Financial Indicators

<table>
<thead>
<tr>
<th>Date</th>
<th>Key rate, %</th>
<th>Refinancing rate, %</th>
<th>Official exchange rate RUR vs. USD</th>
<th>MIBD for 1 mos. %</th>
<th>MIBOR for 1 mos. %</th>
<th>Date</th>
<th>International reserves, $bln</th>
<th>Date</th>
<th>Monetary base, bln rubles</th>
</tr>
</thead>
<tbody>
<tr>
<td>05.09.2014</td>
<td>8.00</td>
<td>8.25</td>
<td>36.8038</td>
<td>8.27</td>
<td>9.11</td>
<td>29.08.2014</td>
<td>465.8</td>
<td>29.08.2014</td>
<td>8351.7</td>
</tr>
<tr>
<td>29.08.2014</td>
<td>8.00</td>
<td>8.25</td>
<td>36.3053</td>
<td>8.41</td>
<td>9.21</td>
<td>22.08.2014</td>
<td>466.1</td>
<td>22.08.2014</td>
<td>8370.7</td>
</tr>
</tbody>
</table>

Ukraine receives second tranche of IMF stand-by program

Ukraine this week received the second tranche of a loan from the International Monetary Fund (IMF) in the stand-by program. The interest rate on the issued credit funds is 3% per annum and the repayment of each tranche foresees a grace period of three years. Ukraine may borrow on the international market to finance its budget deficit, which is estimated at about $1.1 billion in the next 12 months, the IMF said.

Hole in Baltiyskiy Bank's balance about 30 bln rubles - DIA

The gap in Baltiyskiy Bank's balance amounts to about 30 billion rubles, the director of the department for bank restructuring of the Deposit Insurance Agency (DIA) Georgy Agaptsev told journalists this week. Alfa Bank, which is bailing Baltiyskiy Bank out, said in the space of April-July, that hole had increased 50% from 20 billion rubles.
CONTENTS

TOP NEWS 4
CBR sees no threats to financial stability, but looking at nonstandard instruments - Yudayeva 4

FINANCIAL POLICY 7
Medvedev signs order to create industrial development fund 7
Russia postpones decision on postal bank until new laws passed on postal system 7
MinFin wants to introduce concept of "critical infrastructure service operators" 8
MinFin opposed to state guarantees for exports to six countries 9

OFFICIAL COMMENTS 10
Russia still appealing to investors despite ineffective sanctions - FAS chief 10

STATISTICS 11
Monthly inflation in Russia at 0.2% in August; rises to 7.6% in annual terms 11
Russian consolidated budget surplus widens to 1.088 trln rubles in H1 11
Reserve fund up 292 bln rubles in Aug, NWF - 62 bln rubles 12
Foreign share of Russian federal bond market rises to 25.6% in June 13
Capital inflow to Russia-focused funds at $45 mln in week - EPFR 13
Russian int'l reserves edge down 0.8% to $465.228 bln in Aug 13
Retail deposits in Russian banks up 0.8% in June 14

CENTRAL BANK 15
CBR to discontinue ruble trading band in current form before year-end - Yudayeva 15
CBR expecting Russian cos. to need up to 1 trln in loans by end of year, banks to refinance 300 bln rubles in debt 16

RUSSIAN BANKS 18
FINANCIAL RESULTS 18
VEB boosts net profit 200% to 2.5 bln rubles in H1 18
Sberbank sees RAS profit fall 0.5% in 8M to 252.6 bln rubles 18
Gazprombank sees IFRS net profit fall 79% in H1 to 2.61 bln rubles 20
Bank of Moscow's H1 IFRS earnings down 7.5% to 16 bln rubles 20
Bank Saint Petersburg ups IFRS net profit 45.7% in H1 to 2.92 bln rubles 21
Bank Zenit sees IFRS net profit fall 74% to 352.7 mln rubles in H1 22
MTS Bank posts net losses to IFRS of 1.1 bln rubles, up 16.5% 22
### FINANCIAL INSTRUMENTS
VTB shareholders approve supplementary issue of preferred shares in loan conversion

### Mergers & Acquisitions, Regional Development
Expobank closes deal on purchase of Czech LBBW Bank

### Bailouts
Hole in Baltiyskiy Bank’s balance about 30 bln rubles - DIA

### Payments
VTB 24 planning to register new payment system
SMP Bank joins PRO100 payment system

### Nonbank Financial Institutions
FTSE includes Moscow Exchange shares in FTSE All World Index following H1 review
EXIAR insures Russian exports for 80 bln rubles in H1

### Trends
Ruble slumps to a low then corrects up
Hope for peace in southeast Ukraine pushes OFZ prices up
Russian Eurobonds surge after low-key start to week
Stock prices climb as market anticipates Ukraine ceasefire
Stock Indexes

### Press Review

### CIS and the Baltic
**Ukraine**
Ukraine receives second tranche of IMF stand-by program

**Belarus**
Belarus to allocate $4 bln to external state debt repayment in 2015
Belarussian foreign debt grows 5.6% in 7M
Belarus current account deficit down to 7.2% of GDP in H1

**Kazakhstan**
Inflation in Kazakhstan at 0.4% in Aug, 5.4% year to date

**Armenia**
Russia accounts for half of foreign investment in Armenian economy in H1

**Latvia**
Latvian MinFin lowers GDP growth forecast to 2.9% in 2014, 2.8% in 2015
TOP NEWS

CBR sees no threats to financial stability, but looking at nonstandard instruments - Yudayeva

MOSCOW. Sept 5 (Interfax) - The Central Bank of Russia (CBR) does not currently see any threats to financial stability, but is looking for a creative approach to various possible scenarios, including nonstandard refinancing instruments, CBR first deputy chairman Ksenia Yudayeva said.

"We have various scenarios and various possibilities to act. The situation requires a creative approach, because we are in constant dialog with banks, clarifying problems that they are facing, and in regard to this we are already deciding whether we need to act and how," Yudayeva said on the sidelines of the Russian Banks - 21st Century forum.

Non-standard instruments

"We are considering all possibilities. We don't see any need for unsecured lending right now. We're just looking whether some nonstandard instruments that we don't yet have in our system are needed," Yudayeva said.

The CBR does not currently see any threats to financial stability, as the ruble's exchange rate is at a fairly comfortable level within the currency corridor.

The CBR is prepared to use "unconventional monetary policy tools" if new sanctions call for them, she said.

"We are prepared for nonstandard situations and ready to use various tools we'll find necessary, including the unconventional application of tools that are typically used for the monetary policy," she said.

Yudayeva added that potential measures brought about by sanctions related not to the monetary policy, but to financial stability. "Monitoring financial stability is the primary goal. We have increased the monitoring process that takes place on various markets," she said.

"If we see some kind of threats to financial stability we will change our policy. How the situation is developing now and in recent weeks, there has not been a need for this," Yudayeva said.

As of 2015 the CBR will not conduct regular currency interventions, but has promised to enter the market if there is a threat to financial stability. The dual-currency basket corridor that is now the benchmark for the regulator's currency policy will be eliminated in its current form.

"The CBR will have internal guidelines. I think that we'll describe their principles, the CBR will have procedures. Our experience and the experience of other countries shows that what's important here is not so much some announced specific rules, moreover known to the market in detail, on the contrary [they] could be counterproductive and cause some speculative sentiment," Yudayeva said, adding that the CBR will have both quantitative and qualitative guidelines.

The CBR will hold a key board meeting on monetary policy issues on September 12.

"In terms of monetary policy, we see that there are economic growth risks, but they are mostly of a speculative nature. In terms of inflation, there are also risks and we responded to them at previous meetings. We are now finalizing forecasts and will make a decision on September 12," Yudayeva said.
Tightened monetary policy

The CBR does not want the government's tax decisions to push it into tightening its monetary policy when the situation does not call for it, Yudayeva said.

Asked about plans on the introduction of a sales tax, she said such steps by the government could pose a risk "as concerns fixating inflationary expectations at an increased level." In this situation, the regulator will be required to “take measures in the monetary policy that will be superfluous in this situation from all other points of view," Yudayeva said.

"We would like to discuss with the government the issue of them factoring in the impact of decisions they make on overall inflation and for them to make decisions in a way that does not lead to sharp spikes in inflation, does not subsequently impact medium-term economic expectations, and does not push us, if you will, towards a policy that is necessary as concerns inflation, but that might be harmful as concerns economic growth," Yudayeva said.

Elsewhere, an easing the European CBR's monetary policy could contribute to capital inflow to developing markets, all else being equal, Yudayeva said.

"Obviously the European CBR's easing policy is bringing about global easing around the world and possibly capital inflow to developing markets. And all else being equal, this could contribute to capital inflow to the Russian market. But under present conditions, we will see how this might occur. There are other factors that could cause this impact to be limited," she said.

Yudayeva added that there was, on the other hand, a contradictory trend on global financial markets. While the European CBR is easing its policy, regulators in the U.S. and Great Britain are considering toughening their policies.

OFZ, corporate bonds

Meanwhile, the CBR will promote Russian federal loan bonds (OFZ) and corporate bonds on Asian and Arabian markets under conditions of closing western markets, Head of the CBR's Financial Stability Department Sergei Moiseyev said.

"Considering the current political trend, we will seemingly need to make a certain adjustment in the development vector - not towards European markets, but to other financial markets," he said.

Western markets closed for Russian borrowers after the latest round of Ukraine-driven sanctions against Moscow. The EU is currently threatening to impose additional sanctions and ban European investors from purchasing OFZs.

"Our priorities are now changing as concerns diversifying investors [who invest] in Russian loan bonds. For that reason, we are suggesting to promote Russian bonds on Asian markets along with key players in this," Moiseyev later told journalists.

"Russia is lesser known there; the limits are not open for [the country]. We intend to use key financial centers like Singapore, Hong Kong, Shanghai and Tokyo - places where main liquidity pool are accumulating in sovereign funds and funds specializing in developing markets," he said.

If this move is successful, the CBR will raise financing from funds in Arab countries. "The European Market seems more vast and liquid, and with lower yield. Asia cannot brag about this, but as they said, this is the second best solution," Moiseyev said.

He added that this actually concerned ruble-denominated corporate bonds more than OFZs. "If investors do not see that the regulator supports participants’ initiatives, then skepticism arises with them. Some Chinese banks are requiring certification from the regulator that everything is being done in the right way," Moiseyev said.
He added that the CBR would help the largest Russian issuers promote their bonds. "The size of the corporate market is larger than that of the OFZ, and foreigners' share there is around 1% compared with OFZs, where it's around 20%. This is unploughed territory for attracting investors," Moiseyev said.

**Structural liquidity**

The CBR is expecting the structural liquidity deficit to grow by 1 trillion rubles by the end of the year, Deputy Head of the CBR's Division for Analyzing the Financial Conditions of CBR Monetary Policy Yelena Romanova said.

"By the end of this year we are expecting the structural liquidity deficit to grow by around 1 trillion rubles," she said at the international banking forum Russian Banks - 21st Century in Sochi on Friday.

"We see the main source of growth in the deficit as the economy's demand for cash," Romanova added.

**RDIF**

Meanwhile, Yudayeva said it is not currently legally possible to transfer the assets of the Russian Direct Investment Fund (RDIF) to the CBR.

"Based on current legislation, the RDIF's assets cannot be transferred to the CBR," she said.

