Credit risks in Russia
Agenda

• About RAEX-Europe
• Sovereign government credit risks of Russia
• Russian banking system overview
About RAEX
Rating-Agentur Expert RA (RAEX-Europe)

- The Agency works since 2013 in Frankfurt am Main
- The CRA, registered by the European Securities and Markets Authority (ESMA)
- Official status of External Credit Assessment Institution (ECAI)
- International rating service team with diverse academic and professional experience
- More than 20 years of experience in the analytical researches and risks analysis
ECAI mapping RAEX-Europe

Mapping, approved by the European Commission in April 2018:

<table>
<thead>
<tr>
<th>Credit quality step</th>
<th>RAEX- Europe</th>
<th>Fitch</th>
<th>Moody’s</th>
<th>S&amp;P</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>AAA, AA</td>
<td>AAA, AA</td>
<td>Aaa, Aa</td>
<td>AAA, AA</td>
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<tr>
<td>2</td>
<td>A</td>
<td>A</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>3</td>
<td>BBB</td>
<td>BBB</td>
<td>Baa</td>
<td>BBB</td>
</tr>
<tr>
<td>4</td>
<td>BB</td>
<td>BB</td>
<td>Ba</td>
<td>BB</td>
</tr>
<tr>
<td>5</td>
<td>B</td>
<td>B</td>
<td>B</td>
<td>B</td>
</tr>
<tr>
<td>6</td>
<td>CCC, CC, C, D, E</td>
<td>CCC, CC, C, RD, D</td>
<td>Caa, Ca, C</td>
<td>CCC, CC, R, SD/D</td>
</tr>
</tbody>
</table>
RAEX- Europe activities

- Assigning **credit ratings** to:
  - Sovereign issuers
  - Sub-sovereign issuers (regions)
  - Banks
  - Insurance companies
  - Companies from non-financial sectors

- Assigning **non-credit ratings**: **ESG ratings** (environmental, social and governance)

- Additional **services for stock-exchanges**: **Green Bond Second Opinion**

- **Business-conferences** and presentations in Frankfurt-am-Main
International Forum
Responsible investments in the CIS region

• 70 participants from CIS and EU financial institutions
• >20 speakers from main institutions of sustainable finance industry

Gleb Shevelenkov
Director of Debt Market Department at Moscow Exchange

Yuliya Sofronova
Head of Nordic, CEE & CIS, Signatory Relations at UN PRI

Aaron Röschke
Head of German-Russian Centre for Economic Cooperation, Chamber of Industry and Commerce in Dusseldorf

Timur Onzhanov
Managing Director, EMEA Head at Astana International Financial Center Authority (AIFCA)

Serena Vento
Director of Fundraising & Partnerships, Climate Bond Initiative

Valérie Guillaumin
Director, Market Practice and Regulatory Policy, International Capital Market Association (ICMA)

Dr. Jean-Pierre Bussalb
Head of Section, Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)

Sachin Vankalas
General Manager of LuxFLAG
Sovereign government credit risks of Russia
### Sovereign rating list of RAEX-Europe:

<table>
<thead>
<tr>
<th>Country</th>
<th>Sovereign government rating</th>
<th>Dynamics</th>
<th>Outlook</th>
<th>Date</th>
<th>National currency</th>
<th>Foreign currency</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>BB-</td>
<td>Confirmed</td>
<td>Positive</td>
<td>10.01.2020</td>
<td>National currency</td>
<td>Foreign currency</td>
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<tr>
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<td>Stable</td>
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<tr>
<td>Georgia</td>
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<tr>
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<tr>
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<td>Foreign currency</td>
<td>Date</td>
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<tr>
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<td>Stable</td>
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<td>Foreign currency</td>
<td>Date</td>
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<tr>
<td>Russia</td>
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<td>Confirmed</td>
<td>Positive</td>
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<td>National currency</td>
<td>Foreign currency</td>
<td>Date</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>B</td>
<td>Confirmed</td>
<td>Negative</td>
<td>09.08.2019</td>
<td>National currency</td>
<td>Foreign currency</td>
<td>Date</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>BB-</td>
<td>Confirmed</td>
<td>Stable</td>
<td>06.09.2019</td>
<td>National currency</td>
<td>Foreign currency</td>
<td>Date</td>
</tr>
</tbody>
</table>
Positive factors

- The Central Bank of Russia (CBR) carries out an **effective monetary policy** keeping inflation in line within the target of 4%
- The banking system’s **profitability dynamics**: ROA and ROE have improved to 2,1% and 18,8% as of November 2019
Positive factors

- GDP growth in 2018 exceeded forecasts, and despite the restrictive fiscal and monetary policies, accelerated to 2.3%. In 2019 the economic growth pace was restrained to 1.3%*, supported by dynamic in extracting, manufacturing and financial sectors.

