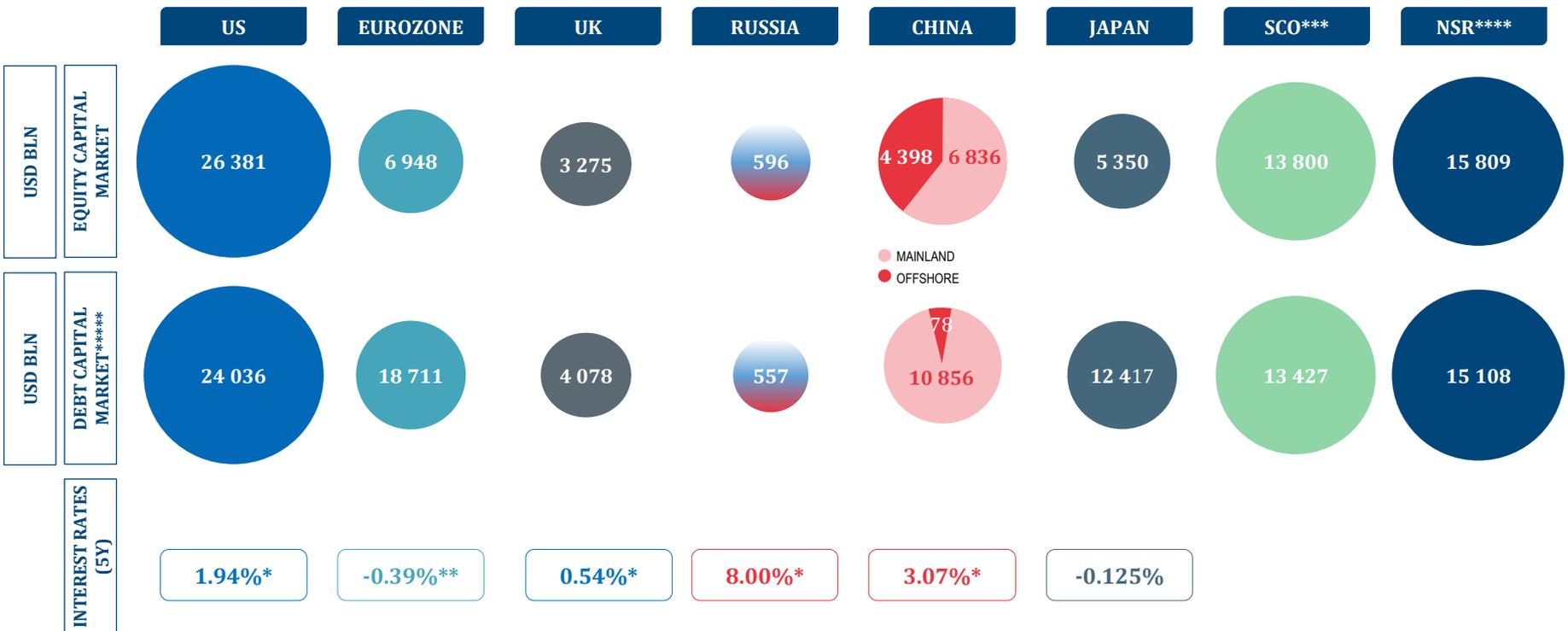




Russian capital markets in the global and local context

April 2017

- ▶ Traditional capital markets for borrowers have been Western markets (the US and EU countries). However, they no longer offer satisfactory risk-reward profiles in an environment of negative rates and high FX volatility.
- ▶ To ensure stable access to funding, it is necessary to diversify sources of investment financing, mainly by tapping local capital markets in BRICS countries. Such markets offer the potential for adequate risk diversification and corresponding attractiveness for investors.
- ▶ Russia is the 6th financial market by size after US, China, EU, Japan and UK.