Russian newspaper Kommersant previously reported that the government was considering transferring RDIF's assets, as well as the assets of the Export Insurance Agency of Russia (EXIAR), to the CBR or Russia's Federal Property Agency (Rosimushchestvo) in order to remove them from the risk of sanctions.
FINANCIAL POLICY

**Medvedev signs order to create industrial development fund**

GORKI. Sept 2 (Interfax) - Russian Prime Minister Dmitry Medvedev said he has signed an order to create an industrial development fund that will issue loans at the pre-banking stage.

"The third order, also signed by me, concerns an industrial development fund. One of the main goals of this new fund is to issue loans at the pre-banking stage for industrial enterprises," Medvedev said at a meeting with his deputies on Tuesday.

Deputy Prime Minister Arkady Dvorkovich said the size of the fund will be 18.5 billion rubles over a period of three years.

The fund will finance research and development, as well as feasibilities studies, which will allow for Russian industry to more effectively realize its scientific potential, Medvedev said.

The new structure will be created based on the Russian Foundation for Technological Development, which issued loans primarily to companies that handled medium-sized innovation projects, he added.

"A new area of focus will arise that you've talked about - financing companies at the pre-banking stage. This concerns research and development, project documentation, feasibility studies and smaller loans to start working, if necessary," Dvorkovich said.

Medium-sized projects costing between 150 million and 2 billion rubles will be financed, he added.

A total of 1 billion rubles may be given from the new fund in as soon as 2014, possibly in December. "Funds totaling 18.5 billion rubles have been included over the three-year perspective of the draft budget," Dvorkovich said.

**Russia postpones decision on postal bank until new laws passed on postal system**

MOSCOW. Sept 5 (Interfax) - The decision on creating a postal bank has been postponed until a new law on the postal service and a law on the corporatization of the unitary enterprise Russian Post are passed.

This decision was made at a meeting held by Russian Prime Minister Dmitry Medvedev on Friday to discuss the Russian Post's strategy to 2018.

"It has been decided to prepare and confirm the financial model of the postal bank after amendments to current legislation are made," Communications and Mass Media Minister Nikolai Nikiforov told journalists.
MinFin wants to introduce concept of "critical infrastructure service operators"

MOSCOW. Sept 4 (Interfax) - The Russian Finance Ministry is preparing a bill aimed at creating the concepts of "operator of critical infrastructure services" and "operator of critical-significant infrastructure services," according to information from the Russia's legal acts portal.

The text of the bill has not yet been published.

For organizations that provide information services on financial markets, as well as organizations that provide services for the exchange of financial information, a legal regulation will go into effect by establishing the rights and responsibilities of "operator of critical infrastructure services" and "operator of critical-significant infrastructure services" to minimize risks associated with exchanging payment and other aggregate financial information. These amendments will be made to law N161-FZ "On the National Payment System."

The developer of the bill said Russian legislation lacks a norm that allows concept of "operator of critical infrastructure services" (SWIFT, Bloomberg, Reuters, etc.) to be defined. Due to the lack of requirements in carrying out such services, as well as rules for providing information services, there are risks associated with such activity for operators of critical infrastructure services, operators that transfer funds, and payment infrastructure operators due to the lack (inadequate provision) of information services.

In addition, determining such a concept and setting requirements for the operator's activity will allow for those that do not carry out such information services to be held responsible.

The Ministry of Finance said that credit and financial institutions in Russia are integrated into a variety of the world's financial systems for exchanging information and providing information services to the banking sector and financial markets, such as SWIFT, Russian National SWIFT Association (ROSSWIFT), Bloomberg, Reuters, Target and others. At the same time, according to data from ROSSWIFT, the number of SWIFT users in Russia is the second highest in the world after the U.S. Bloomberg and Reuters are leading providers of financial information for professional financial market participants. Another important element of the system of financial information providers is Target, which conducts real-time international payments in the EU.

Deputy Finance Minister Alexei Moiseyev said in April that the Finance Ministry was suggesting regulating how information transfers and SWIFT payments were carried out inside Russia. He also said the ministry was preparing the corresponding legislative amendments. "We want the system to have a legal entity in Russia so that it can be held liable for any illegal actions, and to comply with the requirements established by the Central Bank and the law," he said.

The main goal is to guarantee uninterrupted payments in Russia. Moiseyev said the ministry wanted to make it so that payments between Russian entities were processed in Russia.

He added that most deal transactions in Russia took place through Bloomberg and Reuters, while the transactions are approved through SWIFT. The Finance Ministry is suggesting that a similar logic be applied to these organizations. This concerns using the same concepts employed when amending the law on the national payment system - namely, processing transactions between Russian entities inside Russia.

The Central Bank must supervise all of this, Moiseyev said.

It was also reported that in late August, British officials had suggested the EU close Russia off from the SWIFT system as part of sanctions for events in Ukraine. This suggested has not yet found support.
Several Russian banks found that payment operations on the Visa and MasterCard cards they had issued were suspended after the U.S. imposed sanctions over Ukraine. St. Petersburg's Rossiya Bank was the largest bank targeted by sanctions. It was joined by a subsidiary, Sobinbank, as well as SMP Bank and InvestCapitalBank (Ufa).

The issue of creating a national payment card system took on urgency after the U.S. sanctions were imposed. The State Duma approved a bill on formation of the system at the end of April and the president signed it into law at the beginning of May. The goal of the new law is to ensure uninterrupted, efficient and accessible non-cash payment services.

In addition, the new law required that outside payment systems place an amount equal to two days' worth of their Russian turnover on deposit with the Central Bank of Russia. The deposits are to be formed gradually, with one-fourth of the average daily total paid in each quarter.

Failure to make the prescribed deposits will result in a fine equal to the shortfall. If the payment system operator unilaterally stops servicing cards, it will be fined 10% of the total guarantee deposit for each day of delay.

**MinFin opposed to state guarantees for exports to six countries**

MOSCOW. Sept 2 (Interfax) - Russia's Finance Ministry is proposing to not include Egypt, Mongolia, Yemen, Kyrgyzstan, Syria and Ukraine in the list of foreign nations to which exports of industrial products enjoy support in the form of state guarantees.

The development of credit finance cooperation with these six countries at this time does not make sense due to their limited capacity to pay or political reasons, an explanatory note attached to a draft Finance Ministry decree "On approval of the list of foreign nations to which exports of industrial products receive state guarantee support" states. The draft decree has been posted on the website for disclosure of information on preparation of laws and regulations by federal government agencies.

The draft list includes 56 countries. The ministry proposes to provide state guarantee support for exports to Argentina on the condition that this country finds a settlement on its debt to all creditors.

The ministry also proposes to provide state guarantee support for exports to Cape Verde, Cambodia, Nepal, Pakistan, Tunisia, Turkmenistan, Uzbekistan and Equatorial Guinea on the condition that they resolve issues of unsettled debt obligations in credit finance relations with Russia.

The list also does not include nations that have investment grade credit ratings from international rating agencies S&P, Fitch Group and Moody's. State guarantee support for exports to such countries is provided based on a risk assessment of the relevant export deal.

State guarantee support for exports to countries not included in the list can be provided if sufficient security other than the state guarantee of the importer's country is provided for the export deal.

The main criterion for compiling the list was the level of credit risk for each country assumed by Russia with the provision of state guarantees.
OFFICIAL COMMENTS

Russia still appealing to investors despite ineffective sanctions - FAS chief

MOSCOW. Sept 4 (Interfax) - Russia is still appealing from an investment standpoint in spite of western sanctions, and this is shown by major deals that have taken place recently, the head of Russia's Federal Anti-Monopoly Service (FAS), Igor Artemev, said.

"We are still appealing to investors. We are a large country with a lot of interesting things to buy and develop. For that reason, it seems to me that this is an example of the ineffectiveness of these sanctions," he said at a briefing in Moscow on Thursday.

Artemev added that this was confirmed by the last foreign investment committee meeting.

An American company purchased Russia's largest pharmaceutical manufacturer, "and the Swiss, who have joined in on all sanctions," purchased cement plants in Russia, he said. In addition, a German company has acquired a company that produces heat exchangers for nuclear power plans.

"And the deals are for a billion dollars, a billion rubles; that is, serious deals. In general, real and serious companies from large, major powers have come and asked the government to allow them to buy. So for me, this is a really good signal," Artemev said.

Russia will take into account its national interests in the event of new Western sanctions, Russian Foreign Minister Sergei Lavrov said.

"It [the response] will not involve 'the slamming of the doors or some falsely understood hurts. We will take into account our national interest: protect our economy, protect our social sphere, protect our business and simultaneously draw conclusions from our partner's actions," the minister said in the Moscow State Institute of Foreign Relations on Monday.
Monthly inflation in Russia at 0.2% in August; rises to 7.6% in annual terms

MOSCOW. Sept 4 (Interfax) - Monthly inflation in Russia slowed to 0.2% in August from 0.5% in July and 0.6% in June, the Federal State Statistics Service (Rosstat) said.

This matched the 0.2% that analysts predicted in a consensus forecast for Interfax.

Inflation in annual terms accelerated to 7.6% in August from 7.5% in July.

According to Rosstat weekly monitoring data, prices rose 0.1% a week in each of the last three weeks of August. However, inflation for the month was only 0.2% because the cut-off date for monthly inflation is the 25th of the month. The 0.1% inflation in the final calendar week of August will be included in September's monthly total.

Inflation in August typically slows due to the seasonal decline in fruit and vegetable prices. Inflation was 0.1% in August 2013.

For that reason, inflation in annual terms rose to 7.6% in August 2014 from 7.5% in July. Annualized inflation declined in July 2014 for the first time since January, a trend did not hold in August. Annualized inflation was 7.8% in June, 7.6% in May, 7.3% in April, 6.9% in March, 6.2% in February and 6.1% in January.

The core or underlying inflationary index, which excludes short-term irregular price changes caused by various factors of an administrative, once-off and seasonal nature, was 100.6% in August, the same as in July (100.5% in August 2013). It was 105.6% in January-August 2014 (103.2% a year earlier) and 108.0% in annual terms (105.5%).

Inflation in January-August 2014 was 5.6%, up from 4.5% in the first eight months last year.

Russian consolidated budget surplus widens to 1.088 trln rubles in H1

MOSCOW. Sept 1 (Interfax) - Russia had a consolidated budget and extra-budgetary funds surplus of 1.088 trillion rubles in January-June 2014, compared with a surplus of 535.3 billion rubles in the same period of 2013, the Federal State Statistics Service (Rosstat) said.

Consolidated budget revenue, including state extra-budgetary funds, totaled 12.671 trillion rubles, compared with 11.371 trillion rubles in the same period of 2013; and consolidated spending was 11.584 trillion rubles, up from 10.835 trillion rubles.

Tax revenues to the consolidated budget in January-June 2014 included 2.649 trillion rubles from foreign economic activities (2.320 trillion rubles a year previously); 2.283 trillion rubles in compulsory social insurance contributions (2.087 trillion rubles); 1.501 trillion rubles in taxes, levies and royalties for the use of natural resources (1.262 trillion rubles);1.201 trillion rubles from personal income tax (1.119 trillion rubles); 1.158 trillion rubles in corporate profit tax (995.4 billion rubles); 1.165 trillion rubles VAT on goods sold in Russia (978.9 billion rubles); 800 billion rubles VAT on goods brought into in Russia (769.1 billion rubles); 428 billion ru-
bles in property tax (406.1 billion rubles); and 457.6 billion rubles excise on goods made in Russia (444.3 billion rubles).

