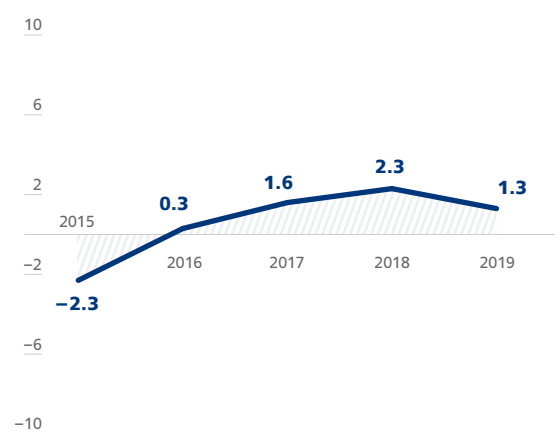


# Management Report

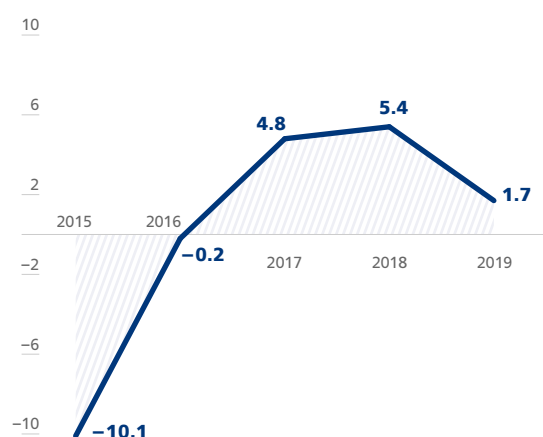
## RUSSIAN ECONOMY AND BANKING SECTOR

### RUSSIAN MACROECONOMIC INDICATORS (% CHANGE YEAR-ON-YEAR)

#### GROSS DOMESTIC PRODUCT



#### INVESTMENTS IN FIXED ASSETS



#### INDUSTRIAL PRODUCTION



#### RETAIL TURNOVER



The Russian economy grew by 1.3 % in 2019. The largest driver of growth was household final consumption expenditure, which increased by 2.3 % in 2019.

In 2018–2019, the structure of economic growth from the demand perspective was shaped by the *Ministry of Finance of the Russian Federation*

budget rule<sup>1</sup>: the real effective exchange rate decreased by 7.7 % in 2018 and increased by 2.5 % in 2019 despite an increase in the price of oil in 2018 and a decrease in 2019.

As a result, exports fell by 2.2 % in 2019, while imports expanded by 2.2 %.

<sup>1</sup> According to the budget rule, the Ministry of Finance of the Russian Federation uses all oil and gas revenues from oil prices above the baseline set in the budget of the Russian Federation to purchase foreign currency for the National Wealth Fund. The price of oil in the 2019 budget was set at USD 41.6 per barrel (Urals).

In addition, economic growth was supported by a 1.4 % increase in gross fixed capital formation and by a 2.8 % increase in government spending.

Household demand was supported by solid real wage growth and the expansion of retail lending. Real wages increased by 2.9 % in 2019, accelerating in December to 6.9 % year-on-year. The higher pace of growth in real wages was partly due to a slowdown in consumer inflation, though it was to a large degree attributable to an increase in companies' net profit: in 2019, companies' net profit increased by 17.5 % from RUB 13.4 trillion to RUB 15.8 trillion<sup>2</sup>.

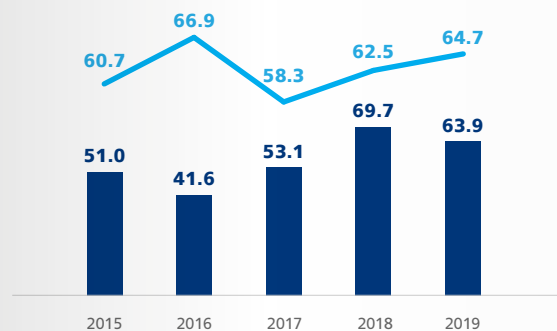
On the whole, consumer confidence matched growth in real wages, as it increased in the second half of 2019 amid an increase in wages and slower inflation. In 2019, retail sales grew by 1.6 %, with more visible growth in the non-food segment.

From the point of view of industrial GDP, the financial sector (+9.7 %) was the biggest contributor to economic growth in 2019 thanks to higher retail and corporate lending, followed by industrial production (+2.4 %) and wholesale and retail trade (+1.7 %). Industrial production increased in 2019 thanks to growth in mining (+3.1 %) and manufacturing (+2.3 %).

An increase in the VAT rate sped up inflation at the beginning of the year (+5.3 % year-on-year in March) before slowing to +3.0 % year-on-year by the end of the year. Two main factors contributed to the slowdown in inflation: an increase in supply in some food markets (in meat, fruits and vegetables in particular) and a stronger rouble, which slowed inflation for non-food products.

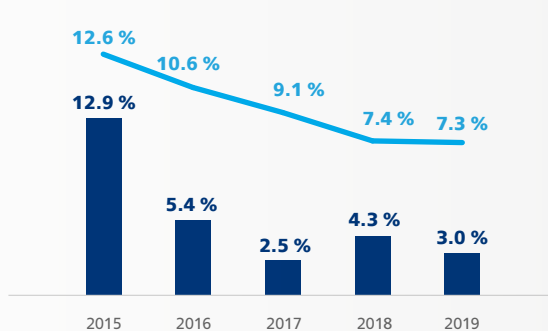
Slower-than-expected growth in prices led the *Bank of Russia* to lower its key rate from 7.75 % at the beginning of 2019 to 6.00 % at the beginning of 2020.

