

Asian Securities Forum Annual General Meeting, Istanbul

RUSSIAN MARKET REPORT

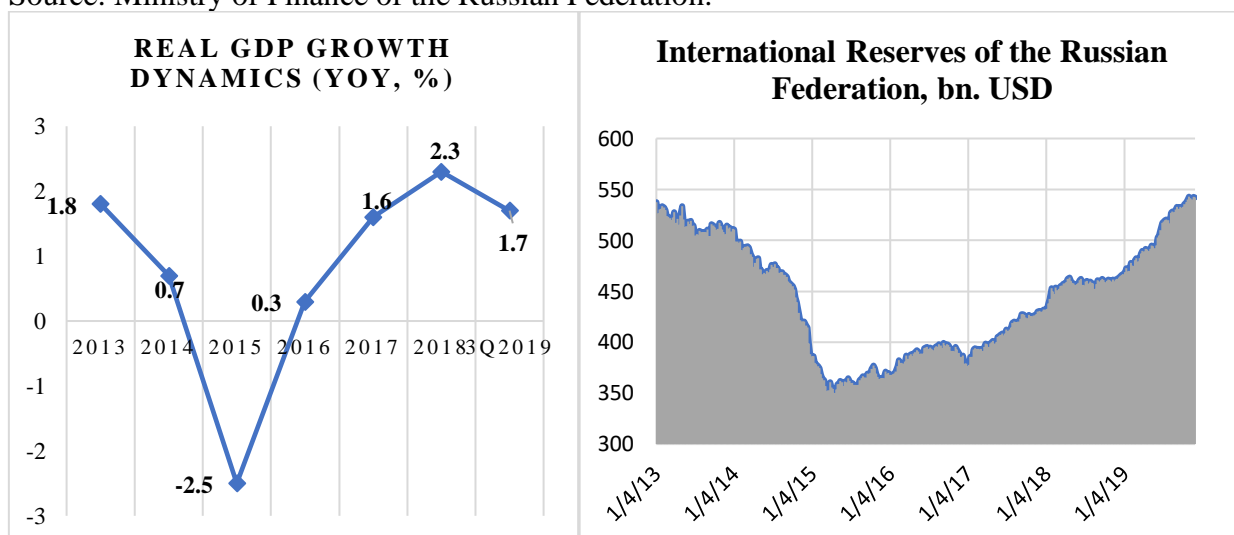
1. ECONOMIC OVERVIEW

1.1. Key economic indicators

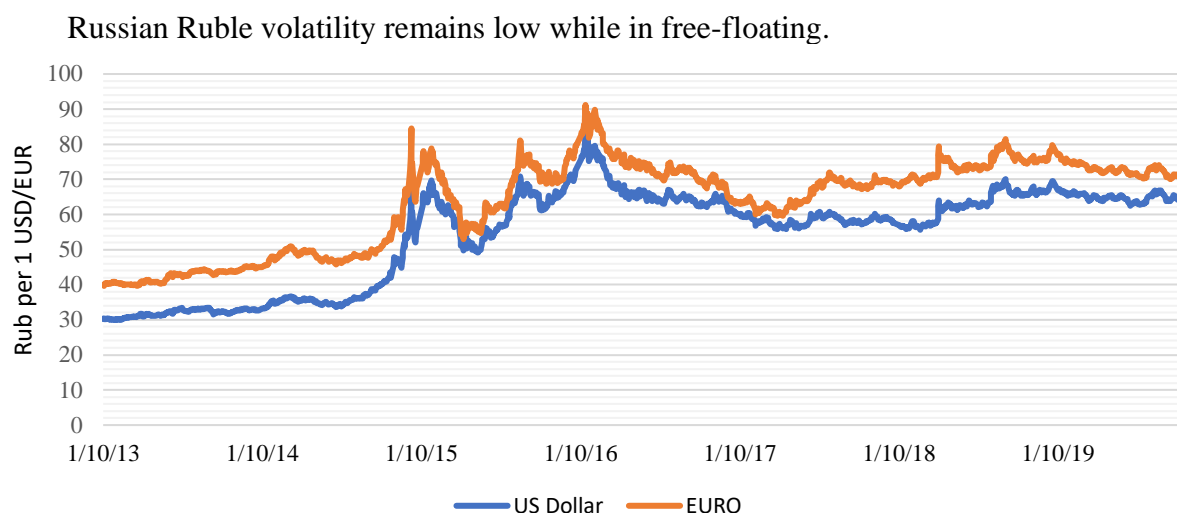
	Jan.-Nov. 2018	Jan.-Nov. 2019	Nov. 2018	Nov. 2019
CPI, %	3,4	2,7	0,5	0,3
PPI, %	14,7	-3,1	3,3	-0,2
Monetary base, %	2,7	-1	-0,9	0,2
USD/RUB real appreciation, %	-10,4	5,2	0,3	0,8
Real effective exchange rate, %	-6	6,1	0,3	0,2
GDP, Rub. bln.	919 553	981 183	89123	96153
Average price of Urals crude oil, USD/bbl	70,9	63,6	64,8	63,3
RUB/USD average exchange rate	62,1	64,9	66,2	63,9