* Yields on 5Y bonds in the local currency issued by the State

** Yields on 5Y bonds issued by the Government of Germany

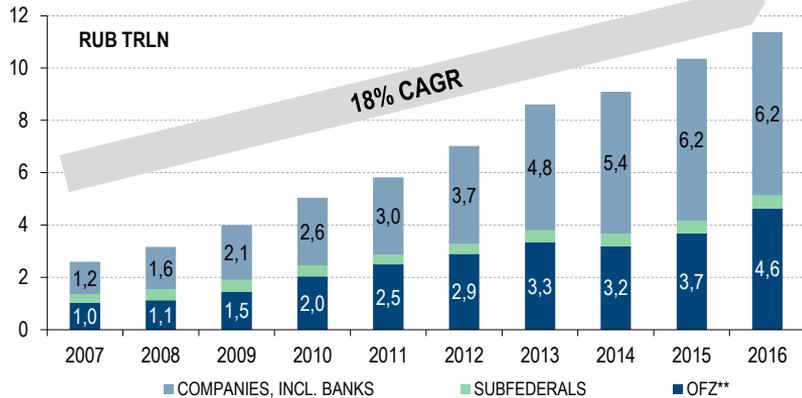
*** Shanghai Cooperation Organization including India and Pakistan (will officially become members in 2017)

**** New Silk Road

***** Volume of outstanding bonds issued in accordance with the relevant country risk

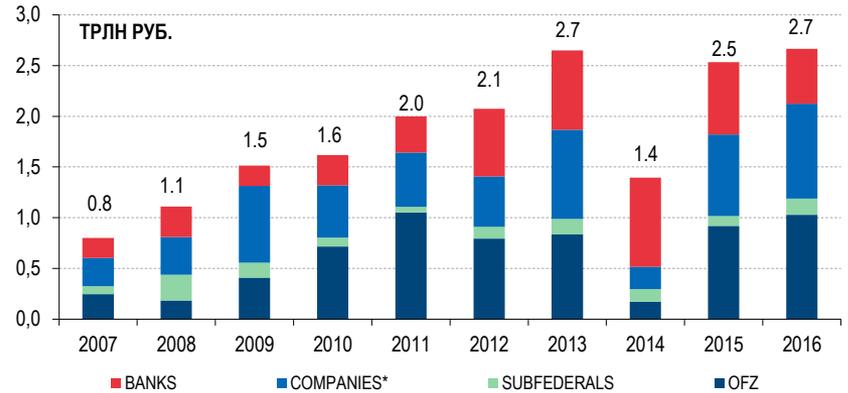
Source: Bloomberg data, Gazprombank's calculations

OVER THE PAST 9Y, THE AVERAGE ANNUAL GROWTH RATE OF THE LOCAL BOND MARKET WAS 18%



* Excluding Rosneft's RUB 1.6 trln bonds and non-marketable issues
 ** Excluding non-marketable issues
 Source: GPB estimates

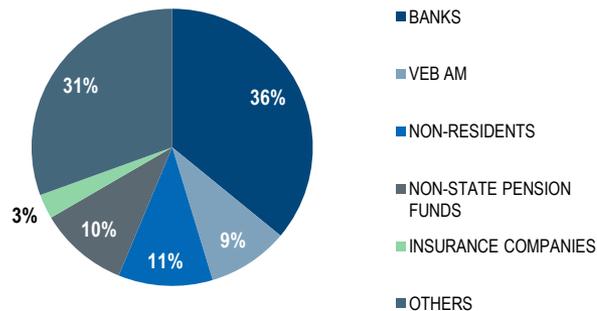
FOLLOWING THE RESULTS OF 2016, THE TOTAL AMOUNT OF MARKETABLE ISSUES EQUALED RUB 2.7 TRLN RETURNING TO THE LEVEL OF 2013



* Excluding Rosneft's RUB 0.6 trln bonds and non-marketable issues
 Source: GPB estimates

INVESTMENTS OF THE BANKS, PENSION SYSTEM PLAYERS AND NON-RESIDENTS ACCOUNT FOR 65% OF THE LOCAL BOND MARKET

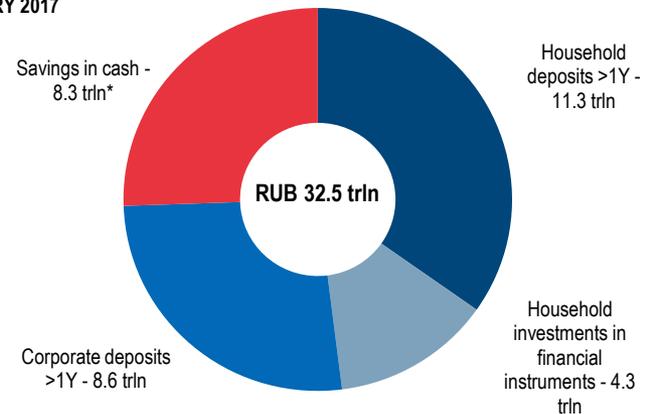
30 SEPTEMBER 2016



Source: CBR, Russia's Ministry of Finance, Cbonds, GPB's calculations
 As of September 30, 2016