*According to the preliminary data from Rosstat
Positive factors

- Still high level of **current account surplus around 4% in 2019**, after record current account surplus at almost 7% in 2018
- The **external position is robust with rising resistance to external shocks**, supported by a free-float exchange rate regime, ongoing external deleveraging of the private sector and a significant accumulation of international reserves
Positive factors

• **Strong government debt position** confirmed by the deleveraging trend during the last four years: the general government debt expected to decrease to 14% of GDP and 41% of budget revenues as of the end of 2019.

• The overall **budget balance turned into a surplus in 2018** posting a figure of 2.9% of GDP as compared to deficits recorded in previous years, and expected to be **close to 1.3% in 2019**.
Restricting factors

- The level of private credit to GDP is declining and stood at 53.9% in 2018, which is significantly lower than the same metric in Russia’s BRICS peers.
- The total capitalization of the stock market despite continuous growth remains below 50% of GDP in 2019, significantly lower than the world indicators of developed countries.
Restricting factors

- The **economic competition and business efficiency** in Russia is primarily limited by the weakness of its institutions and the significant footprint of the state.
- The **dynamics of foreign investment inflow in 2018 was negative**, as demand for Russian assets is restrained by sanctions, however the **growth of FDI is expected by end 2019**.
Negative factors

• The **increasing influence and presence of the state**, especially in the banking and oil and gas sectors, is the main structural weakness of the economy that restrains competition and business efficiency

• **NPLs to total loans ratio**, despite decreasing by 0.7 p.p. in 3Q 2019 y-o-y, remains high at 10%
Stress-factors

- Concentration of exports in the oil and gas industry remains high, with the share in exports of goods of up to 59% in 2018 and 58% in 3Q 2019 (moderately weak stress-factor).

- The stability of the Russian economy is threatened by sanctions risks associated with current and possible restrictions on business and the financial industry (moderately strong stress-factor).

[Diagram showing the share of oil and gas in export and budget revenues for 2017 and 2018.]

- 2017: 55% oil and gas, 22% other export.
- 2018: 59% oil and gas, 28% other export.
Positive outlook

The **outlook** was changed from stable to **positive**:  
*In the mid-term perspective there is a high probability of upgrading the rating score*

- Improved macroeconomic stance
- Increased efficiency of the **monetary policy**
- **Robust external position** with rising international reserves and continued deleveraging of the private sector
- **Strengthening of public finances** with adherence to the fiscal rule
Russian banking system overview
The main driver of assets growth in 2019 was consumer lending (+18.6%), while corporate lending is stagnating (+4.5%). Regulatory changes from the CBR will lead to slower growth of consumer loans.

Asset quality will remain at acceptable levels in the mid-term view, while in the long run, risks may increase, especially as a consequence of external shocks.

*As of 1 December 2019*
The system remains profitable, but most of the profit comes from SOBs. The share of profit-generating banks was 84% as of December 2019 (by total number).

Decrease of net interest margin of banks in 2019 due to increased competition and problems for “universal” banks.

Capital adequacy and liquidity levels remain acceptable.
Market structure

- The revocation of licenses continues: **small regional banks are under risk**
- **State ownership** dominates the banking system and will keep increasing in the mid-run

![Graph showing market structure and number of banks](image-url)
Outlook

• **High competition** on the market with further **reduction of the number of banks** with risks for small regional FIs

• The banks’ **profitability and margin will keep decreasing**

• This will put **pressure on small banks’ capital and liquidity**, while the largest banks will remain stable

• Growth of **non-secured consumer loans** will be lower, but moderate credit risks remain in the mid-run for this segment

• The **mortgage loan** segment is expected to be the one with the highest portfolio growth

• **Corporate lending** is expected to grow at a similar pace

• The main risks of the system are related to **sluggish economic growth and stagnated personal income**
Thank you for your attention!