Consolidated budget expenditures in January-June 2014 included 6.598 trillion rubles on social and cultural programs (6.530 trillion rubles a year previously); 1.415 trillion rubles on national defense (1.086 trillion rubles); 1.300 trillion rubles on the national economy (1.128 trillion rubles); 938.9 billion rubles on national security and law enforcement (876.9 billion rubles); 700.5 billion rubles on general government needs (632.5 billion rubles); 352 billion rubles on the housing and utilities sector (348.2 billion rubles); and 385 billion rubles on road construction and maintenance (342.9 billion rubles).

Russia's federal budget had a surplus of 718.8 billion rubles in January-June, compared with a surplus of 367.9 billion rubles in the same period of 2013. Revenue was 7.121 trillion rubles (6.258 trillion rubles a year previously) and spending - 6.402 trillion rubles (5.890 trillion rubles).

Reserve fund up 292 bln rubles in Aug, NWF - 62 bln rubles

MOSCOW. Sept 2 (Interfax) - Russia's reserve fund totaled 3.387 trillion rubles, or $91.72 billion, as of September 1, 2014, and the National Welfare Fund (NWF) was 3.151 trillion rubles ($85.31 billion), the Finance Ministry said in a statement.

The reserve fund was 3.095 trillion rubles ($86.63 billion) as of August 1 of this year, and the NWF was 3.089 trillion rubles ($86.46 billion).

The reserve fund therefore increased by 292.13 billion rubles in August and the NWF - by 61.71 billion rubles.

The accounts of the Reserve Fund contained $40.82 billion, 31.39 billion euro, 5.76 billion pounds sterling, the statement said.

The total estimated amount of revenue from placement of Reserve Fund assets in foreign currency accounts at the Central Bank, in the U.S. dollar equivalent, was $0.41 billion, or the equivalent of 15.03 billion rubles, in the period from January 15 to August 31, 2014. The exchange-rate difference on revaluation of balances on these accounts from January 1 to August 31 was 310.54 billion rubles.

NWF accounts with the Central Bank contained $24.42 billion, 23.97 billion euros and 4.35 billion pounds. Accounts with Vnesheconombank (VEB) held 474.02 billion rubles and $6.25 billion. A total of $3 billion was invested in the debt obligations of foreign states on the basis of a special government decision and without requirements for a long-term credit rating.

Revenue from depositing NWF funds on foreign currency accounts with the Central Bank in the period January 15-August 31 and converted into dollars was $0.31 billion or the equivalent of 11.32 billion rubles.

The exchange-rate difference on the revaluation of balances on these deposits from January 1-August 31 was 262.28 billion rubles. This included 223.39 billion rubles on forex deposits with the Central Bank, 26.28 billion rubles on dollar deposits at VEB and 12.61 billion rubles on funds invested in the debt obligations of other states on the basis of a special government decision and without requirements for a long-term credit rating.

Overall revenue from depositing NWF funds with VEB in January-August was 22.01 billion rubles or the equivalent of $0.64 billion.
Foreign share of Russian federal bond market rises to 25.6% in June

MOSCOW. Sept 1 (Interfax) - Nonresidents increased investment in Russia's federal loan bond (OFZ) market 4.4% in June 2014 to 945 billion rubles at face value, and their share of the market rose to 25.6%, its highest level since 26.1% on November 1, 2013, the Central Bank said on its website.

In absolute terms, the nonresident share was higher than the total of 933 billion rubles on November 1, 2013. After that, it declined 12.5% in the ensuing five months to 815 billion rubles on April 1, 2014. In other words, that decline was more than made in the three following months.

The nonresident share of the market peaked at 28.1% (930 billion rubles) on May 1, 2013.

Capital inflow to Russia-focused funds at $45 mln in week - EPFR

MOSCOW. Sept 5 (Interfax) - Capital inflow to funds focused on Russian equities was $45 million in the week of August 28 - September 3, down from an estimated $111 million the week before, according to data from Emerging Portfolio Fund Research (EPFR).

Investment company Sberbank Investment Research said in a report that most funds were invested into the Russian market through global emerging markets funds ($66 million) and global funds ($15 million). Specialized Russian funds saw outflow of $34 million.

Overall outflow from the Russian market has therefore reached $1.137 since the beginning of the year.

Russian intl reserves edge down 0.8% to $465.228 bln in Aug

MOSCOW. Sept 5 (Interfax) - Russia's international reserves fell $3.534 billion or 0.8% in August to $465.228 billion from $468.762 billion, the Central Bank said on its website.

The reserves, which were $509.595 billion on January 1, fell $44.367 billion or 8.7% in January-August.

They fell $28.023 billion or 5.2% in 2013.

Russia's international reserves fell $0.3 billion to $465.8 billion in the week to August 29, the Central Bank said on Thursday.

The reserves stood at $461.1 billion on August 22.

They consist of highly liquid financial assets at the disposal of the CB and Russian government, including foreign currency, monetary gold, special drawing rights, the reserve position at the IMF and other reserve assets.
Retail deposits in Russian banks up 0.8% in June

MOSCOW. Sept 1 (Interfax) - Retail deposits in ruble and forex accounts at Russian banks totaled 16.883 trillion rubles by July 1, 2014, up 0.8% since the start of June and 8% higher than on July 1, 2013, the Federal State Statistics Service (Rosstat) said.

Sberbank of Russia accounted for 46.3% of all retail savings as of July 1, 0.1 percentage points more than a month earlier and compared with a percentage point drop of 0.2 in April, increases of 0.5 in March and 0.2 in February and a drop of 1.3 in January.

About 13.699 trillion rubles had accumulated in ruble accounts at Russian banks by that date, up 6.8% from a year previously. Forex deposits in ruble equivalent totaled 3.184 trillion rubles, up 13.6%.

Russians had accumulated 7.825 trillion rubles at Sberbank by July 1, 2014, up 12.1%, including 6.910 trillion rubles in ruble accounts (up 10.9%) and 914.8 billion rubles in forex accounts (up 22.1%).
CBR to discontinue ruble trading band in current form before year-end - Yudayeva

MOSCOW. Sept 2 (Interfax) - The Central Bank of Russia will no longer make use of the ruble trading band in its current form as the bank completes its transition to inflation targeting. Central Bank First Deputy Chairman Ksenia Yudayeva wrote in an article published in the journal Voprosy Ekonomiki.

The goal of inflation targeting is to ensure price stability by establishing a quantitative inflation target that is achieved by raising or lowering interest rates. The Central Bank of Russia has set the long-term inflation target at 4%.

The policy also means that the ruble exchange rate will float, although countries that use inflation targeting may still conduct currency interventions in the event financial stability is at risk, she said.

"Given the experience in other countries, the Central Bank of Russia is now gradually shifting to a floating exchange rate. This means that before 2015 the currency trading band in its current form will be discontinued and interventions will become less frequent," Yudayeva said in the article.

The trading band for the bicurrency basket ($0.55 and 0.45 euro) is the benchmark the Central Bank uses to implement exchange rate policy. The regulator has liberalized the exchange rate policy over the past year, reducing the volume of interventions triggered when the exchange rate approaches the boundaries of the trading band. In August, the Central Bank widened the trading band to 9 rubles from 7 rubles and reduced to zero the volume of interventions when the exchange rate is within the trading band.

There must be a swift response to steep fluctuations in the ruble exchange rate that could undermine financial stability, she said. That is how the Central Bank reacted in March 2014, when the ruble weakened sharply due concerns about a possible invasion of Ukraine. The bank adjusted currency exchange rate policy and succeeded in extinguishing the speculative mood on the market with massive interventions.

"That is how it [the Central Bank] will respond in future, after the transition to inflation targeting," Yudayeva said.

Inflation targeting does not prohibit the Central Bank from serving as creditor of last resort or from conducting currency interventions when threats to financial stability arise.

"That is exactly how the Russian Central Bank intends to respond. It is a different matter that in the current situation, more risks are associated with deviations from the policy of fiscal stability rather than the policy itself, all the more so with attempts to use monetary policy to stimulate economic growth," Yudayeva said.

Inflation targeting is desirable because holding inflation level over an extended period substantially raises confidence in the national currency and financial system, she said. Fear of inflation in the developed economies, where the typical inflation target is 2%-2.5% a year, has not discouraged the public and business keeping their savings in the national currency.

"Ordinary people stop reacting to exchange rate changes, since it has no discernible effect on the purchasing power of their incomes and savings. Businesses do not bother to change prices given
exchange rate declines, and when demand for their products increases, are more likely to raise output than prices,” Yudayeva said.

Interest rate changes can affect the exchange rate as well as interventions, she said. Raising rates increases the appeal of assets denominated in the local currency and reduces potential gains from speculating against them.

**CBR expecting Russian cos. to need up to 1 trln in loans by end of year, banks to refinance 300 bln rubles in debt**

SOCHI. Sept 4 (Interfax) – The Central Bank of Russia (CBR) is expecting Russian companies to need up to 1 trillion rubles in loans by the end of 2014, CBRDeputy Chairman Mikhail Sukhov said at the international banking forum Russian Banks - 21st Century on Thursday.

"No less than a trillion rubles. Demand will grow by the end of the year due to various factors," he said.

Sukhov added that the growth in companies' demand will take place against the backdrop of recent measures to capitalize banks. "Over the course of the year, the main source of bank capitalization must be profit," he said.

Russian banks will be able to refinance debt on the domestic market, he said."The change in the conditions on financial markets is entirely manageable for our banks," he said.

Banks will need to refinance 300 billion rubles in debt in 2014, and this amount will be more next year, Sukhov said, adding that banks will be able to refinance debt on the domestic market, however.

**Lending**

The CBR is forecasting that the Russian banking sector will increase its loan portfolio by 15%-17% this year, Sukhov said.

"We are maintaining fairly high development forecasts for the sector. We are expecting 15%-17% due to an increase in the rate of growth at which companies borrow," he said.

Shareholders in commercial banks must provide recapitalization if the corporate loan portfolio grows 20% a year, he said.

"Over the next few years, the main source for recapitalizing banks will be their earnings. Although it is impossible to rule out the possibility that growth in lending to the nonfinancial sector may rise to 20% due to higher demand for loan products primarily. I think that if such a pace persists for more than one quarter, the bank's shareholders must undertake additional efforts to strengthen bank capital," Sukhov said, adding that he had in mind a growth rate of 20% on an annual basis.

"We must create conditions to encourage investors to invest money in the capital of their banks. I believe foreign investors that are ready to continue operations here are entirely capable of finding a favorable economic answer for themselves," Sukhov said.

The CBR is prepared to allow Russian banks not to form loss reserves on loans that are overdue because of clients' payment delays, and this includes payments through western banks, he said.
"The Central Bank is prepared to consider all objective scenarios not connected with the financial solvency of borrowers [...] There are situations connected with payments made by our companies. For now, companies and banks are getting by," he said, adding that these were the only cases so far.

**Systematically important banks -**

Meanwhile, a total of 19 Russian banks currently meet the criteria for being called systemically important, Sukhov said.

"Of the 19 of our largest banks that we are suggesting be supervised by the Systemically Important Banks Supervision Department, seven banks are already meeting the indicator for short-term liquidity without any additional measures," he said.