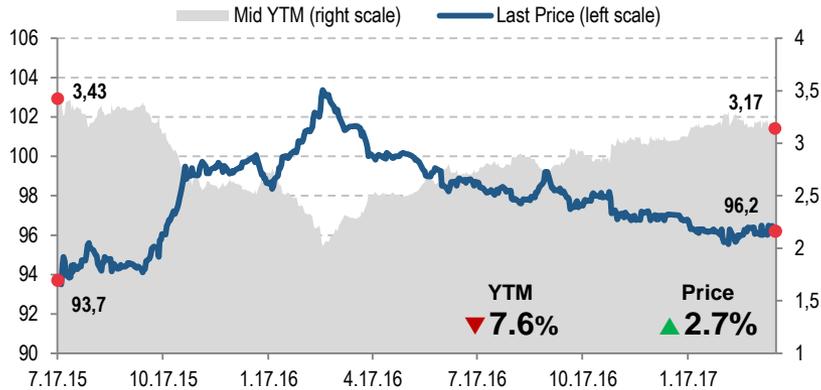
DOMESTIC INVESTMENT RESOURCES

1 FEBRUARY 2017



Source: CBR, State Statistics Service
 *including GPB's estimation of foreign currency-denominated savings in cash

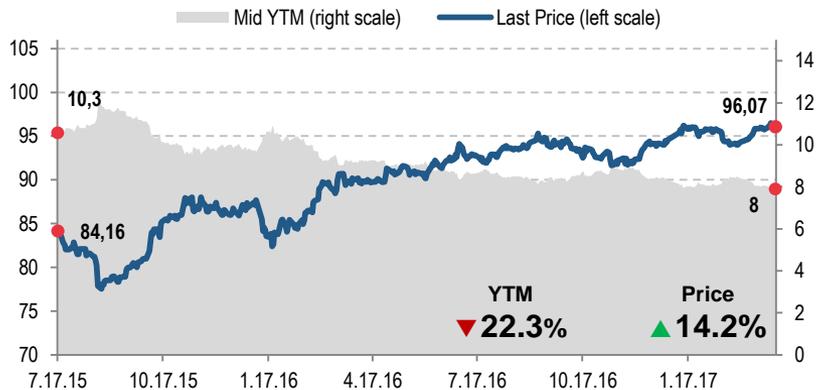
SOVEREIGN INFLATION-LINKED BONDS (OFZ-IN 52001)



RUONIA FLOATERS (OFZ 29011, 24018)



FIXED COUPON FEDERAL BONDS (OFZ 26211)



COMMENTARY

- ▶ In 2015 Minfin of Russia introduced inflation-linked government bonds – an instrument which is in fact an important indicator of inflationary expectations. It allows investors to hedge inflationary and foreign exchange risks and diversify investments into Russian assets.
- ▶ OFZ bonds with floating coupon tied to the RUONIA rate have a “reversed structure” in comparison with fixed-coupon bonds and show high level of resistance to market volatility.
- ▶ In case of slowdown in rates priority is usually given to OFZ with fixed coupon, and in case of volatility – to floaters and linker.

DEBUT PROJECT BONDS' ISSUE IN THE RUSSIAN MARKET SECURED BY THE FOREIGN EXPORT AGENCY SERV GUARANTEE

Gazprombank acted a Sole Arranger and Agent for the debut placement of **project bonds** in the Russian market **secured by the guarantee from Swiss export credit agency (SERV)**. The issuer is a specially created subsidiary of the Bank - OOO GPB Aerofinans. Amount placed – **RUB 9.1 bln**, tenor – **13 years**.

During the preparation of the transaction, a number of innovations were implemented both for the Russian market in general and for Gazprombank in particular:

- ✓ for the first time **the guarantee of a foreign export credit agency was issued in Russian rubles**;
- ✓ for the first time **the bondholders can act as beneficiaries under the guarantee of the export agency through the Representative of bondholders institute**;
- ✓ for the first time, **a tripartite loan agreement was signed** with the participation of the Representative of bondholders, **the rights under which are pledged in favor of the bondholders**.

