Russian OFZ market provides relatively high yields amid investment grade reliability

Figure 44: Russian OFZ market volume keeps growing

Figure 45: Zero-coupon OFZ yield curve, %

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

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

Source: Bank of Russia, Moscow Exchange, IMF and World Federation of Exchanges
SECURITIES MARKET (4)
Demand for OFZs placements remains sustainably high

Figure 48: OFZ placement dynamics in 2018, 2019 and 2020 (RUB bn)

Source: Bank of Russia, Ministry of Finance, National Settlement Depository
SECURITIES MARKET (5)

Russian equity market: key trends

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

Figure 50: Market capitalization to GDP ratio, %

Figure 51: Russian equities market trading volumes proves stable

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

Source: Bloomberg, Moscow Exchange, International Monetary Fund and World Federation of Exchanges
SECURITIES MARKET (6)
Russian equity market performance vs EM peers

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

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

Source: Bloomberg
CORPORATE GOVERNANCE

New corporate governance standards reflect best international practices

Corporate governance

- Guidance for members of boards of directors of financial organisations
- Recommendations on organization and conduct of self-assessment of the Board of Directors efficiency in public JSC
- Recommendations on participation of the Board of Directors in development and management processes of IT and information security risk management in public JSC
- Russian public JSC are implementing mandatory risk management and internal control
- Implementation of internal audit system is mandatory for public JSC since January 2021
- Information disclosure reform: reduction of administrative burden on issuers, elimination of excessive requirements for information disclosure (to be put in force since 01.10.2021)

Corporate actions reform

Amendments to the JSC Law:
- Protection against dilution of the share in the authorized capital of JSC and violation of dividend rights
- Determination of the price at which the issuer repurchases at the request of shareholders shares admitted to trading, taking into account their weighted average cost
- Legal uncertainty with regard to the votes of parties controlled by the party interested in the transaction has been eliminated

Securities

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

Green, Social and Sustainable Finance

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

Next stage

Providing the possibility to hold general meetings of shareholders in an online format

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

Source: Moscow Exchange
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.

- 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.

- 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

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

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

Figure 57: Number of investments funds in Russia by the type

Figure 58: Breakdown of investment funds’ assets by the type (as of year-end 2019)

* As of the end of 2018, Russia - 2019
Source: World Bank, IMF, Bank of Russia, Moscow Exchange
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
Local institutional investor base: the potential of insurance market

Figure 61: Premium volume is gradually growing

Figure 62: Assets hit 3.2% of GDP

Figure 63: Premium structure in 1Q20 shows high level of market diversification

Figure 64: In 1Q20 market remained highly competitive with the Herfindahl-Hirschman Index equal to 1,061.5

Source: Bank of Russia
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, enables instant C2C interbank transfers 24/7/365 using mobile phone number, C2B (customer-to-business), B2B (business-to-business), C2G (customer-to-government) and G2C (government-to-customer) transactions are currently in the pipeline. Starting April 2020, B2C (broker’s and MFIs’ operations) have been enabled, July 2020 – C2C pull-operations (transfer on recipient’s approval). The FPS is offered by **75** Russian banks, including all systemically important.
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 73 mln “Mir” payment cards were issued by year end 2019 in Russia
✓ Co-badging projects with international payment systems: Maestro, JCB, AmEx and UnionPay
✓ Support of mobile payment service Samsung Pay
✓ Mobile payments and contactless service MirPay is launched
✓ Non-financial services are available on the basis of “Mir” payment cards (a transport app is launched in a number of Russian regions)
✓ Payment system “Mir” launched a loyalty program which allows card holders to receive cashback
✓ “Mir” payment cards are accepted in 12 countries, including the Republic of Armenia, Kyrgyz Republic, the Republic of Kazakhstan, the Republic of Belarus, Vietnam, Turkey, Cyprus
FINTECH (1)
Russia provides a favorable environment for FinTech development

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

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

Key areas of development

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

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

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

Main FinTech projects of the Bank of Russia and FinTech Association
- Digital identification
- Digital profile
- Faster payment system
- Distributed ledger technology
- Open API
- Financial marketplace
MARKETPLACE
Shaping future of financial services experience in Russia

- New system for online sales of financial products
- Aimed to complement traditional sales channels with websites and smartphone apps which will enable customers to compare multiple financial product offers
- CBR creates the regulatory environment necessary for the project
CONSUMER PROTECTION
Financial consumer and investor protection as one of priorities for further financial market development

KEY FINANCIAL CONSUMER PROTECTION WORKSTREAMS

- Consumer and investor complaints handling
- Conduct supervision model
- Setting requirements for financial organizations in order to improve consumer and investor protection
- Dispute resolution (ombudsman)
- Differentiation of consumer protection requirements
- Financial awareness improvement
- Disclosure requirements for consumers and investors
- Disclosure requirements for information on risks
**FINANCIAL INCLUSION**

Strong international background helps to promote financial inclusion

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**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

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**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

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**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
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
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 2020

<table>
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<tr>
<th>Date Range</th>
<th>Event Description</th>
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<td>January 31 – February 7</td>
<td>Quiet period</td>
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<td>February 7</td>
<td>Board of Directors meeting on monetary policy</td>
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<td>February 11</td>
<td>Conference call with institutional investors</td>
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<td>March 13-20</td>
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<td>March 20</td>
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<td>June 12-19</td>
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<td>June 19</td>
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<td>June 25</td>
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<td>July 17-24</td>
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<td>September 11-18</td>
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<td>September 18</td>
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<td>October 16-18*</td>
<td>Ad-hoc meetings with investors on the sidelines of the IMF/WB meetings</td>
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<td>October 16-23</td>
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<td>October 28</td>
<td>Conference call with institutional investors</td>
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<td>December 11-18</td>
<td>Quiet period</td>
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<tr>
<td>December 18</td>
<td>Board of Directors meeting on monetary policy</td>
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* tbc.

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