

Financial Markets

In 2012, the main factors influencing the global financial market were the slowdown in many of the leading economies and the ongoing debt crisis in parts of the Eurozone.

In the first half of the year, international rating agencies lowered the sovereign ratings of several EU countries, and the likelihood of Greece leaving the Eurozone increased. This sent shockwaves through financial markets and caused further turbulence in the European economy. In March, Greece's creditors agreed on a second bailout package for the country, and the European Central Bank (ECB) held auctions to provide liquidity for EU financial institutions.

In the second half of 2012, the leading central banks announced new measures to stimulate economic growth and support financial markets. The ECB unveiled a program to support debt markets by buying bonds of Eurozone countries, while the US Federal Reserve began the third round of quantitative easing. These prompt actions brought the economic situation under control and prevented the financial crisis from intensifying.

Russia's financial market was driven primarily by the situation worldwide, oil price volatility, the EU debt crisis, and investors' appetite for risk. While the global economic turbulence had a substantial effect on Russia, the domestic financial market and economy remained stable overall.

Last year, Bank Vozrozhdenie priorities on financial markets included diversification of the securities portfolio to keep liquidity high, reduction of risk, and return on assets increase. In particular, the Bank focused on transactions with debt instruments and operations on the interbank lending market.

Securities market

The bulk of the Bank's operations in debt instruments involved the Bank of Russia bonds, sovereign Eurobonds and high-quality municipal and corporate Eurobonds that provide an optimum combination of profitability, reliability and liquidity. Its portfolio also included "quasi-sovereign" corporate bonds, blue-chip debt securities and municipal bonds with a put call/redemption within one year. When compiling its securities portfolio, Bank Vozrozhdenie used the Bank of Russia's Lombard list (which names the securities that the Bank of Russia accepts as loan collateral) as a reference.

In 2012, to manage liquidity, reduce risk and generate additional income, Bank Vozrozhdenie conducted numerous reverse REPO operations using the Bank of Russia bonds, sub-federal and municipal bonds, and high-quality corporate debt instruments.

On the stock market, Bank Vozrozhdenie made transactions in shares of blue-chip Russian companies, primarily those in the natural resources sector. Operations with shares are not a priority for the Bank and took a small part of its securities transactions.

Last year, the Bank conducted RUB 248 billion in securities transactions on MICEX and the OTC market. The average size of its securities portfolio was RUB 11 billion.

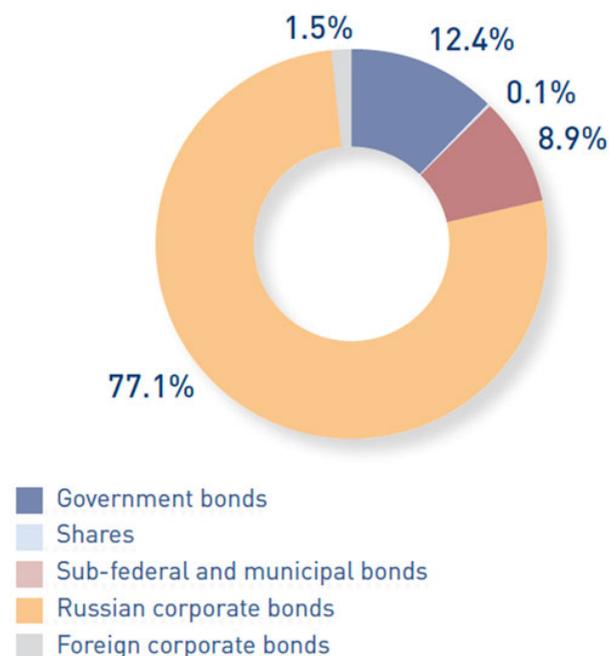
Interbank lending market

Demand on the money market was high in 2012, as Russian banks sought liquidity. Average interest rates rose, the overnight interbank lending rate reaching 6.4% at the year-end, compared with 4.2% in 2011. A key driver of the money market was actions of the Bank of Russia, which raised interest rates, increased the limits in direct REPO auctions, and expanded the list of securities that can be used as collateral for direct REPO operations.

Bank Vozrozhdenie continued to be an active net-lender at the interbank market providing the resources both in local and foreign currencies. Interbank loans were distributed among the reliable banks both using clean lines and under the pledge of highly liquid assets.

Throughout the year, to manage liquidity, Bank Vozrozhdenie conducted direct REPO transactions with the Bank of Russia, as defined in its Resolution “On the Terms and Conditions of the Bank of Russia of Russia Conducting Direct REPO Operations with Russian Credit Organizations on the Securities Market” (no. 357-P, dated 4 March 2010).

Breakdown of the Bank's turnover on securities transactions, 2012



Subordinated deposits

In 2012, to boost capital and support the volume of its active operations, the Bank raised a RUB 2 billion subordinated deposit for eight years at 9.25%. In accordance with the Bank of Russia regulations and the Basel requirements, the funds raised were recorded as Tier II capital. The deposit will enable the Bank to keep capital adequacy at a comfortable level and thus continue its loan book expansion.

Priorities of financial markets operations in 2013

This year, Bank Vozrozhdenie will keep its securities portfolio diversified, continuing to focus on sovereign bonds, including sub-federal and municipal ones, and high-quality Russian corporate debt instruments. One

of the key criteria for selecting securities will be whether they feature on the Bank of Russia's Lombard list. In addition, we will continue lending excessive liquidity to high-quality financial organizations via the interbank market and REPO operations.