OOO GPB Aerofinans bonds obtained the highest “**A++**” **credit rating** from Expert RA rating agency confirming the very high level of reliability for investors.

The project received the “Deal of the year” award from the authoritative European intelligence service “Trade Finance” (Euromoney Media Group).

**EUROMONEY****Deal of the Year**

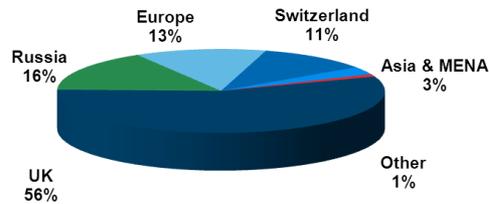
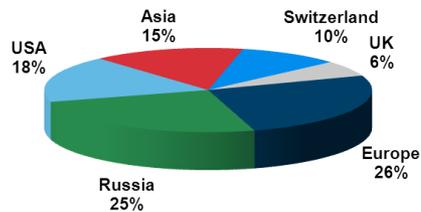
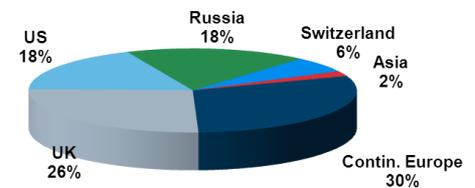
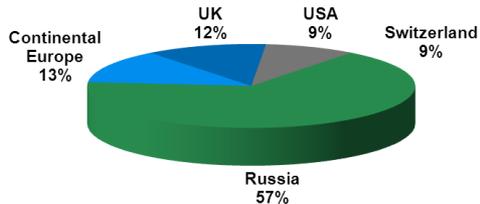
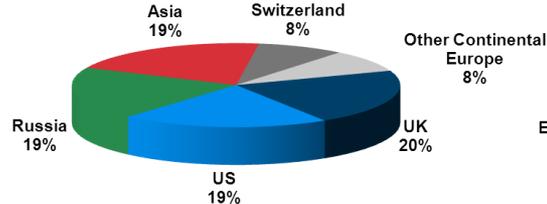
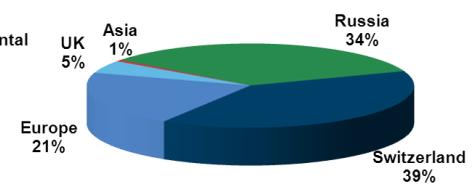
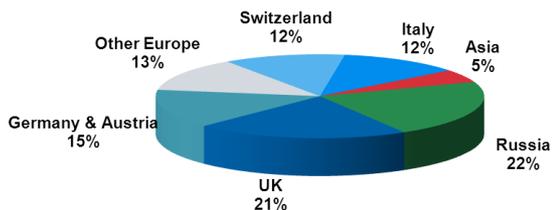
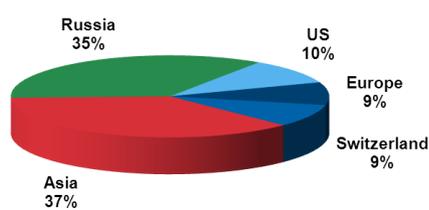
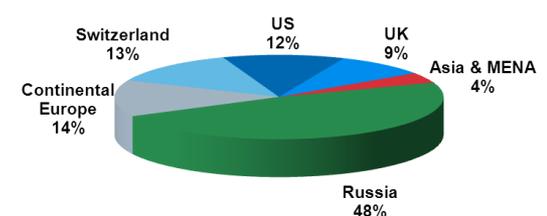
- ▶ The beginning of 2017 was marked by boosted activity of the Russian issuers in the Eurobond market placing the record high volume of Eurobonds in comparison with previous years. Here are some of the highlights of the 1Q:
 - ▶ Gazprom's GBP landmark deal: the first issue in the UK for a corporate issuer from EM with a volume exceeding 700 million pounds; the last placement from developed markets with a comparable volume was in January 2014
 - ▶ Rusal's Eurobond issue with the record low spread to US Treasuries for a «Single B» issuer
 - ▶ Debut placement of Tier 2 marketable deal by the Credit Bank of Moscow

