

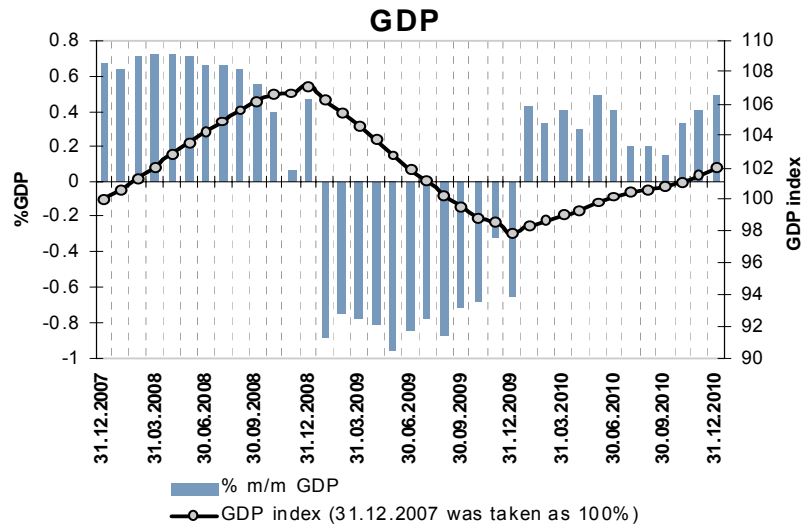


## Russia: macroeconomic situation

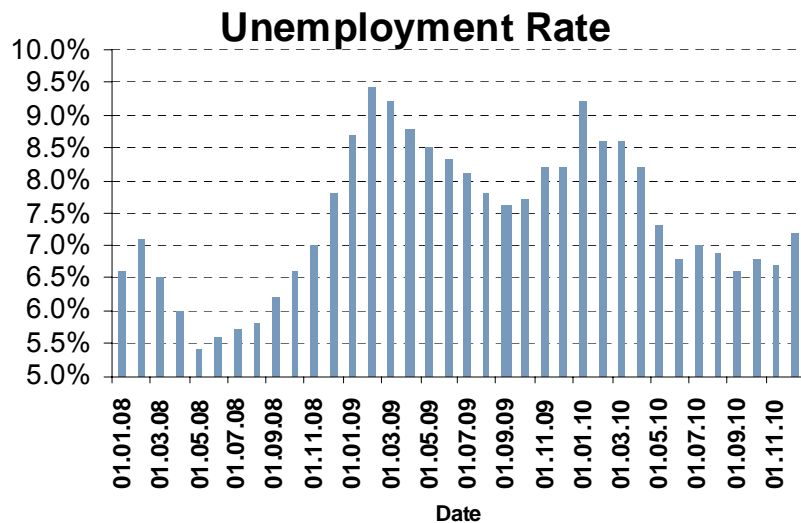
March 2011



# Economy growth

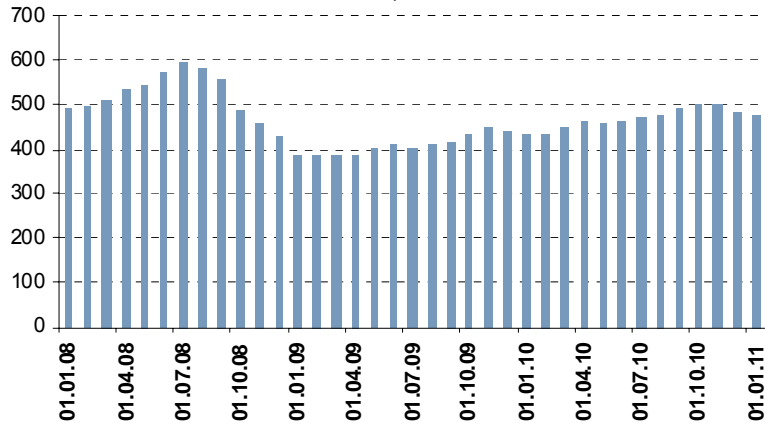


- Russia is witnessing a robust recovery supported by internal consumption and industrial growth
- MinFin forecast 4% GDP growth in 2011
- Russian companies continue to demonstrate high profitability
- Unemployment peaked at the beginning of 2009 and now we see stabilization near 7%