The CBR will carry out new regulatory measures for these 19 banks, including the development of plans to support their financial standing in unforeseen situations. Five banks are already developing such a plan.

All of these banks will also carry out advanced Basel II approaches in risk assessment. "I don't want to create any illusions here either. Really, several banks will receive the possibility of a purely technical 10% discount to capital adequacy, which must be completely compensated by a fundamentally different degree of transparency for the system of making lending decisions," Sukhov said.

"We must maintain confidence in the banking sector by preserving our intentions to implement Basel III standards. Investors from various categories must trust our banks as concerns capital adequacy and other parameters. I don't think that there is any reason to change the timeframe or previously announced quantitative parameters," he added.

In addition, the CBR will factor in its regulatory system when identifying "new zones of heightened or decreased risk."

Along with the implementation of the liquidity coverage ratio (LCR), an important part of the Basel III standards, the regulator is assessing its possibilities in providing contractual liquidity lines that must compensate the particularities of the Russian financial market.

"Around half of them [the 19 banks] are able of keeping in line with the fairly rigid liquidity figures, even under conditions of low government security ratings. The remaining banks will receive additional opportunities in the form of CBR resources. The need is not large - just under 700 billion rubles. These estimates and criteria may be refined," Sukhov said.
RUSSIAN BANKS

FINANCIAL RESULTS

VEB boosts net profit 200% to 2.5 bln rubles in H1

MOSCOW. Aug 29 (Interfax) - Vnesheconombank (VEB) posted a net profit of 2.5 billion rubles in the first half of 2014 under international financial reporting standards (IFRS), 200% higher than the net profit in the same period last year, the state corporation said.

VEB earned 14.3 billion rubles in Q2 2014 compared with a loss of 1.2 billion rubles in Q2 2013.

VEB in Q2 increased its expenses on provisions 7.6-fold to 84 billion rubles from almost 12 billion rubles in Q2 2013.

The results of the second quarter were saved by the renewal of deposits in bonds by the Central Bank at VEB, issued during the crisis for the "bail-out" of Sviaz Bank and Globex Bank.

In June of this year, Vnesheconombank approved the placement of Series 35 bonds totaling 212.636 billion rubles. The private placement of seven-year bonds will be made in favor of the Central Bank. The bonds bear 14 coupons, with 182 days in each coupon period. The rates of all the coupons have been set equal to the first, 2.00% annually, which is lower than the market rate. A source familiar with the situation told Interfax that this bonds are for the renewal of deposits, which during the crisis the Central Bank placed with VEB for the bail-out of Sviaz Bank and Globex Bank, which have since been prolonged annually.

Because the rate is lower than the market one, VEB pointed out the income from the initial recognition of the financial instruments is 82.9 billion rubles.

Sberbank sees RAS profit fall 0.5% in 8M to 252.6 bln rubles

MOSCOW. Sept 5 (Interfax) - Sberbank saw net profit to Russian Accounting Standards (RAS) fall 0.5% in January-August 2014 to 252.6 billion rubles, the Russian bank said in a press release.

"Please note that comparison to Net profit for the same period of 2013 is incorrect due to adjustments that reflect new CBR regulation on deferred tax assets and liabilities that came into force in 2014. Excluding the effect of the one-off change in accounting, net profit would have amounted to 261.6 billion rubles, up by 3.1% versus 253.8 billion rubles in January-August 2013," the press release says.

Sberbank posted net profit of 222.1 billion rubles in January-July of this year, meaning the bank had net profit of 30.5 billion rubles in August alone.

Net interest income came to 565.9 billion rubles, up by 22.5% compared to January-August 2013. Interest income increased by 192.6 billion rubles driven by both corporate and retail loan portfolio growth. Interest expenses grew by 88.5 billion rubles, due to customer deposits growth (both corporate and retail) and increase in CBR funding volumes and costs, the bank said.
Net fee and commission income amounted to 170.2 billion rubles, up by 22.4% y-o-y compared to January-August 2013. Noncredit commission income growth remains strong, up by 24.8%, mostly driven by bank cards and acquiring. "Commission income from insurance, pension and investment products, bank guaranties and documentary operations becomes more significant," Sberbank said.

Net income from trading operations amounted to 22 billion rubles versus 16.3 billion rubles for January-August 2013. Revenues on conversion operations increased significantly (32.8 billion rubles versus 10 billion rubles), while there was a reduction of income on the securities market, as well as in July, due to the general market situation, the statement says.

Operating income before provisions increased by 23.7% to reach RUB779.1 bn.

Operating expenses increased by 11.2%. C/I ratio for January-August 2014 decreased to 35% vs. 38.9% a year earlier. The general trend of C/I improvement y-o-y is achieved by the bank's cost optimization program. The Bank managed to maintain the trend when pre-provision operating income growth (23.7%) significantly outpaced operating expenses increase (11.2%), the bank said.

Total provision charges amounted to 189.2 billion rubles versus 74.1 billion rubles a year earlier. The bank continues to practice a conservative approach in loan-loss provisioning based on requirements of the Central Bank of Russia. Coverage ratio remained strong: loan-loss provisions are 2.1 times the overdue loans.

Profit before tax for January-August 2014 totaled 317.5 billion rubles. "As of this year deferred tax liability was reflected in the Balance Sheet (please note Sberbank releases Financial Highlights for January-May 2014 (under RAS; non-consolidated)," the statement says.

Consequently, the net profit for January-August 2014 amounted to 252.6 billion rubles. Excluding the effect of adjustments that reflect new regulation, the net profit for January-August 2014 would have increased by 3.1% versus corresponded period a year earlier, totaled 261.6 billion rubles, Sberbank said.

In August assets increased by 0.8%, or 140 billion rubles. The growth of the Balance Sheet in August, just like in July, was influenced by positive revaluation of FX component on ruble devaluation compared to key foreign currencies. Assets growth for January-August 2014 reached 1.2 trillion rubles, or 7.5%, mainly due to total loan portfolio growth.

Core Tier 1 and Tier 1 capital (equal since Sberbank does not have instruments of additional capital) reached 1.46 trillion rubles as of September 1, 2014, according to preliminary calculations. Total capital amounted to 2.209 billion rubles on the same date. Key constituents to affect total capital in August were net profit contribution (+31 billion rubles) and revaluation of investments in subsidiaries (according to accounting methodology these investments lowered the capital by 29 billion rubles). As a result, total capital increased by 4 billion rubles in August, Sberbank said.

Capital adequacy ratios based on preliminary calculations as of September 1, 2014 were: N1.1 - 8.0% (minimum adequacy level, required by the Central Bank of Russia at 5.0%); N1.2 - 8.0% (minimum adequacy level, required by the Central Bank of Russia at 5.5%) and N1.0 - 12.0% (minimum adequacy level, required by the Central Bank of Russia at 10.0%, considering Deposit Insurance Regulation).
Gazprombank sees IFRS net profit fall 79% in H1 to 2.61 bln rubles

MOSCOW. Aug 29 (Interfax) - Gazprombank saw net profit to International Financial Reporting Standards (IFRS) fall 78.7% in the first half of 2014 to 2.61 billion rubles, the company said in a report.

Net interest income was up 32.6% year-on-year at 47.24 billion rubles.

"Gazprombank's total assets per IFRS financial statements for the six months ended 30 June 2014 increased by 4.5% and amounted to 3.811 billion rubles. The growth of assets in H1 2014 was mainly driven by the growth of loan portfolio by 3.3% reaching 2.515 billion rubles, and the increase of cash and cash equivalents from 521.9 billion rubles as of the year-end 2013 to 594.2 billion rubles as of 30.06.2014. The growth of the Group's assets was supported by an increase in corporate funding, borrowings from debt capital markets and refinancing operations with the Central Bank of Russia," the bank said.

The bank's equity was up 1% in the six months at 398.9 billion rubles. The core tier 1 capital adequacy ratio (N1.1), calculated in accordance with Basel III on unconsolidated basis, amounted to 7.34% as of June 30, 2014, (7.2% at the beginning of the year), while total capital adequacy ratio (N1.0) was 11.50%.

Gazprombank was Russia's 3rd largest bank by assets at the end of H1 2014, according to the Interfax-100 ranking.

Bank of Moscow's H1 IFRS earnings down 7.5% to 16 bln rubles

MOSCOW. Sept 5 (Interfax) - The VTB Group's Bank of Moscow saw its net profit to International Financial Reporting Standards (IFRS) fall 7.5% year-on-year in H1 2014 to 16 billion rubles, the bank said in a statement.

Net interest income grew 16.2% to 32.3 billion rubles, due mainly to an increase in lending in 2013. The net interest margin fell to 4.7%, from 4.8% a year previously.

Net commission grew 25.6% to 4.9 billion rubles and was formed mainly by lending to medium-sized companies and retail lending, totaling 3.2 billion rubles and 1.5 billion rubles, respectively. Growth was related to higher commission on plastic cards and commission on guarantees and trade financing transactions.

Return on equity (ROE) was 15.3% at end H1 2014, down from 17.7% a year previously.

Bank of Moscow's assets grew 15.2% during H1 2014 to 1.877 trillion rubles. The credit portfolio after provisions rose 0.2% to 910.7 billion rubles.

Corporate lending before provisions and minus investment in federal loan bonds was 931 billion rubles, down 2% since the start of the year. Retail lending before provisions fell 12.7% to 193.8 billion rubles.

Customer deposits and accounts rose 7.3% during H1 2014 to 660.7 billion rubles and accounted for 39.5% of total liabilities. Corporate deposits rose 9.7% to 426.3 billion rubles and retail deposits grew 3.2% to 234.4 billion rubles.

The bank's equity fell by 6.2% to 225.1 billion rubles, due to the payment of 26 billion rubles in dividends for 2013.
The overall capital adequacy ratio fell to 13.5% from 15.2% during H1 2014, with the Tier 1 CAR down to 11.8% from 13.2%.

As of June 30, 2014, loans to Ukrainian companies and other assets in Ukraine accounted for not more than 0.3% of Bank of Moscow's entire assets. The bank is currently assessing the impact of sectoral sanctions on its financial state and results.

Bank of Moscow also said in the report that it bought 42.27% of the shares in OJSC Hals Development from third parties for 7.3 billion rubles in August 2014.

Bank of Moscow was Russia's fifth largest bank by assets, according to the Interfax-100 ranking at the end of H1 2014.

**Bank Saint Petersburg ups IFRS net profit 45.7% in H1 to 2.92 bln rubles**

MOSCOW. Sept 4 (Interfax) - Bank Saint Petersburg boosted net profit to International Financial Reporting Standards (IFRS) 45.7% year-on-year in the first half of 2014 to 2.92 billion rubles, the bank said in a financial report.

Analysts told Interfax in a consensus forecast they had expected net profit of 2.965 billion rubles in H1.

Revenue increased 32.4% to 10.9 billion rubles.

"The bank's financials for H1 2014 benefited from one-off gains from acquisition of Bank Evropeisky in the amount of 489 million rubles and from disposal of investment securities available-for-sale in the amount of 249 million rubles. Excluding one-offs, net income for H1 2014 amounted to 2.2 billion rubles, revenues -10.1 billion rubles, ROAE - 9.0%, Cost-to-Income Ratio - 44.1%," the report says.

"As of July 1, 2014, the bank's assets amounted to 439.7 billion rubles (+7.4% compared with January 1, 2014; +2.5% compared with April 1, 2014)," the statement says.