External Debt, bn, US Dollars	Quarter 2019	Latest data	Data for previous period
Total	Q3/19	473,7	482,6
General government	Q3/19	64,8	64,5
Monetary authorities	Q3/19	10,9	10,9
Banks (excluding equity capital)	Q3/19	74,6	80,7
Other sectors (excluding equity capital)	Q3/19	323,4	326,5

Source: Ministry of Finance of the Russian Federation.



Source: Bank of Russia.



Source: Bank of Russia.

1.2. Consumer Price Dynamics

In November 2019, annual inflation decelerated to 3.5%. As in previous months, inflation was dragged down by a complex of disinflationary factors. Many of them were temporary, notably, because the appreciation of the ruble observed since the beginning of the year.

	01.2019	02.2019	03.2019	04.2019	05.2019	06.2019	07.2019	08.2019	09.2019	10.2019	11.2019
Core inflation, on the same month of the previous year	4.1	4.4	4.6	4.6	4.7	4.6	4.5	4.3	4.0	3.7	3.5
Median of price growth distribution, on the same month of the previous year	4.0	4.2	4.5	4.6	4.5	4.5	4.2	4.1	3.9	3.6	3.5

Source: Rosstat, Ministry of Economic Development.

Inflation slowdown is overshooting the forecast. Households' inflation expectations continue to decrease. Price expectations of businesses remain overall unchanged. The growth rate

of the Russian economy increased in Q3. Risks of a substantial global economic slowdown persist. Disinflationary risks still exceed pro-inflationary risks over the short-term horizon.