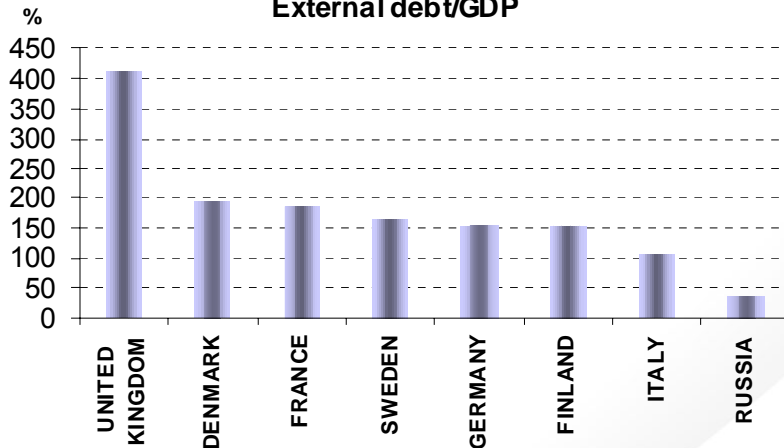


# Sovereign Budget & Debt

Reserves, bln. USD

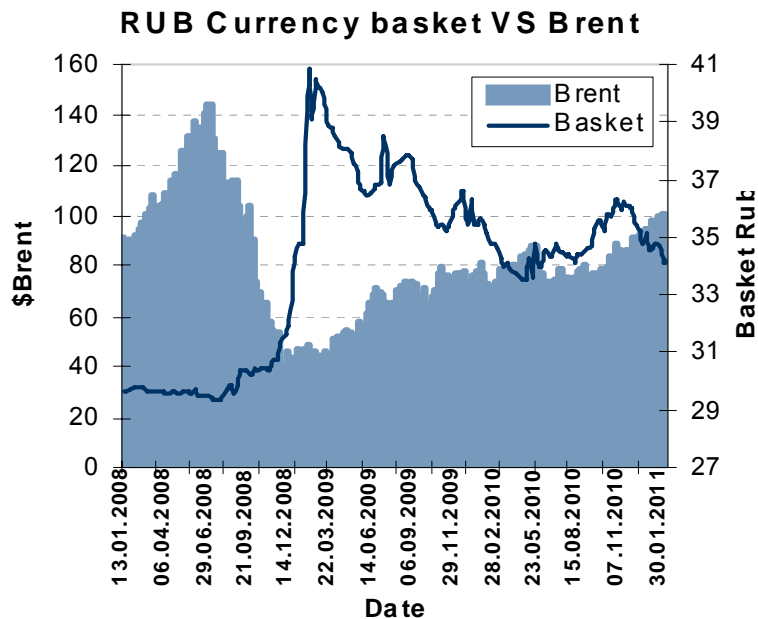


External debt/GDP



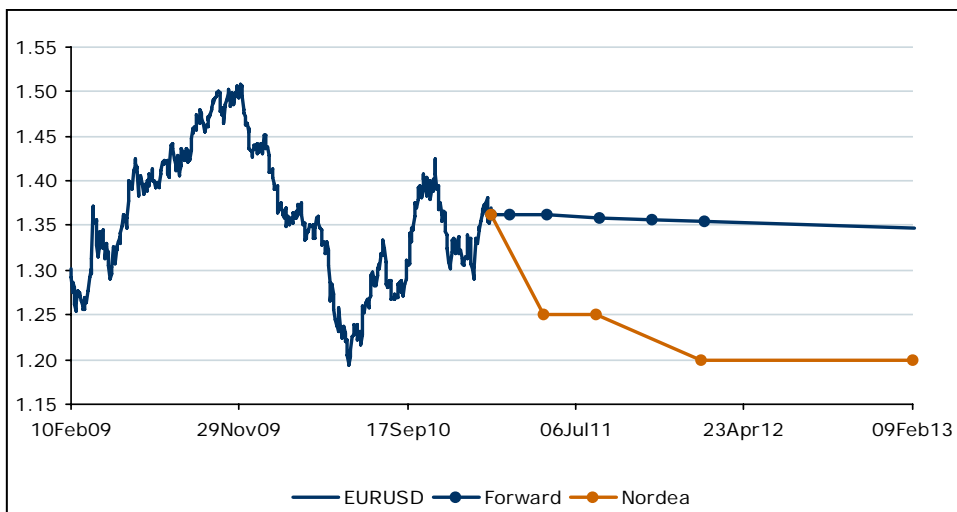
- Russian budget largely depends on commodity price:
  - USD 10/bbl increase in oil prices adds ~ USD 20 bln. to budget revenues and at least USD 25 bln. to export.
  - 10% increase in oil prices adds 1 pp to GDP growth
- Budget deficit at 2011 year is estimated at 3% GDP (3.9% at 2010)
- Government is going to borrow USD 55 bln. on the local market to finance budget deficit this year (high liquidity allow this)
- The level of Reserves has been slightly improving
- External Debt/GDP ratio ~ 33%
- Reserves cover all external debt