"During 1H 2014, the share of problem loans in the bank's portfolio (total share of overdue loans and impaired not past due loans) decreased from 12.9% to 9.9%. As at July 1, 2014, the share of overdue loans in the Bank's portfolio amounted to 5.5% of the total volume of loans. The share of the corporate overdue loans amounted to 5.9% of the total corporate loans; the share of the retail overdue loans amounted to 3.5% of the total retail loans. As at July 1, 2014, impaired not past due loans constituted 4.5% of the total volume of loans. The rate of provisions for loan impairment decreased to 8.6% (9.4% as at January 1, 2014). Provision charge for H1 2014 amounted to 2.8 billion rubles. In 1H 2014, loans in the amount of 5.1 billion rubles were written off," the bank said.

"As of July 1, 2014, the shareholders equity amounted to 50.2 billion rubles (+5.4% compared with January 1, 2014; +1.9% compared with April 1, 2014). The Bank's total capital amounted to 60.2 billion rubles (+3.7% compared with January 1, 2014; -0.6% compared with April 1, 2014). As at July 1, 2014, the Bank's Tier 1 and total capital adequacy ratios were 11.3% and 14.5% respectively," the report says.

Bank Saint Petersburg was Russia's 15th largest bank by assets at the end of H1 2014, according to the Interfax-100 ranking. Its shares are traded on the Moscow Exchange.
Bank Zenit sees IFRS net profit fall 74% to 352.7 mln rubles in H1

MOSCOW. Sept 2 (Interfax) - Bank Zenit posted H1 net profit to International Financial Reporting Standards (IFRS) of 352.7 million rubles against profit of 1.349 billion rubles a year earlier, the bank said in a report.

Net interest income rose by 11% to 4.352 billion rubles. Transfers to provisions for the impairment of loans grew 130% to 2.217 billion rubles. Net commission income fell 11.5% to 1.493 billion rubles. Net revenue fell 24% to 3.868 billion rubles. Pretax profit fell by 73% to 470.67 million rubles.

The bank's assets increased 4.2% in H1 to 312.571 billion rubles. The loan portfolio before provisions increased by 4.8% to 219.725 billion rubles, in particular the corporate loan portfolio, which grew 3.2% to 188.853 billion rubles and the retail portfolio - 15.2% to 30.872 billion rubles.

Client accounts grew by 7.3% to 187.095 billion rubles, including the funds of private individuals - 1.9% to 75.815 billion rubles, the accounts of state and public organizations decreased by nearly 37.5% to 5.573 billion rubles, and the accounts of other legal entities grew 16% to 105.707 billion rubles.

The bank's equity grew by 0.6% to 43.62 billion rubles including Tier 1 capital which also grew 0.6% to 28.866 billion rubles. The capital adequacy ratio rose to 16% from 15.7% at the beginning of the year, the Tier 1 capital adequacy ratio - to 10.6% from 10.4% at the beginning of the year.

In H1 2014, Bank Zenit was Russia's 26th largest bank by assets, according to the Interfax-100 ranking.

MTS Bank posts net losses to IFRS of 1.1 bln rubles, up 16.5%

MOSCOW. Sept 1 (Interfax) - MTS Bank increased net losses to International Financial Reporting Standards (IFRS) to 1.143 billion rubles in H1 2014, up 16.5% year-on-year from 980.6 million rubles in H1 2013, the bank said in a report.

The bank's net interest income before the creation of provisions for the impairment of assets increased by 37% to 7.65 billion rubles, the provisions for the impairment of assets, from which interest is calculated, increased by 11.6% to 4.85 billion rubles. Net non-interest income fell 75.6% to 393 million rubles.

The bank's assets fell by 7.8% to 206.3 billion rubles from 223.7 billion rubles on December 31, 2013.

The bank's equity in H1 2014 grew by 11.3% to 25.8 billion rubles from 23.2 billion rubles at the end of 2013.

Net cash outflow from investment activity in H1 2014 increased more than 400-fold to 4.604 billion rubles, according to unaudited details, from 11.5 million rubles in H1 2013.

In H1 2014, MTS Bank was Russia's 40th largest bank by assets, 32nd largest by retail deposits and 28th by retail loans, according to the Interfax-100 ranking.
FINANCIAL INSTRUMENTS

VTB shareholders approve supplementary issue of preferred shares in loan conversion

MOSCOW. Sept 1 (Interfax) - Shareholders in state-controlled VTB voted at an extraordinary meeting on August 29 to place 21.403 trillion preferred, 0.01-ruble shares, the bank said in a press release.

The shares will be placed in favor of the state at par.

The government authorized the biggest banks to convert the subordinated anti-crisis loans they received from VEB into preferred shares in order to boost Tier 1 capital and satisfy growing demand from companies that are unable to borrow abroad due to sanctions against Russia.

VTB received a subordinated loan of 200 billion rubles during the 2008-2009 global financial crisis. The bank currently has no preferred shares in circulation.

The Finance Ministry prepared a draft resolution in July providing for the state to purchase preferred shares totaling 214.037 billion rubles using money from the National Welfare Fund (NWF) on condition that the bank repay the subordinated loan made by VEB.

MERGERS & ACQUISITIONS,
REGIONAL DEVELOPMENT

Expobank closes deal on purchase of Czech LBBW Bank

MOSCOW. Sept 2 (Interfax) - Expobank has closed a deal on the acquisition of the Czech bank, LBBW Bank CZ, from German Landesbank Baden-Württemberg (LBBW), the Russian bank said in a statement.

Earlier Expobank received all necessary approvals from the Czech National Bank and the Central Bank of Russia. Expobank now fully owns LBBW Bank CZ.

"This deal is in line with the strategy of building up an international private financial company. We'll go on with the bank's development in the Czech Republic, using its strong market positions. The Bank intends to focus on the development of corporate business, on trade finance, private banking and on banking services for affluent customers. Expobank's clients in Russia will have new opportunities to enhance business cooperation with their partners in the Czech Republic and other EU countries," the press release cited Kirill Nifontov, CEO of Expobank, as saying.

"Maris Avotins will be appointed CEO of LBBW Bank CZ. Until recently he was CEO of AS Expobank, Latvia," the statement said.

Germany's Landesbank Baden-Württemberg and Expobank signed a relevant agreement at the beginning of the year in which the parties agreed to not disclose the price and other details of the deal.
LBBW acquired the Czech bank from Austria's BAWAG P.S.K. in September 2008. LBBW Bank CZ is a mid-sized universal bank with assets of less than 1.2 billion euros at the end of 2012. The bank has about 360 employees and 18 branches in the Czech Republic.

Expobank was Russia's 96th largest bank by assets at the end of the H1 2014, according to the Interfax-100 ranking.

**BAILOUTS**

**Hole in Baltiyskiy Bank's balance about 30 bln rubles - DIA**

ST. PETERSBURG. Sept 2 (Interfax) - The gap in Baltiyskiy Bank's balance amounts to about 30 billion rubles, the director of the department for bank restructuring of the Deposit Insurance Agency (DIA) Georgy Agaptsev told journalists in St. Petersburg on Tuesday. Alfa Bank, which is bailing Baltiyskiy Bank out, said in the space of April-July, that hole had increased 50% from 20 billion rubles. A Alfa-Bank will receive a loan for the bailout of Baltiyskiy Bank amounting to 57.4 billion rubles and it is is hoping to recapitalize Baltiyskiy by the end of the year. In future Alfa will merge the bank into its structures, although Baltiyskiy will continue to exist under its own brand and as an independent corporate entity.

**Growing hole**

The CEO of Alfa-Bank Andrei Sokolov, told journalists that in April of this year, the "hole" in the balance of Baltiyskiy Bank was slightly more than 20 billion rubles, and in July in was already around 30 billion rubles.

"In that time, the bank lost assets of about 10 billion rubles," Sokolov said.

Agaptsev said the Central Bank issued an order to conduct a study that will determine how the discrepancy between the stated and actual assets arose.

He said that businesses associated with the bank and its shareholders accounted for 20 billion-23 billion rubles of the total shortfall.

"Part of the gap is from leasing operations, part is from real estate operations. We estimate that businesses connected to the bank and its shareholders account for 20 billion-23 billion rubles," a DIA representative said.

Alfa-Bank will receive a loan for the bailout of Baltiyskiy Bank amounting to 57.4 billion rubles. In the future, Baltiyskiy Bank will be merged with Alfa-Bank.

Agaptsev told journalist on Tuesday that the interest on the loan will amount to 0.51% per annum. "This rate is preferential - 0.51%. In accordance with International Financial Reporting Standards (IFRS), this preferential, long-term loan should close this hole that was revealed during the audit of the bank. Naturally, if this was a market loan, lent in market conditions, closing the financial gap would not be possible," he said.

Last week the DIA said that Baltiyskiy Bank's charter capital would be decreased to 1 ruble. As a result of the recapitalization, Alfa Bank will become the main shareholder of the bank. The DIA also said the loan for the bailout would be for 57.4 billion rubles with maturity of 10 years. In addition, Baltiyskiy Bank will be merged by the end of 2020.
Studying the state of Baltiyskiy Bank, the Central Bank uncovered signs of fraudulent transactions with assets. Due to the conflict between shareholders, the bank was not managing 30 billion rubles in investments, the regulator said. Baltiyskiy Bank's shareholders before the bailout were businessmen Oleg Shigayev and Andrei Isayev.

**Recapitalization this year**

Sokolov said Alfa-Bank plans to complete recapitalization procedures at Baltiyskiy Bank before the end of 2014.

"We hope to complete all the procedures concerning capital and supplementary issues before January 1, 2015, that is, in the remaining four months of the year, in concert with the DIA [Deposit Insurance Agency] and the Central Bank," Sokolov said.

The timetable for Baltiyskiy Bank's full merger into Alfa-Bank depends on many factors. "It must not be forgotten that the bank, alongside the main shareholders [Andrei Isaev and Oleg Shigaev] has 4,500 minority shareholders, who own 0.3% of shares," he said.

Alfa-Bank chief managing director and member of the board of directors Alexei Marei said Baltiyskiy Bank would continue to exist under its own brand and as an independent corporate entity.

"We are not planning in the near future, in the next few months, any actions aimed at replacing the brand. Definitely, in future we will be talking about a merger, but that won't be tomorrow. More likely, the day after tomorrow," Marei told journalists.

Alfa-Bank is conducting the sanation of Baltiyskiy Bank. Rehabilitation of the bank will involve reducing its capital to 1 ruble and subsequent recapitalization, which will result in Alfa-Bank becoming the main shareholder.

**Lending to budget-financed enterprises**

Baltiyskiy Bank has partially resumed lending to budget-financed enterprises following the launch of sanation procedures, chief managing director, Marei told journalists.

"The bank's loan committee has begun operating. There have already been two meetings concerning corporate lending. Certain deals - true, with modest limits for now - were approved. That is, the bank is returning to normal operations," he said.

Sokolov said the lending "only applies to municipal and budget-financed enterprises."

Baltiyskiy Bank has been virtually absent from the corporate lending market in the past two years, he said. "It only lent to organizations associated with the shareholders and the bank, as well as budget-finance municipal entities," Sokolov said.

Baltiyskiy Bank's loan portfolio to budget organizations is estimated at 3 billion-4 billion rubles and Alfa-Bank considers it to be "very interesting for itself."