1.3. The Russian Federation Credit Ratings

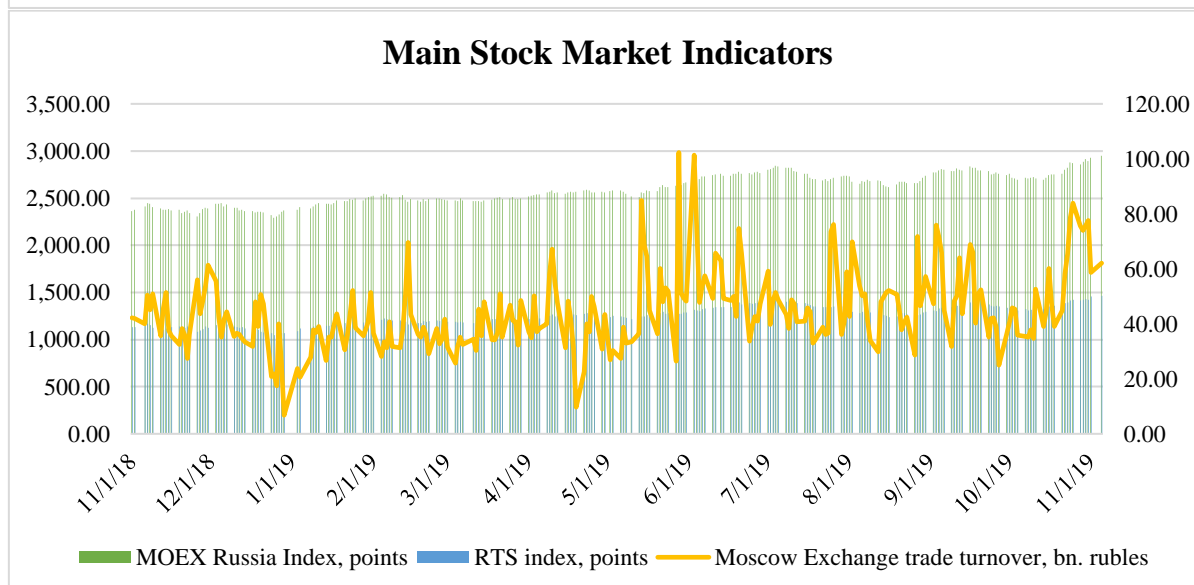
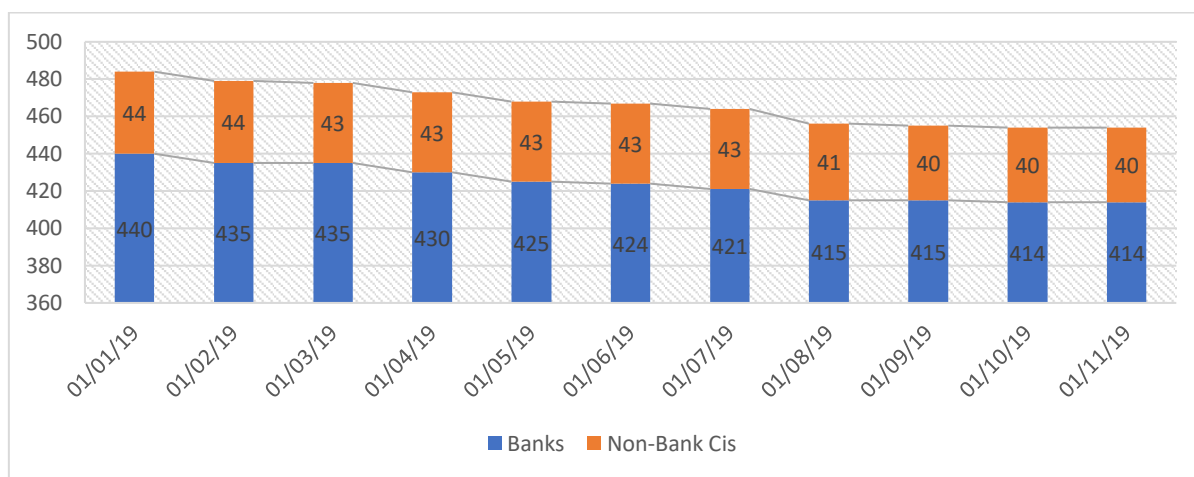
Since February 2019 Russia has investment-grade ratings from all these agencies:

- S&P Global Ratings: BBB-, stable outlook.
- Moody's: Baa3, stable outlook.
- Fitch Ratings: BBB, stable outlook.

2. CAPITAL MARKET OVERVIEW

2.1. Information on Banking System of the Russian Federation and Stock Market Indicators

The number of banks in Russia is progressively declining year over year. As of 01 November 2019 there are 454 operating credit institutions, including 373 credit institution covered by the mandatory deposit insurance system.