# Currency



- The Russian Central Bank is moving to inflation targeting and widen floating currency band for RUB basket
- Central Bank of Russia continues to make interventions on FX market to keep ruble in new bounds (33-37 versus currency basket)
- CBR buys foreign currency near RUB32.9 and sell near RUB36.95
- Due to capital outflow (\$39 bn. In 2010) RUB basket increased in Sep-Oct 2010 from 34,5 to 36
- At the end of 2010 and in the beginning of 2011 situation has changed in favor of RUB due to high commodity prices (oil hit \$100), positive trade balance, CBR support and expectations of capital inflow

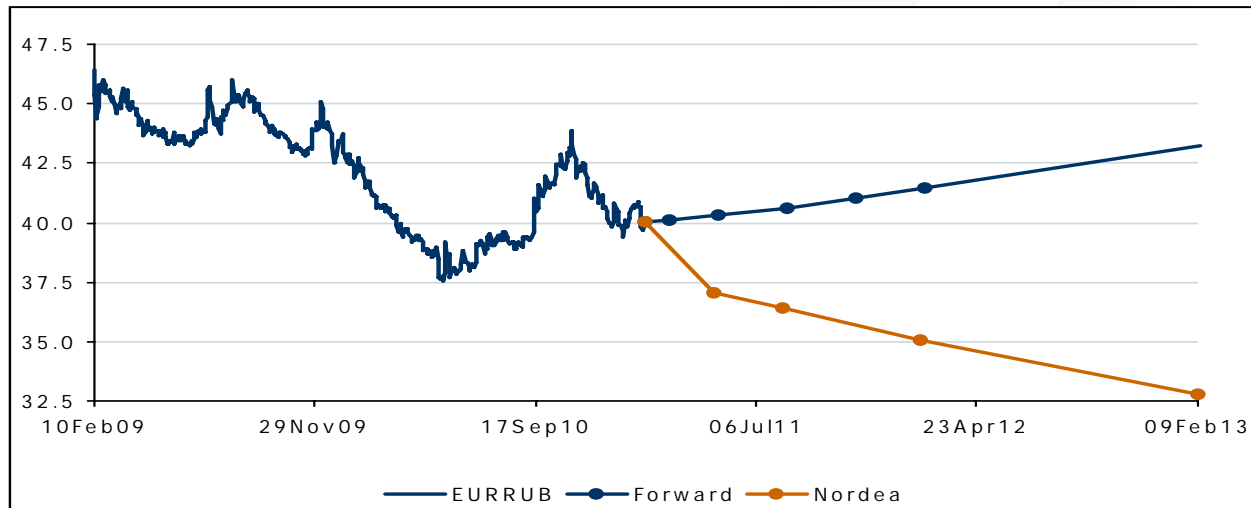
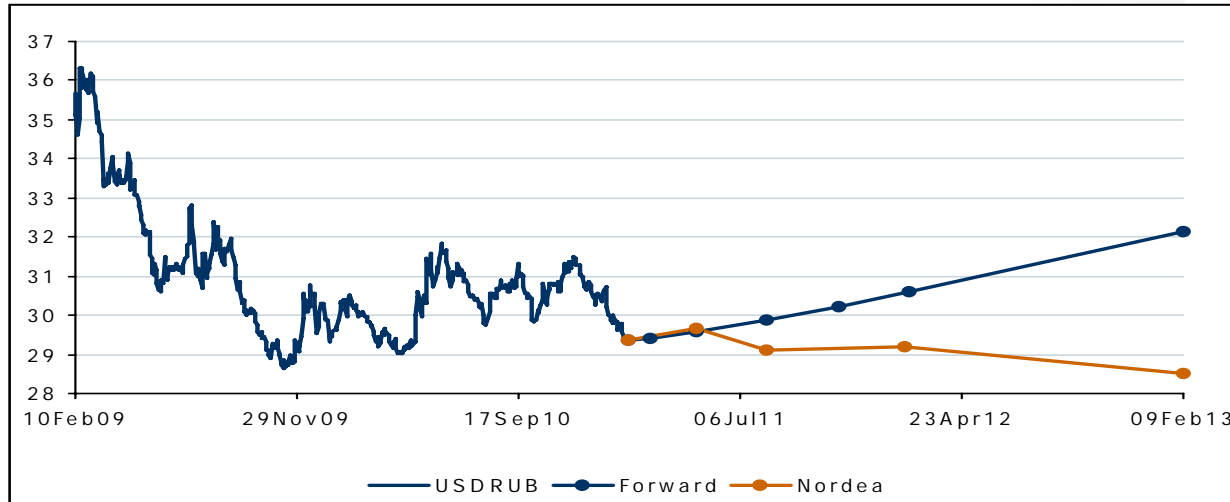
# EUR/USD