The bank currently has no future plans concerning Baltiyskiy Bank's corporate loan portfolio. "As for the future corporate lending, for now I cannot say anything. We will see," he said.

As for retail lending, Marei said the quality of the portfolio is "quite high" and is also of interest to Alfa-Bank.

"It seems to me that bank operations with retail clients were organized normally. There was a system for bringing in new clients, first and foremost time deposits, and a system for lending was organized," he said.
Baltiyskiy Bank was the 71st biggest Russian bank by assets and Alfa-Bank was the 7th biggest as of the end of the first half of 2014 according to the Interfax-100 ranking compiled by the Center for Economic Analysis.

PAYMENTS

VTB 24 planning to register new payment system

MOSCOW. Sept 4 (Interfax) - Russian bank VTB 24 is planning to register a new payment system, the bank's press service told Interfax.

"Registering the new payment system is necessary for VTB 24 in carrying out measures to unite the payment infrastructure of Russian banks by organizing interhost connections," a representative of the press service said, adding that this was being done in accordance with Central Bank letter No. 86-T dated May 8, 2014, 'On Establishing Interbank Cooperation Channels'.

Yesterday VTB, the parent company of VTB 24, announced a tender on the government procurements website for information and technological support in servicing all of the customer's programs for issuing and acquiring cards of international payment systems that are issued and/or serviced by the customer. The starting and maximum price of the contract is 400 million rubles. Bids are being accepted until September 10. VTB has not yet issued commentary on this tender.

According to information in the register of payment system operators on the Central Bank's website, VTB is the settlement center for a number of payment systems - Visa, Multiservice Payment System and Western Union - and is also the operator, settlement center, payment clearing center and operating center of its own payment system, Payment System VTB. The VTB group includes VTB MultiCarta, which provides processing services.

VTB 24 was Russia's 4th largest bank by assets and 2nd at by retail deposits and retail lending at the end of H1 2014, according to the Interfax-100 ranking.

In its May letter No. 86-T, the Central Bank recommended that credit institutions that participate in international payment systems organize channels for interbank cooperation by way of two-sided agreements or by participating in other payment systems that allow money transfers to be carried out in Russia with the use of the operating and payment clearing centers of these systems.

The letter states that credit organizations should support such interbank channels and be ready to use them in providing legal, organizational, technical, technological conditions. The banks must also regularly test such channels, the Central Bank said.

SMP Bank joins PRO100 payment system

MOSCOW. Sept 5 (Interfax) – SMP Bank, which was hit by U.S. sanctions in the spring of 2014, has joined the PRO100 payment system of Universal Electronic Card (UEC), which is controlled by leading Russian lender Sberbank, the bank and PRO100 said in a joint press release.

Inclusion in the PRO100 payment system and corresponding organization of interhost connections have made it possible for the bank’s cards to be serviced in most of the payment system’s infrastructure, which will allow SMP Bank clients to use more than 50,000 bank machines and
terminals, as well as make noncash payments for goods and services at more than 200,000 retail outlets and stores.

Joining PRO100 is a key step in restoring the bank’s card business, which was hurt by the imposition of sanctions, SMP Bank president and CEO Dmitry Kalantyrsky was quoted as saying in the press release. Now SMP Bank cards are accepted at more than 80% of retail outlets in Russia, he said.

UEC president Alexei Popov said that now, with the help of PRO100, all holders of cards issued by SMP Bank can use them as usual.

PRO100 is currently bidding for the role of a nationally important payment system, which according to the law will allow it to service the cards of all Russian banks that are members of the PRO100 payment system without making a deposit, Popov said.

The PRO100 system currently includes more than 20 lenders, including Sberbank, Uralsib Bank (MOEX: USBN), Ak Bars (MOEX: AKBR), Bank of Moscow (MOEX: MMBM), Moscow Industrial Bank (MOEX: MOIB), Bank Rossiya, Khanty Mansiysk Bank, Center-Invest Bank and Bank Saint Petersburg (MOEX: STBK), among others.

Banks that work with PRO100 account for more than 50% of the retail acquiring market in Russia. The total number of PRO100-based cards issued has topped 1 million.

SMP Bank was Russia’s 43rd largest bank by assets in the first half of 2014, according to the Interfax-100 ranking of the country’s banks. The bank is owned by brothers Arkady and Boris Rotenberg, as well as the lender’s president and CEO Dmitry Kalantyrsky.

The Visa and MasterCard payment systems stopped servicing SMP Bank cards in the spring due to sanctions.
NO N BANK FINANCIAL INSTITUTIONS

FTSE includes Moscow Exchange shares in FTSE All World Index following H1 review

MOSCOW. Sept 4 (Interfax) - The FTSE index has included shares of OJSC Moscow Exchange in the FTSE All World Index following H1 review, the investment bank VTB Capital said in a report.

In addition, FTSE moved American depositary receipts (ADR) of Russian mining and steel company OJSC Mechel and OJSC Mosenergo from the mid cap index to small cap. Global depositary receipts (GDR) of PIK Group were added to the Emerging Markets Small Cap Index in place of local shares.

All changes go into effect at the end of the day on September 19.

EXIAR insures Russian exports for 80 bln rubles in H1

MOSCOW. Sept 4 (Interfax) - OJSC Export Insurance Agency of Russia (EXIAR) insured the export contracts of Russian enterprises amounting to about 80 billion rubles, EXIAR's senior manager of client relations, Pavel Ryzhkovsky, said during a roundtable entitled "Tools of support for exports of high-tech companies," held by Russian Venture Company in Moscow.

"For the first two years we dealt with institutional issues [amendments to Russian legislation]," Ryzhkovsky said. "Now we have found our place and supported exports totaling 80 billion rubles in H1."

Ryzhkovsky said that in the near term, EXIAR is planning to engage in not only the provision of insurance services for Russian exporters, but also to lend to them: "We will receive lending support," he said.

EXIAR, formed as an open joint stock company in 2011, supports high-tech exports by insuring credit and political risks on export credits and insuring Russian investment abroad for political risks. EXIAR, which has charter capital equal to 30 billion rubles, is wholly owned by Vnesheconombank (VEB). In addition, the agency has provided state guarantees for $10 billion.
Ruble slumps to a low then corrects up

The ruble fell to an all-time low against the dollar amid increased geopolitical risks before correcting up against the dollar and euro on the Moscow Exchange in the first week of September. Toward the end of the week the market began to take advantage of indications of a de-escalation in the situation after the Russian and Ukrainian presidents reached an agreement on plans for a ceasefire in southeast Ukraine.

There are indications that pressure on Russia from the United States and the EU may ease, including the threat of additional economic sanctions.

The dollar slid toward the end of the week to 36.8-36.9 rubles/$1 and the euro came down to 47.7 rubles/EUR1. The bi-currency basket ($0.55 and EUR0.45) fell 60 kopecks in the week to 41.8 rubles.

Pressure on the ruble was most evident on Monday when the dollar climbed to 37.51 rubles/$1, hitting a new high. The euro rose to 49.275 rubles/EUR1, a high since May. The dollar saw non-stop growth since August 26 and gained 1.3 rubles, or 3.6%, while the euro climbed 1.5 rubles, or 3.2%. This pressure came amid fighting in Donbass, which, according to the U.S. and EU involved Russians. The EU threatened new sanctions against Russia, which might affect the financial and energy sectors.

The bi-currency basket reached 42.8 rubles on Monday. The basket reached an all time high on March 3 of 43.375 rubles. The Central Bank of Russia decided on August 18 that the regulator can start intervening to protect the ruble when the basket reaches 44.4 rubles.

A drop in oil prices provided another negative factor for the ruble.

The ruble began climbing on Wednesday: soon after midday the dollar and euro tumbled and the ruble appreciated on news that Russian President Vladimir Putin and Ukrainian President Petro Poroshenko had agreed a ceasefire plan. The dollar and euro fell 1.5%-2% below the long-term highs achieved at the start of the week. Putin said that during the talks the presidents had agreed on ways of resolving the conflict in eastern Ukraine. Donetsk militia announced they were ready for a ceasefire if Kyiv reciprocates.

The next important step to support the ruble was the ceasefire protocol signed Friday in talks between Ukraine, Donetsk and Luhansk with the participation of Russia and the OSCE in Minsk. The dollar and euro fell to a low of over a week following news that the protocol had been signed.

The euro fell harder than the dollar against the ruble due to a plunge on the Forex market. The euro plummeted after the ECB said Thursday it would lower interest rates and start an asset buying program.

The official exchange rate of the dollar went down just 1 kopeck to 36.92 rubles while the official exchange rate of the euro dropped 85 kopecks to 47.78 rubles.

The weighted average exchange rate of the dollar rose 3 kopecks on the Moscow Exchange to 36.91 rubles/$1 in Today deals and fell 6 kopecks to 36.88 rubles/$1 in Tom deals. Trading volume was $34.5 billion.

The euro fell 79 kopecks to 47.79 rubles/EUR1 in Today deals and lost 86.5 kopecks to 47.79 rubles/EUR1 in Tom deals. Banks traded EUR3.27 billion.
The overnight MosPrime Rate fell 56 basis points to 7.62% on Friday, dropping to a low since August 8. Dealers attributed the drop to the end of a tax period, reducing demand for liquidity.

Another factor behind the drop in short-term interbank loan rates was the fact that the ruble stopped depreciating. The three-month MosPrime Rate slid 1 basis point to 10.18% per annum and the six-month MosPrime Rate fell 7 basis points to 10.3% pa. Both rates had hit new highs since the fall of 2009 on Tuesday, September 2 (the three-month MosPrime Rate reached 10.23% pa and the six-month rate – 10.39% pa).

Banks continued to reduce debts to the Central Bank on repo deals and this fell 0.31 trillion rubles to 2.12 trillion rubles. Central Bank claims on loans secured by assets or guarantees went down 0.01 trillion rubles to 2.72 billion rubles.

At the weekly seven-day repo auction the weighted average rate was 8.08% pa, up 2 basis points on the previous week. The Central Bank placed 2.1 trillion rubles (100% of the allocated limit) compared to 2.41 trillion rubles at the previous auction. The regulator is trying to offer more liquidity at auctions secured by assets and the next such auction, due on September 8, may further increase the share of this kind of bank debt before the regulator. In addition, the federal treasury will on September 9 and 11 select bids from banks for the placement of temporarily available federal budget funds in deposits with limits of 195 billion and 50 billion rubles, respectively.

The Central Bank of Russia said the structural liquidity deficit in the banking system may grow to 1 trillion rubles by year-end due to a rise in cash requirements in the economy.

The dollar will stay a little under 37 rubles/$1 in the week of September 8-11 and the euro may correct up but is unlikely to top 48 rubles/EUR1, analysts predict. The bi-currency basket will stay a little under 42 rubles.

Analysts say the gradual settlement of the situation in southeast Ukraine, which was heavily discussed in the first days of September, will help find a way to de-escalating confrontation. They also expect the ceasefire protocol to be maintained.

