

3. FX and Interbank Money Market Operations, Managing the Bank's Securities Portfolio

With a view to placing temporary idle funds and managing risks, Vnesheconombank engages in operations in the FX, interbank money markets and the securities market

through placing and borrowing short-term credits, conducting FX operations, effecting securities transactions and trading in financial derivatives.

FX and Interbank Money Market

In 2013, the US FRS continued to undertake financial stimulus measures envisaged by QE programs through purchasing in the market long-term Treasury bills and mortgage bonds, while it sought to maintain low interest rates. The statement made in May about the possibility of winding up the QE program resulted in money withdrawal from risky assets, including the pull out of funds from the emerging markets. But the actual decision to partially withdraw from QE was taken only in December 2013.

Overall, the Eurozone despite the Cyprus banking crisis (March-April 2013) witnessed stabilization of budgets and state debts.

Central banks of other major countries also undertook financial stimulus measures in their monetary policies.

The euro gains against the dollar from 1.320 to 1.360-1.365 seen at the beginning of 2013 was followed by its weakening to

1.275 when in February-April the disclosed economic indicators of a number of Euro-zone nations would not give much ground for optimistic sentiment. Later on the euro/dollar exchange rate dynamics was to a great extent impacted by reduced amounts of euro liquidity that was caused by an early repayment by commercial banks of part of long-term loans to the ECB. As a result, at the end of 2013, the euro/dollar exchange rate reached 1.375-1.380.

Though the oil prices remained high, reduced capital inflows into emerging countries and declining economic growth rates in Russia motivated the ruble weakening in 2013. To illustrate, within the period under review, the RUB/USD and the RUB/bi-currency exchange rates changed from 30.37 to 32.73 and from 34.81 to 38.24, respectively.

A certain drop in the Russian ruble exchange rate volatility brought about reduced amounts of FX operations in 2013 from RUB 9,219.7 bn posted in 2012 down to RUB 6,346.1 bn in the reporting period.

Notably, over the year, the overall amount of funds raised in the interbank market reached RUB 5,056.4 bn (92.08% on the year 2012).

In 2013, the overall turnover of fund placement in the interbank market equaled RUB 7,576.4 bn (102.6% on 2012).

Turnover of money market operations (short-term interbank loans), RUB bn (in equivalent to an average yearly exchange rate)



Managing Securities Portfolio

In H1 2013, the Russian stock market demonstrated negative dynamics. An upward trend started in H2 2013 resulted in a 2% increase of the ruble-denominated index of the Moscow Interbank Currency Exchange (MICEX) that rose from 1475 points to 1504 points on the last trading days of 2012 and of 2013, respectively, while the Russian Trading System (RTS) dollar-denominated index fell by 5.5% from 1527 points to 1443 points on the last trading days of 2012 and of 2013, respectively.

By the end of 2013, in the circumstances of rising yields in the debt instruments market, Vnesheconombank increased the amount

of investment in sovereign Eurobonds and debt securities of Russian issuers.

Overall, within the period under review, Vnesheconombank's securities portfolio, with due consideration for revaluation and the accrued interest (coupon yield) decreased by almost RUB 72 bn, also due to realization of a package of shares of a foreign company and as at 01.01.2014 amounted to RUB 383.4 bn.

Securities portfolio, %

