

Rating Industry Reform in Russia

April 2017



Current Regulatory Framework

- The current regulatory framework uses credit ratings of **international rating agencies** as a primary criterion in the following key regulation requirement:

Pension Funds

- Threshold for investing of State pension Fund assets
- Thresholds for investing of private pension fund assets

Banks

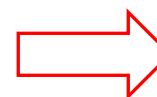
- Threshold for the CBR Lombard List
- Determination of loan loss provision

| Moody's | Standard & Poor's | Fitch |
|-------------------|-------------------|-------|
| Investment grade | | |
| Baa1 | BBB+ | BBB+ |
| Baa2 | BBB | BBB |
| Baa3 | BBB- | BBB- |
| Speculative grade | | |
| Ba1 | BB+ | BB+ |
| Ba2 | BB | BB |
| Ba3 | BB- | BB- |
| B1 | B+ | B+ |
| B2 | B | B |
| B3 | B- | B- |

- Sovereign rating (for S&P – rating in the local currency)
- Threshold for investing of State Pension Fund assets
- Current threshold for a guarantor's rating to be eligible for investing of private pension fund assets (the sovereign rating minus 3 notches)
- Current threshold for the issue (issuer) rating to be eligible for investing of private pension fund assets (the sovereign rating in minus 5 notches)
- Rating threshold for the CBR Lombard List

Investing of Pension Funds Assets

| Investment Restrictions | VEB | Non-state Pension Funds | |
|-------------------------|----------------------------|---|---|
| | | Savings | Reserves |
| Eurobonds | Not eligible | Not eligible | Min two investment grade ratings from IRA* for Non-resident issuers |
| Local bonds | BB+/Ba1 or higher from IRA | a. Issue/Issuer ratings: RF-5 notches from IRA OR A(I) from RAEX OR BB+(RU) from ACRA b. Guarantor ratings: RF-3 notches from IRA OR A++ from RAEX OR BBB+(RU) from ACRA | No rating restrictions on Resident issuers |



Russian issuers with min two investment grade ratings

- Nornickel (BBB-/Ba1/BBB-)
- Lukoil (BBB-/Ba1/BBB-)
- NLMK (BBB-/Ba1/BBB-)
- NOVATEK (BBB-/Ba1/BBB-)
- Severstal (BBB-/Ba1/BBB-)

* IRA - International rating agency

Rating Industry Reform (1/2)

- Federal Law #222-FZ from 13 July 2015 “On the Activities of Credit Rating Agencies in the Russian Federation”:
 - Rating agencies that would like their credit ratings to be applied in the Russian Federation will have to be registered in accordance with the requirements of the Central Bank of Russia
 - International scale ratings can be assigned only by registered branches of foreign agencies
 - **Only national scale ratings of registered rating agencies will be used for regulatory purposes**

Credit Rating Agencies

| Type | Agencies | Status |
|---|--|--|
| Registered agencies | Analytical Credit Rating Agency (ACRA) | Entered in the Register on 26 August 2016 |
| | RAEX (Expert RA) | Entered in the Register on 6 December 2016 |
| Registered branches of foreign agencies | Standard & Poor’s | In process |
| | Moody’s | In process |
| | Fitch | In process |

Rating Industry Reform (2/2)

- New regulation of rating industry is expected to come into force starting from **13 July 2017**
- International rating agencies have withdrawn (Fitch, Moody's) or are going to withdraw Russian national scale ratings due to requirements of Federal Law #222
- Currently use of national scale ratings assigned by ACRA and RAEX has been incorporated into regulation of pension fund assets investing (threshold set at BB+ (RU) and A(I), respectively)
- However a number of regulatory acts still needs to be amended in order to reflect this shift
- **Still there is no clarity on:**
 - **How outstanding securities will be deemed under new regulation framework**
 - **Whether ACRA and RAEX ratings will be eligible as thresholds for the CBR Lombard List**

Number of Issuers with outstanding ruble bonds and assigned credit rating*

| International Rating From at Least One Agency | S&P | Moody's | Fitch | ACRA | RAEX |
|---|-----|---------|-------|------|------|
| 168 | 80 | 85 | 105 | 10 | 49 |

* - Number of issuers with assigned international scale ratings for S&P, Moody's, Fitch and national scale ratings for ACRA and Expert RA

Source: Cbonds, Sberbank CIB estimates

Recent Eurobond Placements

| Date | Issuer | Ratings (S/M/F) | Volume, mln | Currency | Tenor | Coupon | Share of Russian Investors in Total Allocation | |
|------------|------------|-----------------|-------------|----------|-----------|--------|--|--|
| 05/10/2016 | Eurochem | BB-/-/BB | 500 | USD | 3.5 | 3.80% | 56% | |
| 19/10/2016 | Polyus | Ba1/BB-/BB- | 500 | USD | 5.5 | 4.70% | 48% | |
| 26/10/2016 | Lukoil | BBB-/Ba1/BBB- | 1,000 | USD | 10 | 4.75% | 15% | |
| 27/10/2016 | CBOM | BB-/B1/BB | 500 | USD | 5 | 5.88% | 52% | |
| 03/11/2016 | Domodedovo | BB+/-/BB+ | 350 | USD | 5 | 5.88% | 18% | |
| 26/01/2017 | Rusal | -/Ba3/B+ | 600 | USD | 5 | 5.13% | 19% | |
| 31/01/2017 | Polyus | BB-/Ba1/BB- | 800 | USD | 6 | 5.25% | 57% | |
| 16/02/2017 | Severstal | BBB-/Ba1/BBB- | 500 | USD | 4.5 | 3.85% | 9% | |
| 22/02/2017 | RuRail | BB-/Ba1/BBB- | 500 | USD | 7 | 4.38% | 33% | |
| 27/02/2017 | RuRail | BBB-/Ba1/BBB- | 15,000 | RUB | 7 | 8.99% | 33% | |
| 29/03/2017 | CBOM | BB-/B1/BB | 600 | USD | 10.5NC5.5 | 7.50% | 11% | |
| 29/03/2017 | Gazprom | BB+/Ba1/BBB- | 850 | GBP | 7 | 4.25% | 16% | |
| 03/04/2017 | Sovcomflot | BB+/Ba1/BB | 150 | USD | 6.3 | 4.85% | 33% | |
| 04/04/2017 | Borets | B+/B1/BB- | 330 | USD | 5 | 6.50% | 32% | |
| 04/04/2017 | Nornickel | BBB-/Ba1/BBB- | 1,000 | USD | 6 | 4.10% | 37% | |
| AVERAGE | | | | | | | 31% | |