#### OIL PRICE AND EXCHANGE RATES



— USD/RUB (*Bank of Russia*, average), RUB  
 ■ Oil price (*Urals*, average), USD

#### INFLATION AND BANK OF RUSSIA KEY RATE



— *Bank of Russia* key rate (average)  
 ■ CPI inflation (December / December)

<sup>2</sup> According to the Federal State Statistic Service.

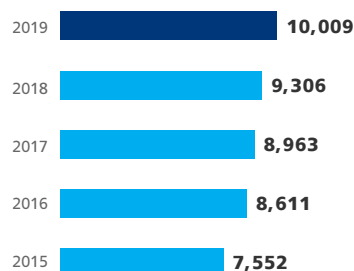
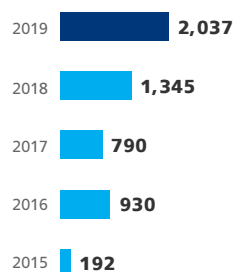
## ASSETS, RUB billion



In 2019, growth in the Russian banking sector continued on the back of real GDP growth, a decrease in the key rate and the strengthening of the rouble against the US dollar. Asset growth slowed to 2.7 % compared with a 10.4 % increase a year earlier. At the same time, the penetration of banking services (the ratio of banks' total assets to GDP) decreased by 2.4 p.p. for the year to 88 %.

Growth in the loan portfolio was driven by demand amid lower interest rates on loans stemming from the *Bank of Russia's* easing of monetary policy. At the same time, the measures taken by the regulator to cool growth in consumer lending had a visible effect, especially in the fourth quarter, when additional premiums were introduced on risk factors for unsecured consumer loans depending on the borrower's debt load and the total cost of the loan. As a result, growth in retail lending slowed in 2019 to 18.5 % from 22.4 % a year earlier. At the same time, growth in mortgage lending was down to 16.8 % (compared with 23.3 % in 2018), while consumer lending increased by 19.7 % (compared with 21.8 % in 2018). Growth in the corporate portfolio was constrained by poor demand in the first half of the year and the appreciation of the rouble against the US dollar. By the end of the year, the portfolio had increased by 2.3 % compared with 12.0 % growth in 2018. The share of overdue loans in the corporate portfolio increased by 1.3 p.p. to 6.9 %, while decreasing by 0.8 p.p. in the retail portfolio to 4.3 %.

## EQUITY, RUB billion

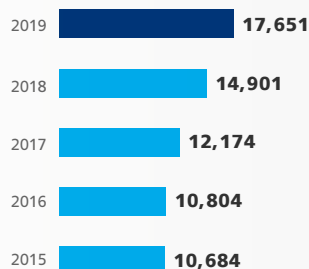
PROFIT BEFORE TAX,  
RUB billion

Corporate accounts and deposits remained an important source of funding, accounting for 72 % of banks' liabilities. At the same time, growth in balances in customer accounts slowed in the context of a stronger rouble and lower deposit rates. Corporate account balances increased by 1.2 % compared with 14.1 % in 2018, while term deposits increased by 7.3 % (compared with 9.5 % in 2018). During the year, the net loans-to-deposits ratio decreased by 2.2 p.p. to 74 %. Banking sector debt to the *Bank of Russia* decreased by 6 % to 2.8 % of assets.

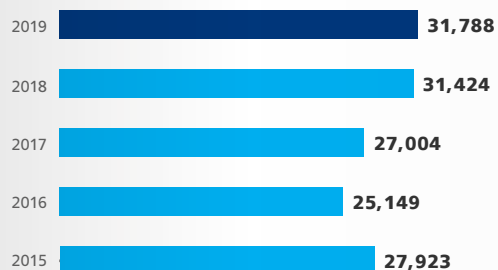
**LOANS TO LEGAL ENTITIES, RUB billion**



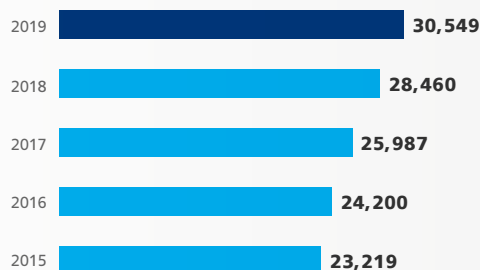
**LOANS TO INDIVIDUALS, RUB billion**



**DEPOSITS AND ACCOUNTS OF LEGAL ENTITIES, RUB billion**



**DEPOSITS AND ACCOUNTS OF INDIVIDUALS, RUB billion**



Profit before tax increased by 52 % in 2019 to RUB 2.0 trillion, while net profit increased by 73 % to RUB 1.7 trillion. At the same time, return on equity increased from 10.8 % in 2018 to 17.6 % in 2019. The number of unprofitable credit institutions decreased from 100 at the end of 2018 to 69. Profit growth boosted capital adequacy by 18 b.p. to 12.3 %.

**RUSSIAN BANKING SECTOR**

Profit before tax during 2019 increased

by **52 %**

Return on equity increased

to **17.6 %**

Net profit during 2019 increased

by **73 %**

Capital adequacy increased

to **12.3 %**