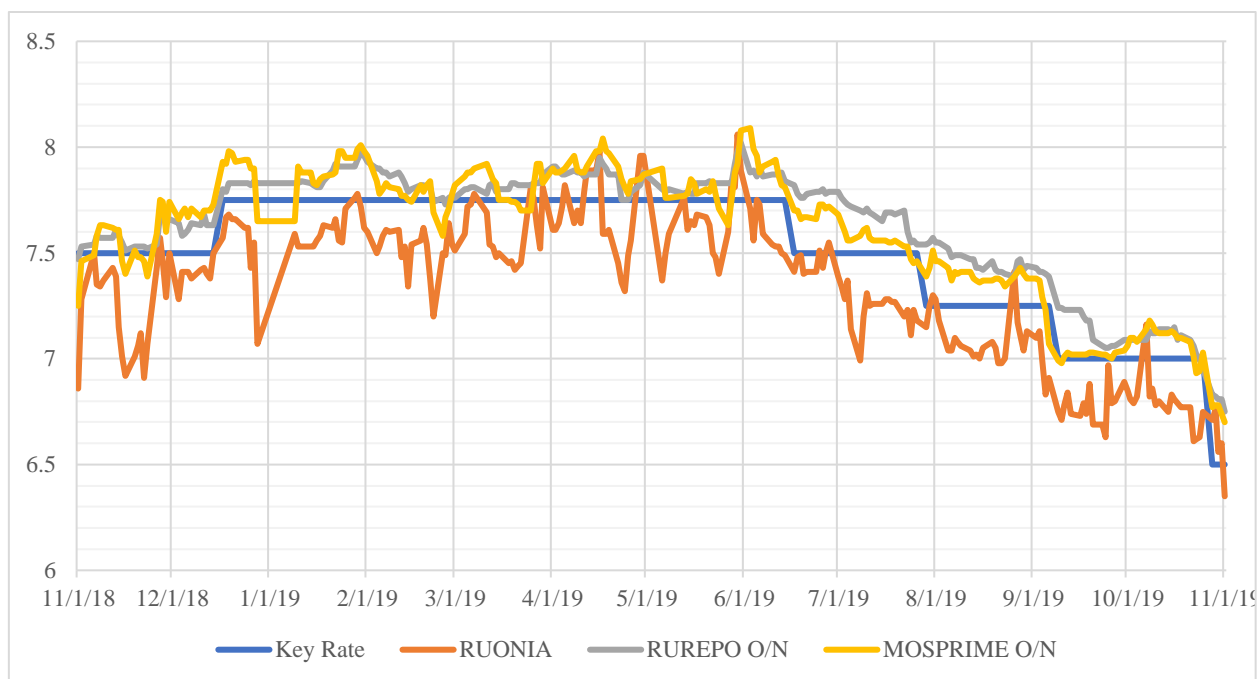


Source: Bank of Russia, Ministry of Finance of the Russian Federation.

2.2. Market Benchmarks and Indexes

On 25 October 2019, the Bank of Russia Board of Directors decided to cut the key rate by 50 bp to 6.50% per annum.

The graph below provides the dynamic's comparison of the Bank of Russia Key Rate performance and OTC market benchmarks.



The reference weighted rate of overnight ruble loans (deposits) **RUONIA** (Ruble Overnight Index Average) reflects the estimation of the cost of unsecured overnight ruble borrowing by banks with minimum credit risk. RUONIA is calculated by the Bank of Russia according to the methodology developed in cooperation with the National Finance Association (NFA) based on the information on overnight interbank lending transactions conducted during a given business day between the leading Russian banks.

MosPrime Rate (Moscow Prime Offered Rate) is the NFA fixing of reference rate based on the offer rates of Russian Ruble deposits as quoted by Contributor Banks — the leading participants of the Russian money market to the first-class financial institutions. MosPrime Rate is calculated for the tenors of 1 day (overnight), 1 week, 2 weeks, 1, 2, 3 and 6 months.

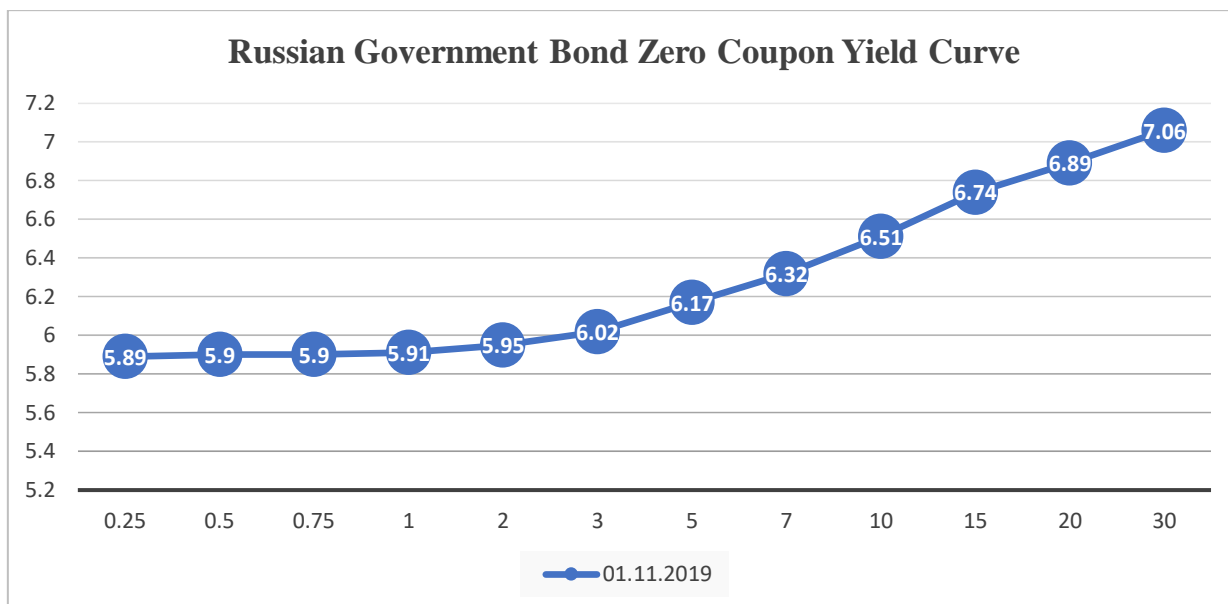
Ruble Offered Repo Rate (**RUREPO**) is the NFA reference rate based on interest rates in rubles for REPO operations to first-class banks with securities of the highest reliability category, announced by leading participants in the Russian repo market. RUREPO is calculated for the tenors of 1 day (overnight), 1 week, 2 weeks and 1 month.

