

## BANK'S ACTIVITIES IN 2006

THE BANK OFFERS AMERICAN AND EUROPEAN CALL AND PUT OPTIONS, COLLAR BONDS, DEBT INSTRUMENTS, NOTES WITH GUARANTEED PAR VALUE RETURN AND A FLOATING RATE ACCORDING TO THE CAPITAL MARKET TREND, AS WELL AS DEBT INSTRUMENTS IN RUSSIAN BLUE CHIPS

# DEBT CAPITAL MARKET

## SURVEY OF THE RUSSIAN DEBT CAPITAL MARKET IN 2006

In 2006, quality growth of the Russian debt market continued. The year was characterized by more records in the number of new placings. The total number of issues of corporate, sub-federal (municipal) and bank ruble bonds placed in 2006 was 294 and amounted to RR 542.6 billion.

In early 2006, the situation in the internal debt market was very beneficial for issuing institutions – possibly even the best ever in the history of Russian market of debt liabilities. That was due to both positive macroeconomic factors, to wit high oil prices and, consequently, consolidation of the ruble and excess money liquidity, and improved economic and political situation in the Russian market, including strengthening and centralization of power in the Russian Federation.

Awarding the second full investment grade to Russia by Standard & Poor's Agency in the end of 2005 was a new quality impulse in the entire financial market. Apart from current positive macroeconomic factors, it encouraged investment activities of market players at the end of winter – early spring of 2006. Despite a considerable volume of planned and outstanding issues, the beneficial market situation continued for new issuing institutions entering the debt instruments market.

In fact, optimistic market was exhausted by the end of spring 2006. One of the alarm signals in the market was possible dramatic rise of rates of the US Federal Reserve System, which could cause a drop in quotations in the ruble bond market as well.

The market situation was restored only by September next year, when the time of stabilized situation in the world markets and resumed rise of quotations coincided with the period of traditional market activity after summer vacations.

## THE PEAK OF NEW BOND PLACINGS IN THE MARKET FELL ON AUTUMN AND EARLY WINTER OF 2006, AND IN DECEMBER THE NUMBER OF PLACINGS EXCEEDED ALL POSSIBLE FORECASTS AND AMOUNTED TO 61 TO THE AMOUNT OF MORE THAN RR 88 BILLION.

In December 2006, with excessive volume of new debt offerings, the market participants showed inability to invest in new issues. The market situation became worse dramatically at the close of the year. According to our estimates, such situation resulted in non-market placing of a substantial number of issues and mass purchase of bonds by arrangers for their own position.

Possibly, such events were due to inertness of arrangers and issuing companies in taking decisions on new placings. After an appropriate market situation was established in mid-autumn, many issuing institutions decided to perform placings in the next few months. Despite lack of public information on such plans in the market, such intention was in the mainstream. Also, a number of arrangers were reluctant to postpone their issues until the following year due to considerations of reputation.

Anyway, the above-mentioned data indicate a dramatic rise of debt market of the Russian Federation in 2006. It is very likely that such trend will continue in 2007.

## NUMBER AND VOLUME OF CORPORATE ISSUES IN 2006

Number of issues  
RR billions  
Number of issues  
Volume of issues

December  
January  
February  
March  
April  
May  
June  
July  
August  
September  
October  
November  
December

## NUMBER AND VOLUME OF SUBFEDERAL AND MUNICIPAL ISSUES IN 2006

Number of issues  
RR billion  
Number of issues  
Volume of issues

December  
January  
February  
March  
April  
May  
June  
July  
August  
September  
October  
November  
December

A possible scenario of further development of the Russian debt market will be even higher liberalization of the market players in terms of setting risk limits, participation of investors in placings of bonds of doubtful credit quality, and as a consequence development of Junk Bonds market in Russia.

One of the reasons of such scenario is further strengthening of the demand for Russian debt instruments on the part of Western market players. Here we mean bonds of the first and partially the second tier. However, considerable foreign demand may lower return on such bonds to the level that is not attractive to most Russian investors, which will eventually encourage the market players to examine investments in bonds of lower credit quality more carefully.

Moreover, a substantial supply in the market of bonds of low credit quality will enable many investors to diversify their risks and to participate in a large number of placings of smaller volume.

It should be mentioned too that to a great extent the situation will be determined by macroeconomic factors, the line of credit and monetary policy, the amount of ruble supply in circulation, as well as by other events that may impact on the market situation as a whole.

## FOREIGN LOANS MARKET

In 2006, the market of Russian foreign corporate debt demonstrated considerable volatility. In late spring and summer, price appeal of new issues was undermined by active actions of the US Federal Reserve System. From September 2006 on, the supply rose dramatically and exceeded possible demand substantially by the end of the year. This factor had a great impact on price formation for new placings.

An obvious trend of the past year was Russian private banks entering the market of foreign loans; in fact, the number of bank issues and their monetary volume doubled during the year.