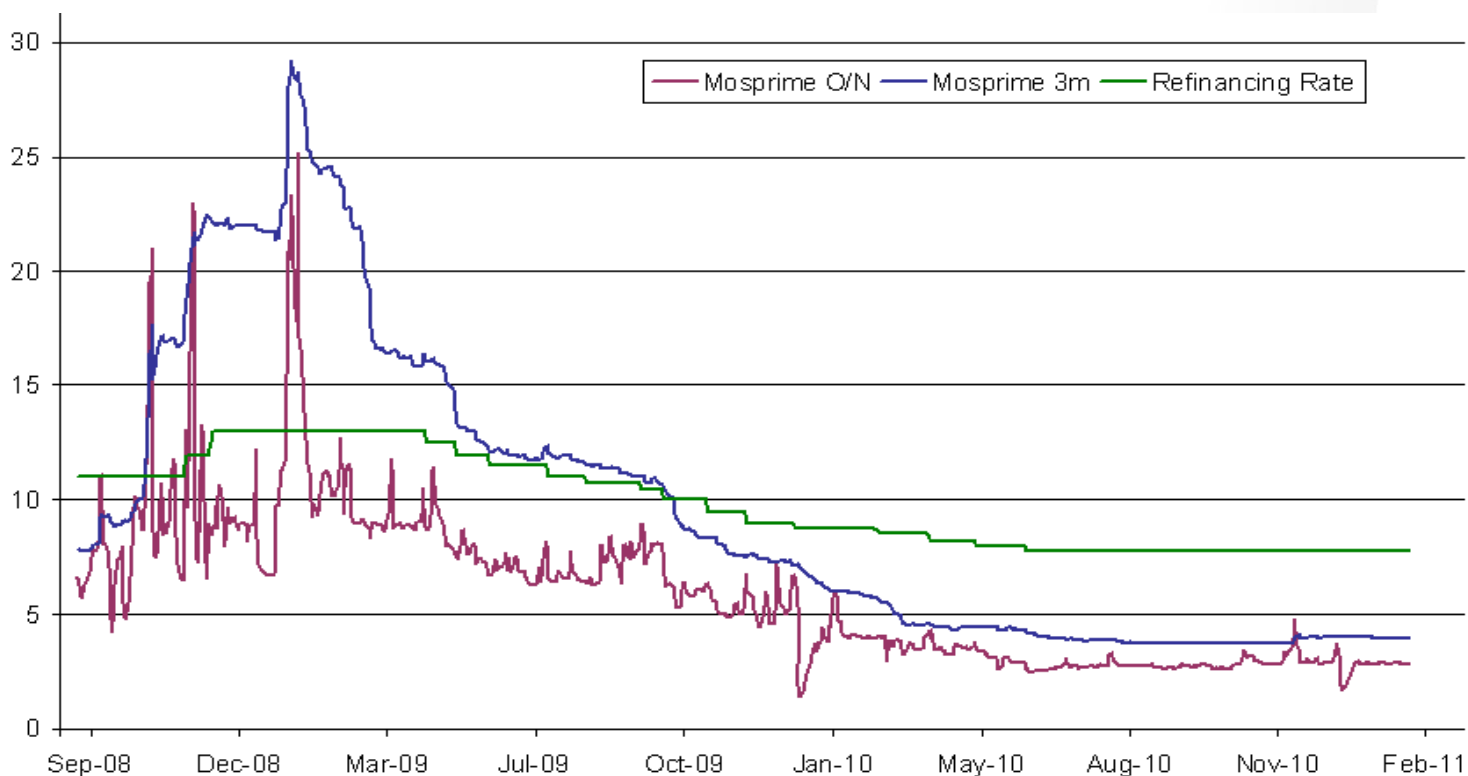
## US Dollar can be stronger than Euro in the foreseeable future:

- US Quantitative Easing program will provide the necessary stimulus to the US economy
- Strong corporate reports in US indicates continuation of rebounding
- Budget deficits and debt problems in Europe depress Euro
- Talk of European debt restructuring causes the debt crisis to flare up again
- Portugal and Ireland looks the most vulnerable over the near term

# USD/RUB & EUR/RUB



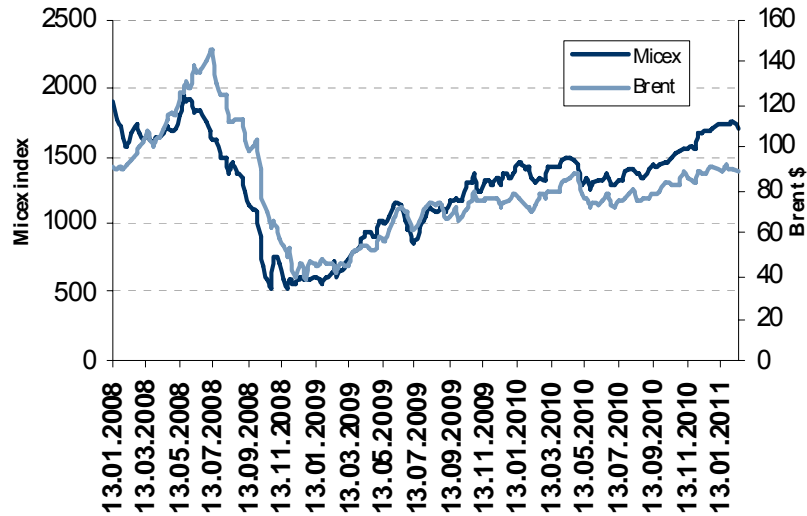
## Corporate lending – interest rates



- In Sept08-Feb09 Russia encountered a severe liquidity crisis
- Loan interest rates even for biggest companies were other 30%
- 3M Mosprime is 4% - lower than before the crisis

