

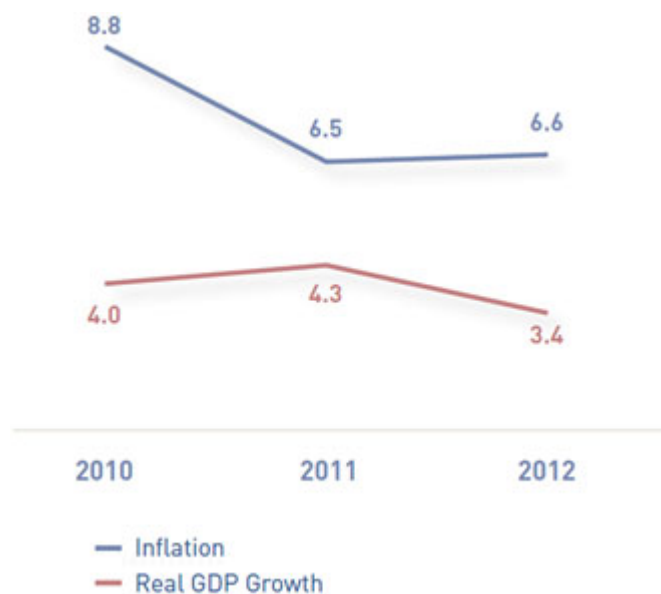
Market Overview

During the first half of 2012, the Russian economy grew steadily, helped by falling unemployment and low inflation. In the second half, however, growth slowed due to a decline in domestic consumption, drought in several regions, a drop in demand for exports and greater capital outflow.

Last year, Russia's GDP increased by 3.4%, industrial production by 2.6%, and capital investments by 6.7%. GDP growth was driven mainly by the financial sector, which expanded by 15%. Factors restraining growth included lower output in the agricultural sector (down 3.8%) as well as moderate results from natural resources (up 0.9%), construction (up 2.0%) and mining (1.0%) sectors.

The share of net exports in GDP decreased from 8.4% to 7.4%, while the share of consumer spending was 67.2%, 0.7 percentage points higher than in 2011.

Key indicators of the Russian economy, %



Source: State Statistics Service

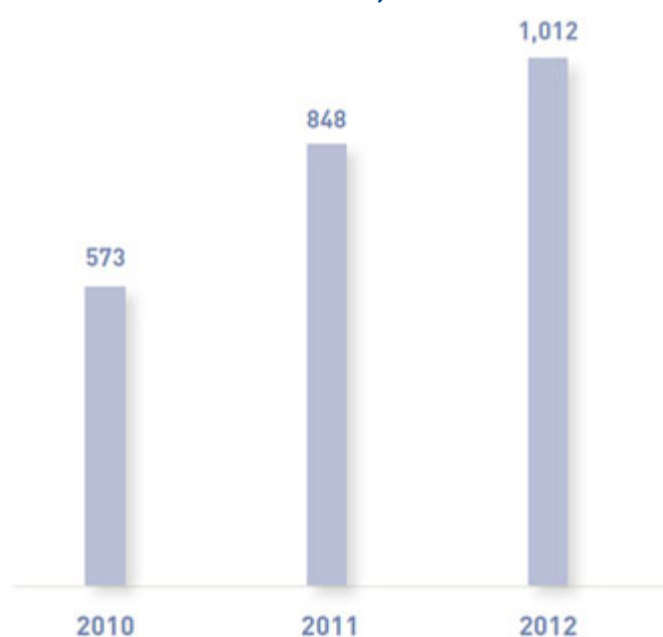
In 2012, the banking sector fared well overall, driven largely by comparatively low inflation for Russia of 6.6% and decent economic growth relative to Europe. Factor hampering growth included a decline in industrial output, which began in the second half of the year, the Eurozone crisis and the sluggish recovery in the US.

By the year-end, the aggregate net income of Russian credit institutions had reached RUB 1,011.9 billion, 19.3% higher than in 2011. The main profit driver was an increase in retail lending, which fueled a rapid rise in assets and interest income.