2.3. The public debt of the Russian Federation

Public government debt (OFZ) remains stable, and the Ministry of Finance reached the 3Q 2019 targets and borrowing plan. As of November 2019, the share of non-resident holders of the outstanding OFZ reached 32%.

Structure of the Ministry of Finance borrowings: OFZ with fixed coupon – 90%, inflated OFZ – 5% and floating OFZ – 5%.

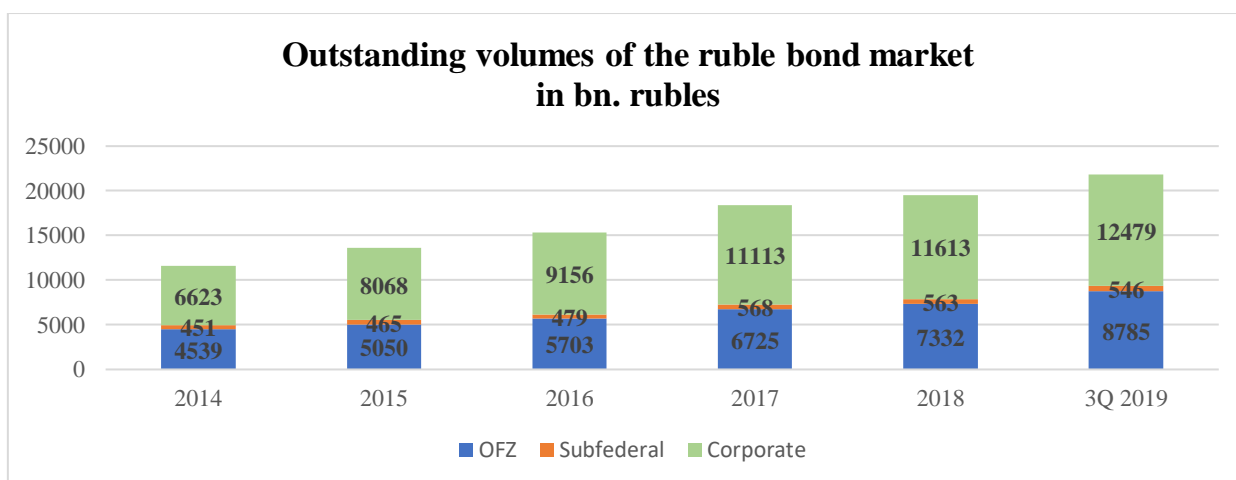
- Public Domestic Debt of the Russian Federation (as of 01.12.2019) (mln. RUB)¹: 10 739 871,6.
- Public External Debt of the Russian Federation (as of 01.12.2019): USD 58 622 mln.



2.3. Overview of the Russian bond market

According to the results of 9 months of 2019, the total market for ruble bonds increased by 11.8% compared to the beginning of the year and amounted to about 21.811 tn. Rubles. The volume of corporate bonds in circulation at the end of the period under review amounted to about 12.479 trillion rubles, which is 7.45% higher than the beginning of the year. The volume of the regional bond market amounted to the end of 3Q 2019. 546.3 bn. Rubles, which is 3.0% lower than the beginning of the year.

On the market of sub-federal and municipal bonds at the end of 3Q 2019, 103 issues of debt securities of 42 regions-issuers were presented, as well as 11 issues of 6 local authorities. On the corporate bond market at the end of 3Q 2019 1613 issues of 425 issuers were in circulation, which is 186 issues and 20 issuers more than at the beginning of the year.