# Stock market

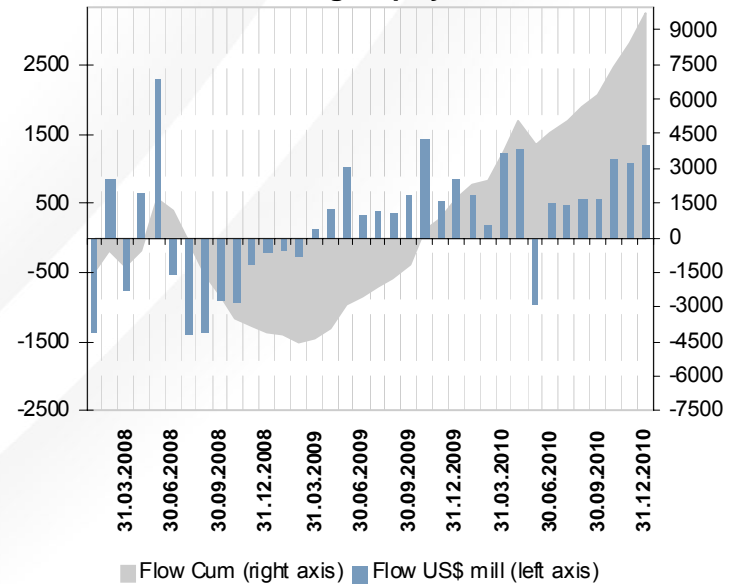
Micex Index vs. Brent Price



- Interest of the foreign investors in Russian Stock Market is coming back
- 2010 Russian equity funds net pure inflow total USD 8.1 bln.

- Russian stock market has extremely high correlation with oil market
- Stock Exchanges' Indexes are on the way to the pre-crisis peaks. Growth is moderate but more fundamental

Cash Flows of Foreign equity funds, mln USD





# Russian Banking System

## Assets Quality is Good

Credit Portfolio (the most stable profitability source) presents almost 70% of assets

NPL ratio is decreasing (4.7% of credit portfolio)

## Concentration is high

54% of banking system (in terms of assets) is consolidated by State-owned banks

~70% of banking system (in terms of assets) is consolidated by Top-20 banks

## Stable Banking System

## Supporting Measures are Not needed anymore

Liquidity is high (amount of assets, placed in Central Bank remains highly-stable)

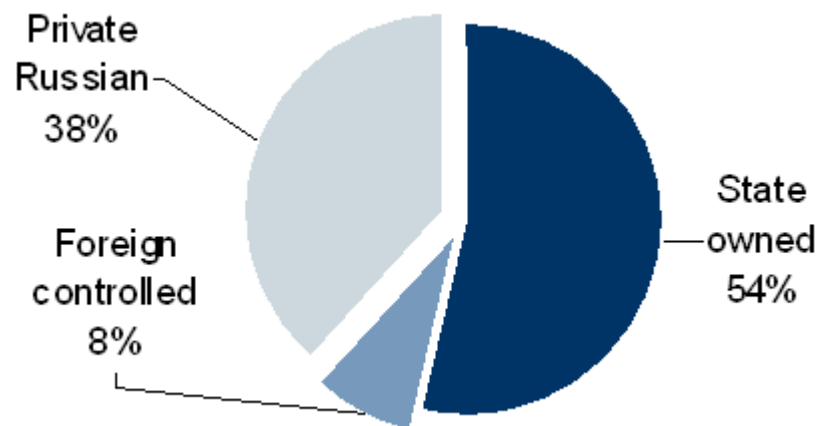
Funding from Central Bank is less than 1% of total liabilities of banking system

## Healthy Funding Sources

Individuals Deposits provide the growth of Banking System (share is ~30% of liabilities)

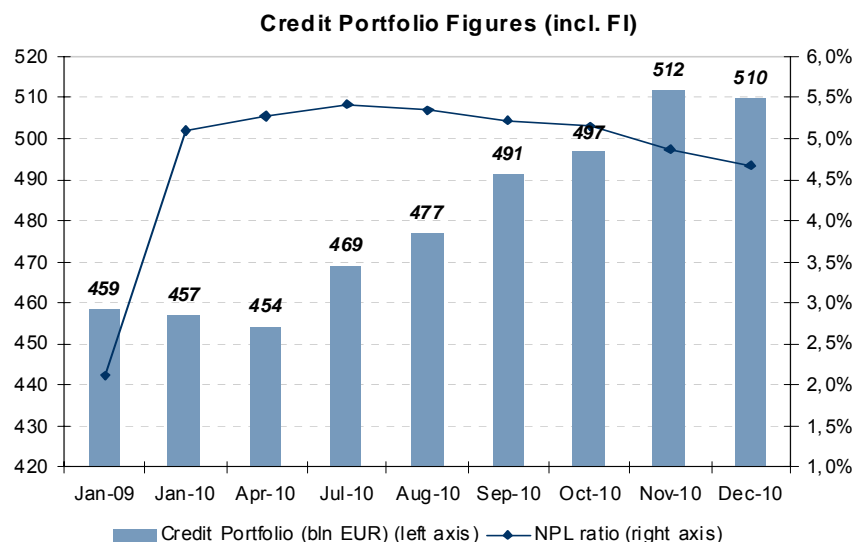
System is well capitalized (equity ratio is ~14%)