Last year, total assets of the Russian banking sector increased by 18.9% to RUB 49.51 trillion. The assets of the five largest domestic banks rose by 19.7% to RUB 24.9 trillion, or 50.3% of the overall figure. The

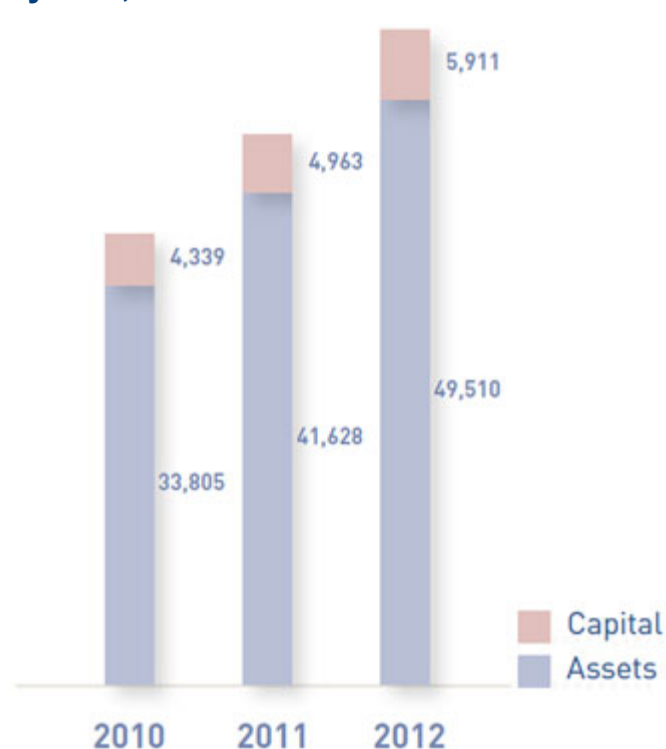
rapid asset growth resulted in higher penetration of banking services, defined as the ratio of total bank assets to GDP, from 77% to 79%.

Profit of Russian banks, RUB billion



Source: The Bank of Russia

Key indicators of the Russian banking system, RUB billion



Source: The Bank of Russia

Retail and corporate customers' funds remained the key source of funding for the sector in 2012. The volume of corporate clients' funds climbed by 12.0% to RUB 15.3 trillion. Higher deposit rates amid modest inflation stimulated retail funds growth by 20.1% to RUB 14.3 trillion.

Last year, Russian banks found themselves faced with rapid asset growth amid a more moderate rise in deposits and limited access to international funding. Many players had to apply to the Bank of Russia for liquidity, and its loans accounted for around 40% of banks' funding in 2012. In addition, in July 2012, risk regulations were tightened, increasing capital adequacy requirements and dampening lending activity in the banking sector. Then, in the autumn, the Bank of Russia announced an increase in reserve requirements for unsecured retail loans. These actions averted a liquidity shortage and a possible crisis in the sector. By the year-end, the number of banks with insufficient on-demand and current liquidity had fallen compared with.

In 2012, loan portfolios of Russian banks totaled RUB 34.0 trillion, up 18.3% year-on-year. The growth rate slowed to 29.6% compared with 2011, due to sluggish demand from corporate clients during the second half of 2012.

The most rapid growth came from the retail business, where loans soared by 39.4% to RUB 7.7 trillion. In addition, for the first time in recent years, the volume of loans to individuals exceeded the amount of retail deposits. All segments of the retail business expanded: mortgages (up 40%), unsecured consumer loans (up 50%), and credit cards (up 80%). The volume of loans to the non-financial sector of the economy expanded by 12.7% in 2012, compared with 26.0% in the previous year.

Amid lending growth the share of overdue loans reduced to 3.7%, down from 3.9% in 2011 according to the

Bank of Russia. As of 1 January 2013, the share of overdue loans to non-financial organizations was 4.6%, unchanged year-on-year, while that of consumer loans was down by 1.2 percentage points to 4.0%. The reduction in overdue loans share was caused by the rapid increase in total bank loans, which rose faster than bad debts.

Corporate and retail deposits, RUB billion



Source: The Bank of Russia

Lending in Russia, RUB billion



Source: The Bank of Russia

The decline in the share of overdue loans as well as the improvement in asset quality enabled banks to decrease provisions: their share in total loans fell to 7.6%, down from 8.5% in 2011. The NPL coverage ratio remained at a comfortable 169%, down from 179% in 2011.

Aiming to maximize profits, Russian banks were quite active on the securities market in 2012, and the securities portfolio of the sector expanded by 13.3% to RUB 7.0 trillion. The share of securities in the banking system's assets declined slightly to 14.2%, amid an increase of the loan portfolios' share.

Outlook for 2013

In 2013, we expect the trends prevailing in the Russian banking sector last year to continue, although the key indicators for the system could fall slightly as the market becomes more saturated.

Loan growth looks set to decline somewhat given the overleverage of some sections of the population and more stringent credit requirements by the Bank of Russia: we expect an increase of less than 20% in 2013. Meanwhile, the refinancing rate and banks' needs for additional funding will drive deposit growth. We forecast total income for the sector of RUB 1.1 trillion this year, up 10% year-on-year.