Geopolitical pressure will remain on Russia, but it will be moderate and new sanctions will not have destructive impact on the Russian financial system or lead to additional restrictions in financing for major Russian companies and banks, analysts say. The market will maintain a wait-and-see attitude and trading is likely to be light.
### Exchange Rate For Ruble Against Leading World Currencies

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>RUB/USD</td>
<td>36,9316</td>
<td>37,2945</td>
<td>37,348</td>
<td>37,3183</td>
<td>36,8038</td>
</tr>
<tr>
<td>RUB/EUR</td>
<td>48,6315</td>
<td>48,9677</td>
<td>49,0193</td>
<td>49,0213</td>
<td>48,3786</td>
</tr>
<tr>
<td>RUB/GBP</td>
<td>61,3028</td>
<td>62,0096</td>
<td>61,8408</td>
<td>61,4931</td>
<td>60,557</td>
</tr>
<tr>
<td>RUB/CHF</td>
<td>40,3404</td>
<td>40,5949</td>
<td>40,5868</td>
<td>40,5898</td>
<td>40,052</td>
</tr>
<tr>
<td>RUB/100JPY</td>
<td>35,5744</td>
<td>35,8102</td>
<td>35,6221</td>
<td>35,5395</td>
<td>35,0629</td>
</tr>
</tbody>
</table>

### Average Ruble/Usd Exchange Rates On MICEX

<table>
<thead>
<tr>
<th>Date</th>
<th>Today</th>
<th>Tomorrow</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rate, Rubles/$1</td>
<td>Volume, Mln USD</td>
</tr>
<tr>
<td>01.09.2014</td>
<td>37,3362</td>
<td>5084,043</td>
</tr>
<tr>
<td>02.09.2014</td>
<td>37,3788</td>
<td>1265,911</td>
</tr>
<tr>
<td>03.09.2014</td>
<td>37,0448</td>
<td>2377,154</td>
</tr>
<tr>
<td>04.09.2014</td>
<td>36,8887</td>
<td>1723,068</td>
</tr>
<tr>
<td>05.09.2014</td>
<td>36,9094</td>
<td>1577,987</td>
</tr>
</tbody>
</table>

### Average Ruble/Eur Exchange Rates On MICEX

<table>
<thead>
<tr>
<th>Date</th>
<th>Today</th>
<th>Tomorrow</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rate, Rubles/EUR1</td>
<td>Volume, Mln EUR</td>
</tr>
<tr>
<td>01.09.2014</td>
<td>49,0777</td>
<td>275,781</td>
</tr>
<tr>
<td>02.09.2014</td>
<td>49,0212</td>
<td>296,385</td>
</tr>
<tr>
<td>03.09.2014</td>
<td>48,735</td>
<td>475,082</td>
</tr>
<tr>
<td>04.09.2014</td>
<td>48,4546</td>
<td>331,137</td>
</tr>
<tr>
<td>05.09.2014</td>
<td>47,7926</td>
<td>287,996</td>
</tr>
</tbody>
</table>

### Official Exchange Rates For CIS And Baltic Nations

<table>
<thead>
<tr>
<th>Currency</th>
<th>Per 1 Russ.</th>
<th>Per 1$</th>
<th>Per 1$</th>
<th>Per 1$</th>
<th>Per 1$</th>
<th>Per 1$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>05.09.14</td>
<td>04.09.14</td>
<td>03.09.14</td>
<td>02.09.14</td>
<td>01.09.14</td>
<td></td>
</tr>
<tr>
<td>Armenia (Dram)</td>
<td>11,11</td>
<td>410,15</td>
<td>410,15</td>
<td>410,73</td>
<td>411,29</td>
<td>411,26</td>
</tr>
<tr>
<td>Azerbaijan (Manat)</td>
<td>0,0212</td>
<td>0,7843</td>
<td>0,7843</td>
<td>0,7844</td>
<td>0,7844</td>
<td>0,7844</td>
</tr>
<tr>
<td>Belarus (Rubel)</td>
<td>284</td>
<td>10450</td>
<td>10450</td>
<td>10440</td>
<td>10430</td>
<td>10430</td>
</tr>
<tr>
<td>Georgia (Lari)</td>
<td>0,0475</td>
<td>1,7473</td>
<td>1,7402</td>
<td>1,7358</td>
<td>1,736</td>
<td>1,736</td>
</tr>
<tr>
<td>Kazakhstan (Tenge)</td>
<td>4,92</td>
<td>182</td>
<td>182</td>
<td>182</td>
<td>182</td>
<td>182</td>
</tr>
<tr>
<td>Kyrgyzstan (Som)</td>
<td>1,455</td>
<td>53,5495</td>
<td>53,3285</td>
<td>52,9633</td>
<td>52,9495</td>
<td>52,9561</td>
</tr>
<tr>
<td>Latvia (Lat)</td>
<td>0,0156</td>
<td>0,515</td>
<td>0,515</td>
<td>0,515</td>
<td>0,515</td>
<td>0,515</td>
</tr>
<tr>
<td>Lithuania (Lita)</td>
<td>0,0713</td>
<td>2,6278</td>
<td>2,6287</td>
<td>2,6302</td>
<td>2,6294</td>
<td>2,623</td>
</tr>
<tr>
<td>Moldova (Lei)</td>
<td>0,3827</td>
<td>14,1471</td>
<td>14,1276</td>
<td>14,0895</td>
<td>14,0234</td>
<td>13,9937</td>
</tr>
<tr>
<td>Russia (Rubel)</td>
<td>36,8038</td>
<td>37,3183</td>
<td>37,348</td>
<td>37,2945</td>
<td>36,9316</td>
<td></td>
</tr>
<tr>
<td>Tajikistan (Somoni)</td>
<td>0,1341</td>
<td>4,9717</td>
<td>4,9704</td>
<td>4,9708</td>
<td>4,973</td>
<td>4,9705</td>
</tr>
<tr>
<td>Turkmenistan (Manat)</td>
<td>0,0772</td>
<td>2,85</td>
<td>2,85</td>
<td>2,85</td>
<td>2,85</td>
<td>2,85</td>
</tr>
<tr>
<td>Ukraine (Hryvna)</td>
<td>0,3484</td>
<td>12,8222</td>
<td>12,5288</td>
<td>12,531</td>
<td>13,0087</td>
<td>13,1141</td>
</tr>
<tr>
<td>Uzbekistan (Sum)</td>
<td>65,22</td>
<td>2348,02</td>
<td>2348,02</td>
<td>2348,02</td>
<td>2348,02</td>
<td>2348,02</td>
</tr>
</tbody>
</table>
Hope for peace in southeast Ukraine pushes OFZ prices up

After a slide at the beginning of September, OFZ prices picked up midweek thanks to news of a possible peace deal for southeast Ukraine.

The week began with a drop in prices for OFZ bonds amid a volatile geopolitical situation. The press quite actively discussed options for new sanctions from the EU and Russia against Russia, including the possible exclusion of Russia from the SWIFT system and a ban on the purchase of Russian government bonds, which would hit the OFZ market hard.

Yield for mid-term and long-term bonds climbed 5-20 basis points. Nine-year OFZ 26215 bonds saw the highest number of deals on September 1 and the bonds fell 30 basis points. Among the liquid bonds, 13-year OFZ 26207 plunged 40 basis points and seven-year OFZ 26205 lost 65 basis points.

There were no major changes on Tuesday. Investors continued to mostly be in a negative mood. Bond quotes went down 30 to 50 basis points. The biggest losses among the relatively liquid bonds were seen by 13-year OFZ 26207, which dropped 30 basis points. Fourteen-year OFZ 26212 lost 65 basis points.

Not surprisingly the Finance Ministry decided not to hold a primary auction so there has been a pause in such auctions now since mid-July. Yield rates remain high so it is not a good time for the ministry to borrow. Moreover, it is not in desperate need of the money right now as the year's budget may show a small surplus.

Optimism suddenly returned to the market midweek following a phone call between Russian President Vladimir Putin and Ukrainian President Petro Poroshenko, resulting in the Ukrainian president announcing that steps to establish peace in Donbass had been discussed. With investors tired of bad news, the announcement encouraged aggressive buying of Russian assets. In essence, one day completely compensated for the slump seen after Ukraine announced an alleged invasion by Russia.

Long-term OFZ prices shot up 150-200 basis points on average and yield fell 30-40 basis points. Trading was rather brisk. The most liquid bonds on September 3 were 13-year 26207, which saw quotes climb nearly 2 percentage points. Fourteen-year OFZ 26212 went up 1.5 percentage points and other liquid shares added around one percentage point.

The situation stabilized at the end of the week and the market drifted into a lateral trend with yield fluctuating 1-3 basis points both up and down after slumping on Wednesday. Investors impatiently awaited the results of peace talks in Minsk.

Russia's Central Bank will promote OFZ and Russian corporate bonds on Asian and Arabian markets under conditions of closing western markets, the head of the Central Bank's Financial Stability Department, Sergei Moiseyev, said at the international banking forum Russian Banks - 21st Century in Sochi on Friday. "Considering the current political trend, we will seemingly need to make a certain adjustment in the development vector - not towards European markets, but to other financial markets," he said. Western markets closed for Russian borrowers after the latest round of Ukraine-driven sanctions against Moscow. The EU is currently threatening to impose additional sanctions and ban European investors from purchasing OFZs.

The OFZ market is likely to calm down next week and fluctuations for most bonds will remain within a lateral trend amid the impact of contradictory factors.

Further dynamics will heavily depend on the geopolitical situation surrounding Ukraine. A ceasefire deal will support the market. However, possible new sanctions from the EU and the United States and the high risk of the Central Bank of Russia putting up interest rates at its next session will hold back buyer activity.
Russian Eurobonds surge after low-key start to week

Following a low-key start to the week, Russian Eurobonds surged after geopolitical risk started to subside on September 3 amid talk of a possible ceasefire in southeast Ukraine.

US Treasuries fell moderately, and spread between these and Russian bonds narrowed.

Trading was wafer thin on Monday due to the U.S. holiday and Russian bonds were static on September 2, when US Treasuries fell markedly.

However Russia’s benchmark 2030 bond surged by 132 basis points to 112.38% on September 3 on news that the Russian and Ukrainian presidents had agreed on steps to achieve a ceasefire in the Donbass. Yield on the bonds fell 27 bps to 4.78% and spread narrowed 25 bps to 238 bps.

The positive trend continued into Thursday, enhanced by the European Central Bank’s decision to expand its monetary stimulus package and launch a quantitative easing program in October.

Friday’s news that a contact group of representatives of Ukraine, the self-proclaimed Donetsk People's Republic (DPR) and Luhans People's Republic (LPR) with the participation of Russian and Organization for Security and Cooperation in Europe (OSCE) representatives in Minsk had signed a protocol on an immediate ceasefire in the Donbass kept bond prices on an upward curve.

In the week as a whole, Russia 30 rose 1.8% to 113.34%. Spread between these and UST10 narrowed 49 bps to 265 bps, the 2043 bond was up 2.9%, 2014 - 2.6%, 2020 - 1.1%, 2018 - 0.13% and 2015 - 0.02%.

The situation in the Eurobond market is likely to calm down in the week ahead and bonds are likely to trade sideways, the Interfax Center for Economic Analysis said.

Trends will depend largely on the geopolitical situation with Ukraine, and the signing of the ceasefire protocol will support the market, however the possibility of further U.S. and European sanctions against Russia and deterioration in the world capital markets will keep buying in check.
Stock prices climb as market anticipates Ukraine ceasefire

The first trading week in September saw the Russian stock market recover all its losses from the end of August as players closed short positions amid growing anticipation of a ceasefire in Ukraine as well as news that the ECB was launching a new economic stimulus program. The gains were held back, however, by fears of tougher anti-Russian sanctions and weaker demand among non-residents for Russian assets. The net influx into funds investing in Russian shares dropped to $45 million between August 28 and September 3 following an influx of $111 million the previous week (EPFR data).