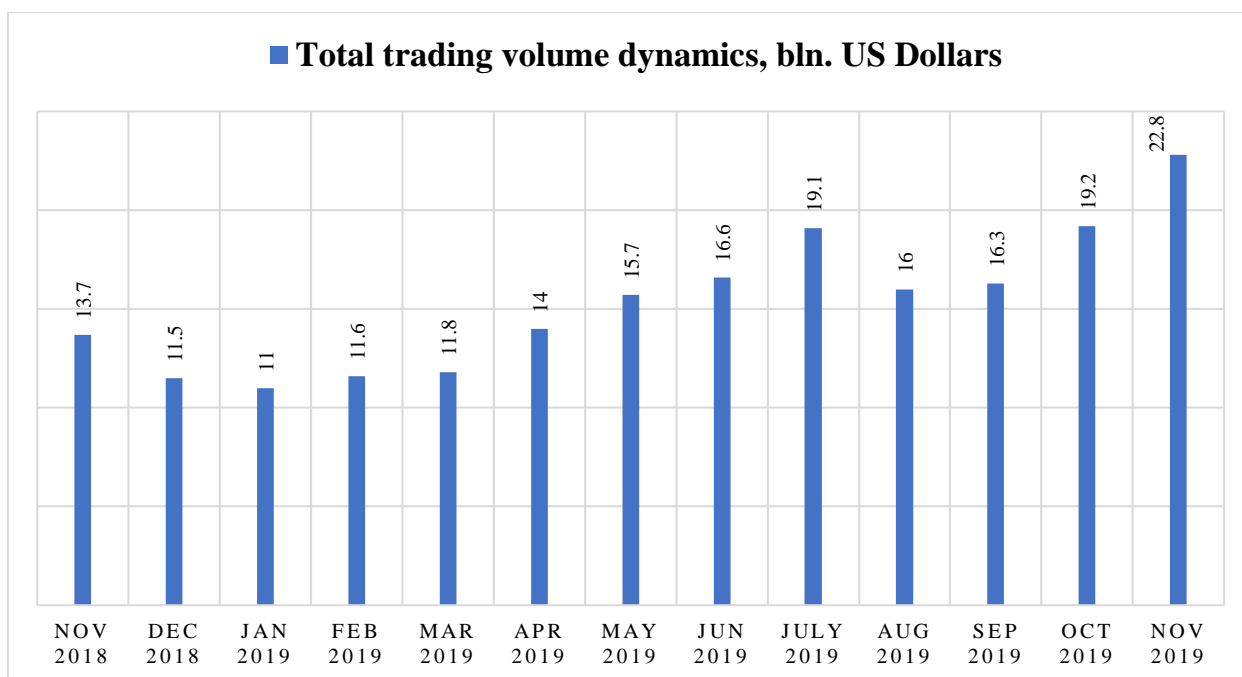


Source: BC Region.

¹ Including state guarantees of the Russian Federation in the currency of the Russian Federation – RUB 1 386 134,4.

2.4. Overview of the Russian equity market

Russian equity trading volumes shows further growth dynamics, which is mainly driven by non-residents (48,1%), individuals (35,2%) and dealers (8,3%).



Source: Moscow Exchange.

2.4. Overview of the Russian repo market

The structure of attracting funds by the participants of the Russian repo market in direct repos in 2019 did not undergo significant changes compared to the data of 2018. The main OTC repos are concluded with the Federal Treasury, between the participants of the domestic market, as well as the reverse repurchase (buy-sell) with external counterparties. Exchange interdealer repos and repos with a central counterparty are the primary source of raising funds through repos, while repo transactions with a central counterparty prevail over interdealer exchange repos in quantitative terms.

Operations with the Bank of Russia are significant but relatively rare. Repo transactions with the Federal Treasury are most likely available only to large banks (the average volume of one trade is 24 bn. rubles). OTC transactions within Russia are long-term commonly.

The significant part of repo transactions in the domestic Russian OTC market is carried out on its behalf, while in the foreign market the ratio with brokerage transactions (that is, on behalf of clients) is approximately equal. On the stock market, the bulk of transactions are carried out by brokers. Transactions at the own expense exceed the volume of broker transactions.

The key terms of OTC repo transactions in Russia are 16–90 days and more than 1 year (for an open position). For operations on the foreign market, 82% of the open position is formed by transactions for up to 3 months. For exchange transactions, the main term is overnight.

The primary counterparty to repurchase transactions in the domestic market is credit institutions. The volume of transactions with non-residents in the foreign market in 2019 increased compared to 2018.

The main currencies of repurchase transactions are Russian rubles and US dollars. In 2019, the share of the euro in open positions on OTC repos in foreign markets decreased, but the share of the euro in exchange transactions increased (from 1.4% to 4%).

The main instrument of OTC repos in the domestic market is corporate bonds. With OTC repo operations in the foreign market, the distribution of instruments is more uniform; a significant share is in stocks. Mortgage-backed bonds are not used in over-the-counter repos.