	1Q 2016	1Q 2017
Size of the Russian market (domestic bonds + Eurobonds), USD mln	314 998	353 090
Number of outstanding bond issues by rating		
BB+	400	446
BB	184	166
BB-	164	190
Domestic bonds placed, mln USD equivalent	5 482	5 696
Average duration of newly placed domestic bonds	5.05	7.55
Eurobonds placed, mln USD equivalent	520	7 746
Corporates	520	6 539
Financials		1 207
Number of new Eurobonds issues	1	13
Average duration of newly placed Eurobonds	2.71	5.08

*Marketable RUB issues

Changes in investors' structure

- ▶ In the last 2 years we saw a prominent growth of the share of Russian and Asian investors in the Eurobonds of the Russian issuers.
- ▶ Local investors are predominantly represented by banks (~80%), as well as asset management companies and insurance companies.
- ▶ Russian Federation may enter the investment category in the near future in the absence of external shocks.

GAZPROM 2024 GBP

GAZPROM 2027 USD

EVRAZ 2023 USD

POLYUS 2023 USD

RUSAL 2022 USD

GAZPROM 2018 CHF

GAZPROM 2023 EUR

RZD 2024 EURORUB

POLYUS 2022 USD


Funds from bond market (RUB 1.8 trln):

- ▶ Local bonds maturing in 2017 – RUB 1.2 trln
- ▶ Part of funds received from put options in 2017, RUB ~230 bln out of RUB 1.1 trln*
- ▶ Part of coupon income (from local bonds) received in 2017 – RUB ~370 bln out of RUB 0.7 trln**

Banks (RUB 0.6 – 0.9 trln):

- ▶ Banks may invest part of the 2017 deposits increment on the local debt market – RUB 600-900 bln out of RUB 1.3 trln***

Institutional investors (RUB 0.3 trln):

- ▶ NPFs may direct RUB 234 bln in funds transferred from VEB State Management Company and deposits to the debt market
- ▶ Expected inflow from other institutional investors stands at RUB ~100 bln

Money from foreign investors (RUB 0.4-0.6 trln):

- ▶ **Demand from China.** The placement of OFZs denominated in yuan in an amount equivalent to RUB 1 bln could attract demand 2-3x in excess of supply; unrealized demand may be redirected to the purchase of debt instruments of Russian issuers denominated in yuan. The overall volume of placement of yuan bonds can be estimated at \$3-5 bln (~RUB 200-300 bln) and total demand at \$6-10 bln (~RUB 400-600 bln), part of which may be directed to the local market.
- ▶ **Demand from non-residents.** We do not expect any significant new inflow of funds from non-residents (in September their share in liquid OFZs reached record 44%, according to our estimates).

Money from individual investors (RUB 0.1 trln)

* Given a favorable environment, a significant part of the issue usually remains in the market after the put option date; we assume that ~20% will be submitted for buyback

** We assume that 50% will be reinvested back into the market.

*** It is expected that deposits will continue to grow faster than loans; the “excess” may be available for investment in the debt market

Key factors to watch in 2017

- ▶ **Federal Reserve monetary policy tightening**
- ▶ **Central Bank of Russia monetary policy loosening**
- ▶ **Inflation to decelerate from a current 6% toward the CBR's 4% target.** Current market inflationary expectations are at 5-6%. Delivery on the CBR's target would be a positive surprise. However, potential extra budget spending ahead of 2018 is a risk factor for the CBR's target.
- ▶ **Finance Ministry plans OFZ net placements of RUB 1.1 trln in 2017 (vs. RUB 0.5 trln in 2016).** Gross placements to total RUB 1.9 trln, which is a cause for concern on the market. The questions are:
 - whether foreigners will keep participating despite their already high presence on the OFZ market. Russia remains attractive relative to EM.
 - whether local investors (mainly banks) will have the extra funding to participate. Will depend on whether corporates keep deleveraging.
- ▶ **RMB-denominated sovereign bond issuance.** The Finance Ministry is considering the issuance of a debut local OFZ bond denominated in RMB in the amount of ~\$1 bln equivalent. The issue is targeted at Chinese mainland investors.
- ▶ **Sanctions withdrawal option.** Trump's campaign rhetoric and election victory suggests the likelihood of improved geopolitical relations between the US and Russia, which has led to speculation that the process of sanctions removal may be considered over the coming year.