# Banking System features



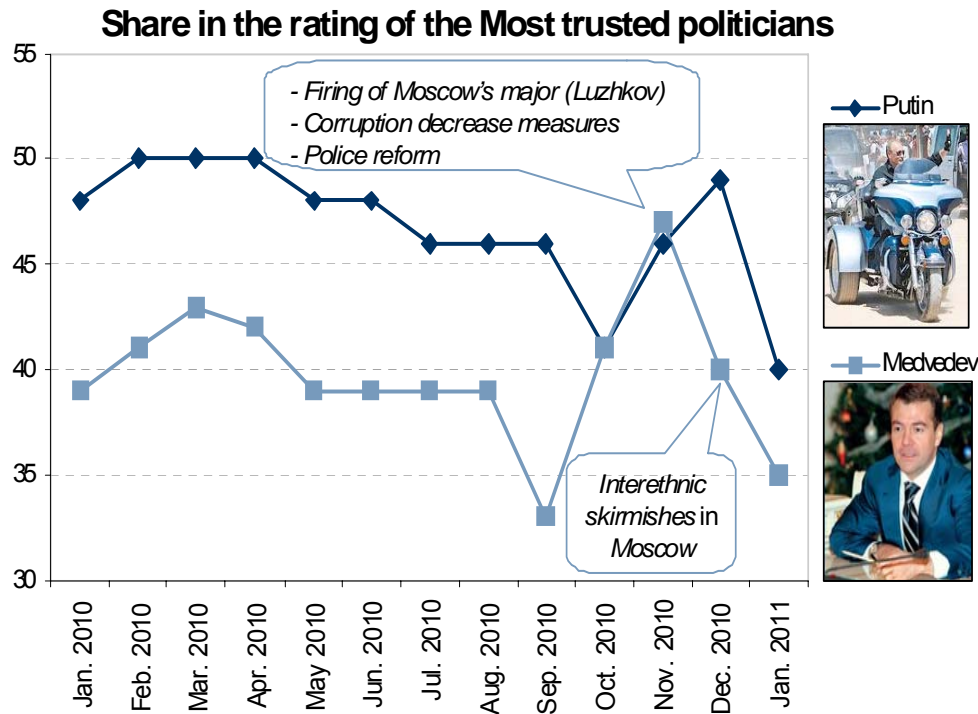
- The state-owned banks, Sberbank (with more than 27% of total assets), VTB (9%) and Gazprombank (6%), are the dominating players and their market shares are increasing.

- Partly privatization of the 3 biggest state-owned banks till year 2015 was announced (selling of 10% of VTB started 04 Feb 2011).



- NPL ratio from the beginning of the year 2010 stays on the moderate level with decreasing trend

# Political Situation

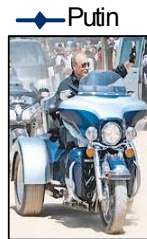


Source: Levada Analytical Center

- Next president election will be in March 2012. For the first time presidential term will be 6 years.

- Both: Prime Minister – V.Putin and president – D.Medvedev are able to be nominated.

- We do not expect significant changes: current political situation has been stable and change of places Putin ↔ Medvedev will no make any influence.



## **Evaluation requirements for potential projects**

Obligatory documents set up:

Project description: 1 page

Business plan: 1 page

Cash flow forecast (alt.financial model)

Detailed expenses worksheet

Evaluation of reserves from independent body (for mining and similar projects)

Copies of contracts

Equipment description and specification

Evaluation of potential demand from independent body

Risk analysis from independent body