The main instrument of exchange repo operations on the domestic market are exchange bonds. In exchange transactions with external collateral, Eurobonds are the dominant instrument.

The large transactions on the local market are concluded on the basis of SRO NFA Master Agreement and/or their modifications. The key Master Agreement for the transactions on the global markets is ICMA GMRA.

The total volume of repo transactions in 2019 and changes from the corresponding period of 2018 in bn. rubles

	IQ	IIQ	IIIQ	Total volume for 3Q
Repo transactions with the Bank of Russia on the organized market (in rubles)	261 +110%	200 +426%	78 +69%	538 +158%
Repo with central counterparty	115 647 +71%	119 616 +123%	115 617 +89%	350 880 +92%
Exchange inter-dealer repo	15 354 -72%	20 034 -6%	17 840 +29%	53 228 -41%
Ruble repo transactions with the Bank of Russia in the OTC market	192 –	23 –	1 –	216 –
Repo transactions with Federal Treasury	5 376 –	6 380 –	4 840 –	16 596 –
Total: ruble repo transactions with the Bank of Russia and Federal Treasury	5 568 +447%	6 403 +60%	4 841 -14%	16 812 +58%
Currency repos with the Bank of Russia	0 –	0 –	0 –	0 –
OTC repo transactions in the domestic market	10 762 +316%	9 521 +220%	10 493 +224%	30 776 +254%
OTC repo transactions in the international markets buy/sell	1 645 –	2 425 –	3 476 –	7 546 –
OTC repo transactions in the international markets sell/buy	489 –	284 –	212 –	984 –
Total: OTC repo transactions in the international markets	2 134 +2%	2 709 -15%	3 688 +58	8 530 +12%
	0	0	45	45

The total volume of repo transactions in 2019 and changes from the corresponding period of 2018 in bn. rubles

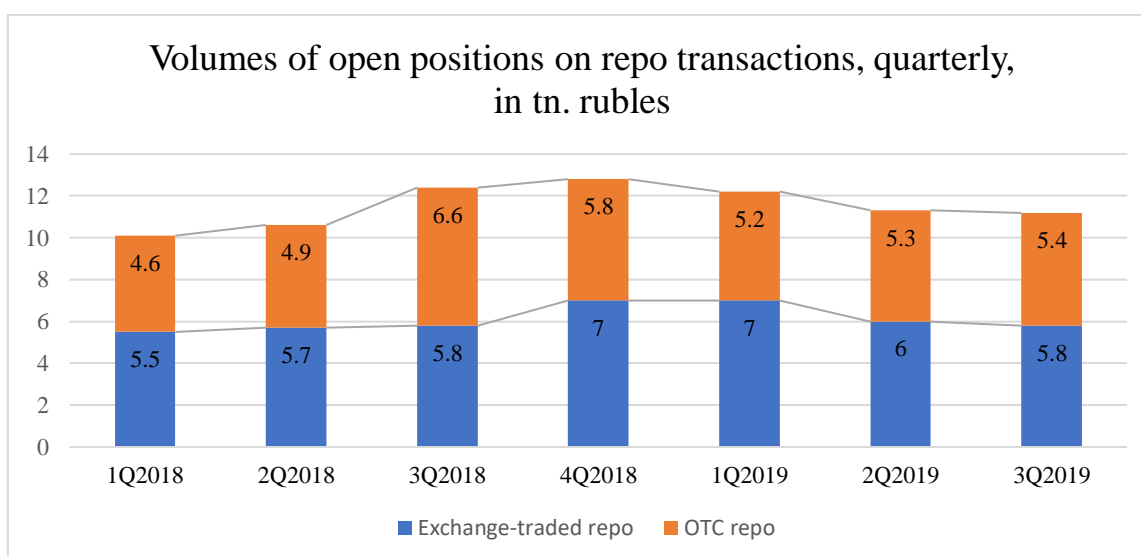
	IQ	IIQ	IIIQ	Total volume for 3Q
Repo transactions with the Finance Committee of St. Petersburg	–	–	–	–
Other	129	372	536	1 037
Total	149 855 +15%	158 855 +87%	163 631 +89%	461 846 +53%

Volumes of open repo positions in 2019 compared to the corresponding period of 2018 in bn. rubles

	IQ	IIQ	IIIQ	Average open position for 3Q
Repo transactions with the Bank of Russia on the organized market (in rubles)	5 +400%	3 –	0,02 –	2,7 –
Repo with central counterparty	6 435 +196%	5 439 +142%	5 288 +118%	5 720 +150%
Exchange inter-dealer repo	588 +14%	519 +4%	466 +169%	524 +32%
Ruble repo transactions with the Bank of Russia in the OTC market	0 –	0 –	0 –	0 –
Repo transactions with Federal Treasury	501 –	632 –	521 –	551 –
Total: ruble repo transactions with the Bank of Russia and Federal Treasury	501 +1689%	632 +168%	521 -33%	551 +58%
Currency repos with the Bank of Russia	0 –	0 –	0 –	0 –
OTC repo transactions in the domestic market	4 250 +231%	4 128 +124%	4 313 +136%	4 230 +190%
OTC repo transactions in the international markets buy/sell	190 –	443 –	448 –	360 –
Сделки внебиржевого РЕПО на внешнем рынке sell/buy	261 –	110 –	95 –	155 –

Volumes of open repo positions in 2019 compared to the corresponding period of 2018
in bn. rubles

	IQ	IIQ	IIIQ	Average open position for 3Q
Total: OTC repo transactions in the international markets	451 +193%	553 +394%	543 +45%	515 +141%
Repo transactions with the Finance Committee of St. Petersburg	0 –	0 –	10 –	3 –
Other	3 –	12 –	2 –	6 –
Total	12 233 +195%	11 286 +159%	11 143 +100%	11 552 +146%



3. RECENT HIGHLIGHTS

- On 28 January 2019 Bank of Russia launched the Faster Payments System (FPS) to enable individuals to make instant transfers to each other 24/7 using only a mobile phone number – regardless of in which banks the sender and recipient have their accounts.
- On 28 February 2019 NFA received a new SRO license of the investment advisors' activities.
- On 11 March 2019 Moscow Exchange and the Russian Union of Industrialists and Entrepreneurs to calculate sustainability indices daily. At present, 22 companies that lead the way in terms of ESG disclosure are included in the Responsibility and Transparency index, mainly export-oriented companies in Russia.
- On 6 March 2019 NFA published Guidance on verification practices for the qualification of foreign financial instruments as securities under the Russian regulation, which may be helpful for international financial market participants which are looking for providing international securities to its Russian clients or under the Russian law.

- On May 30, 2019, the SRO NFA joined the UN global initiative in the field of corporate social responsibility and sustainable development - the UN Global Compact. The participation of the SFA NFA in the UN Global Compact will allow the Association and its members to receive the necessary methodological and informational support in implementing the principles of sustainable development in Russia, taking into account international best practices. Since July 29, 2019, the SFA NFA joined the National Network of the Global Compact Association for the consistent implementation of the UN international initiative in the field of corporate social responsibility and sustainable development - the UN Global Compact. Membership of the SRO NFA in the Association will expand the expertise and awareness of the SRO NFA and its members in the implementation of sustainable development mechanisms in Russia, as well as more.
- On June 6, 2019, a joint report was published with ICMA, “A Comparative Review of Practical Approaches and Procedures in the Russian and International Primary Borrowing Markets” in Russian and English. The report was prepared by the ICMA-SRO NFA Working Group, which included representatives of leading bond organizers and underwriters, financial market infrastructure organizations, as well as self-regulatory and professional associations. The report covers all the main aspects and mechanisms for issuing corporate bonds in the international syndicated and Russian bond markets: the organizational structure of the leading organizers of the issue, the appointment of the leading organizers in the Russian market, classification of concepts for issuing debt obligations, review of documentation for issuing debt obligations and registration procedures, collecting applications for purchase of an issue, pricing, settlements and other issues of issuing bonds in the primary market.
- In August 2019 Moscow Exchange established Sustainability Sector for financing projects in the fields of environmental and social sustainability. Admission requirements to the Green segment based on the second opinion based on the ICMA Green Bond Principles and Climate Bond Initiative.
- On 25 September 2019 NFA organized International Derivatives Forum, which brought together more than 200 participants. As part of the panel discussions, the Forum participants discussed: trends and innovations in the exchange and over-the-counter derivatives market, Bank of Russia initiatives to develop the market for interest-bearing derivatives; prospects for the development of the structural bond market and the offer of this instrument to unskilled investors; trends in corporate practice of hedging commodity risks, regulatory incentives for the development of commodity hedging practices; Opportunities for institutional investors; market risk management strategies for private pension funds, managing companies and insurance companies.