The MICEX index rose 5.3% between September 1 and 5 to 1474.71 points and the RTS index added 5.6% to 1257.26 points.

September kicked off with the MICEX slipping to under 1400 points as attempts by bulls to push up blue chips amid a lack of new anti-Russia sanctions were not supported by buyers. The European Union announced possible sanctions against Russia, which could affect the financial and energy sectors, in the week if the conflict in Ukraine continued to escalate.

Moscow Exchange shares dropped 5% when their weight on the MSCI Russia index actually increased from 0.9% to around 1.1% on September 1. The shares surged more than 12% in mid-August.

The MICEX went over the 1400 threshold Tuesday amid somewhat of a lull in the flow of geopolitical news.

Veropharm shares shot up nearly 20% on news that the government commission for foreign investments had approved a deal for U.S. company Abbott to buy the Russian pharmaceuticals company.

Rosneft shares were pushed up by news of company plans to attract Chinese partners to develop the Vankor field. The company offered China a share of this major East Siberian project.

The market rallied midweek on news that the Ukrainian and Russian presidents Petro Poroshenko and Vladimir Putin had agreed ceasefire plans for Donbass. The RTS surged 5.2% and the MICEX gained 3.5% to reach 1450 points, showing record growth since March when the market corrected after a collapse due to fears of a Russian invasion in Ukraine. Share gains were accompanied by a considerable jump for the ruble against the bi-currency basket.

The market rose to 1460 points on the MICEX Thursday as players anticipated a ceasefire in Eastern Ukraine and due to the ECB’s decision to lower key interest rates to a record low and its announcement of a QE program.

Among the growth leaders were Pharmacy Chain 36.6, which climbed 9% on news that Palesora Ltd, which acquired 51% of the chain in July, has made an offer to buy the remaining 49% stake for 14.5 rubles per share (higher than the market).

The optimistic mood remained on the market on Friday and the bulls pushed the MICEX up over 1470 points after a contact group of representatives of Ukraine, the self-proclaimed Donetsk People's Republic (DPR) and Luhansk People's Republic (LPR) with the participation of Russian and Organization for Security and Cooperation in Europe (OSCE) representatives in Minsk had signed a protocol on an immediate ceasefire in the Donbass. The ceasefire mitigated the risk of fresh Western sanctions being imposed against Russia, to which the market responded with buying.

Among the tier-one and tier-two shares listed on the Moscow Exchange, the best performers were "IDGC of Centre" (+20%), "Veropharm" (+18%) and "Pharmacy Chain 36.6" (+17%);
while the worst performers included "AFK Sistema" (-7%), "Sofrinsky Experimantel Mechanicak Plant" (-5%), "International Trade Centre" (-5%).

News about Ukraine and EU sanctions will determine market dynamics in the coming week. Market support will be around 1440-1450 points on the MICEX and the next target for the bulls will be 1480 points, and then 1500 points.

### Results of Russian stocks trading in Russian trading system

<table>
<thead>
<tr>
<th>Company</th>
<th>MOEX Ticker</th>
<th>Prices on 05.09.2014, Rub</th>
<th>Min Prices, Rub</th>
<th>Max Prices, Rub</th>
<th>Trade Volume, September 1 - 5</th>
<th>Return on Rub investment for</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bid</td>
<td>Offer</td>
<td>September 1 - 5</td>
<td>Min Rub '000</td>
<td>1 month</td>
<td>3 months</td>
</tr>
<tr>
<td>Norilskiy Nickel</td>
<td>GMKN</td>
<td>7525</td>
<td>7480</td>
<td>7086</td>
<td>7535</td>
<td>10909.7</td>
</tr>
<tr>
<td>Sistema</td>
<td>AFKS</td>
<td>34.737</td>
<td>34.45</td>
<td>34.376</td>
<td>37.998</td>
<td>1716</td>
</tr>
<tr>
<td>Aeroflot</td>
<td>AFLT</td>
<td>48</td>
<td>47.6</td>
<td>46.21</td>
<td>48.4</td>
<td>2312</td>
</tr>
<tr>
<td>Acron</td>
<td>AKRN</td>
<td>1247.6</td>
<td>1215</td>
<td>1140</td>
<td>1219.3</td>
<td>49.7</td>
</tr>
<tr>
<td>ALROSA</td>
<td>ALRS</td>
<td>41.59</td>
<td>40.464</td>
<td>38.65</td>
<td>42.898</td>
<td>1306.3</td>
</tr>
<tr>
<td>ANK Bashneft</td>
<td>BANE</td>
<td>1861.3</td>
<td>1850</td>
<td>1850.3</td>
<td>1950</td>
<td>174.8</td>
</tr>
<tr>
<td>Severstal</td>
<td>CHMF</td>
<td>369.2</td>
<td>368.5</td>
<td>354.6</td>
<td>374.2</td>
<td>2201.8</td>
</tr>
<tr>
<td>DIXY GROUP</td>
<td>DIXY</td>
<td>418.55</td>
<td>418.98</td>
<td>408.1</td>
<td>439.66</td>
<td>121.6</td>
</tr>
<tr>
<td>E.ON Russia</td>
<td>EONR</td>
<td>2.5406</td>
<td>2.53</td>
<td>2.3904</td>
<td>2.57</td>
<td>452</td>
</tr>
<tr>
<td>Unified National Electric</td>
<td>FEEES</td>
<td>0.05524</td>
<td>0.055</td>
<td>0.0534</td>
<td>0.05624</td>
<td>993.2</td>
</tr>
<tr>
<td>Gazprom</td>
<td>GAZP</td>
<td>140</td>
<td>135.67</td>
<td>131</td>
<td>140.13</td>
<td>28858.4</td>
</tr>
<tr>
<td>Cherkizovo Group</td>
<td>GCHE</td>
<td>634.9</td>
<td>634</td>
<td>593</td>
<td>658.8</td>
<td>1.7</td>
</tr>
<tr>
<td>Norilskiy Nickel</td>
<td>GMKN</td>
<td>7525</td>
<td>7480</td>
<td>7086</td>
<td>7535</td>
<td>10909.07</td>
</tr>
<tr>
<td>RushHydro</td>
<td>HYDR</td>
<td>0.7202</td>
<td>0.6975</td>
<td>0.6819</td>
<td>0.7242</td>
<td>1193.7</td>
</tr>
<tr>
<td>Inter RAO</td>
<td>IRAO</td>
<td>0.00917</td>
<td>0.009079</td>
<td>0.00875</td>
<td>0.009275</td>
<td>1067.4</td>
</tr>
<tr>
<td>Ikutskenergo</td>
<td>IRGZ</td>
<td>6.737</td>
<td>6.8</td>
<td>6.599</td>
<td>6.899</td>
<td>2.2</td>
</tr>
<tr>
<td>KamAZ</td>
<td>KMAZ</td>
<td>34.34</td>
<td>34.52</td>
<td>33.83</td>
<td>35.2</td>
<td>7.8</td>
</tr>
<tr>
<td>LUKOIL</td>
<td>LKOH</td>
<td>2171.8</td>
<td>2150.9</td>
<td>1985.3</td>
<td>2169.4</td>
<td>11805.5</td>
</tr>
<tr>
<td>LSR Group</td>
<td>LSRG</td>
<td>628</td>
<td>612.9</td>
<td>573</td>
<td>614.3</td>
<td>28.6</td>
</tr>
<tr>
<td>MegaFon</td>
<td>MFON</td>
<td>1054</td>
<td>1055</td>
<td>970</td>
<td>1064.9</td>
<td>115.5</td>
</tr>
<tr>
<td>Magnit</td>
<td>MGNT</td>
<td>9780</td>
<td>9534.5</td>
<td>8716.5</td>
<td>9869.6</td>
<td>7359.9</td>
</tr>
<tr>
<td>Moscow Exchange</td>
<td>MOEX</td>
<td>64.55</td>
<td>64.2</td>
<td>60.05</td>
<td>65.37</td>
<td>2785.4</td>
</tr>
<tr>
<td>MRSK of Center</td>
<td>MRKC</td>
<td>0.3499</td>
<td>0.3499</td>
<td>0.2892</td>
<td>0.3635</td>
<td>108.3</td>
</tr>
<tr>
<td>MRSK of Center and Volga</td>
<td>MRKP</td>
<td>0.10901</td>
<td>0.11</td>
<td>0.09613</td>
<td>0.1135</td>
<td>9.7</td>
</tr>
<tr>
<td>MRSK of Ural</td>
<td>MRKU</td>
<td>0.06101</td>
<td>0.0634</td>
<td>0.057</td>
<td>0.0641</td>
<td>0.5</td>
</tr>
<tr>
<td>MRSK of Volga</td>
<td>MRKV</td>
<td>0.02577</td>
<td>0.02604</td>
<td>0.0238</td>
<td>0.0276</td>
<td>6.8</td>
</tr>
<tr>
<td>MRSK of North-West</td>
<td>MRKZ</td>
<td>0.0325</td>
<td>0.03492</td>
<td>0.03053</td>
<td>0.03498</td>
<td>3.2</td>
</tr>
<tr>
<td>Mosenergo</td>
<td>MSGN</td>
<td>0.868</td>
<td>0.8725</td>
<td>0.834</td>
<td>0.8749</td>
<td>58.4</td>
</tr>
<tr>
<td>MOESK</td>
<td>MRSR</td>
<td>1.0129</td>
<td>1.0129</td>
<td>1.0015</td>
<td>1.0286</td>
<td>13.8</td>
</tr>
<tr>
<td>MOSTO TREST</td>
<td>MSTT</td>
<td>84.28</td>
<td>84.2</td>
<td>83.53</td>
<td>88.84</td>
<td>77.2</td>
</tr>
<tr>
<td>M.Mechel</td>
<td>MLTR</td>
<td>36.3</td>
<td>36.2</td>
<td>33.1</td>
<td>37.9</td>
<td>231.6</td>
</tr>
<tr>
<td>M.Mechel, pr.</td>
<td>MLTRP</td>
<td>12.22</td>
<td>12.23</td>
<td>11.95</td>
<td>12.78</td>
<td>24.4</td>
</tr>
<tr>
<td>Mobile TeleSystems</td>
<td>MTSS</td>
<td>305.24</td>
<td>297.49</td>
<td>275.56</td>
<td>303.2</td>
<td>4281.5</td>
</tr>
<tr>
<td>M.Video</td>
<td>MVID</td>
<td>199.3</td>
<td>194.25</td>
<td>182.02</td>
<td>201.7</td>
<td>221</td>
</tr>
<tr>
<td>Company</td>
<td>MOEX Ticker</td>
<td>Prices on 05.09.2014, Rub</td>
<td>Min Prices, Rub</td>
<td>Max Prices, Rub</td>
<td>Trade Volume, September 1 - 5</td>
<td>Return on Rub investment for 1 month</td>
</tr>
<tr>
<td>---------</td>
<td>-------------</td>
<td>--------------------------</td>
<td>----------------</td>
<td>----------------</td>
<td>-----------------------------</td>
<td>-------------------------------------</td>
</tr>
<tr>
<td>Nizhnekamskneftekhim</td>
<td>NKNC</td>
<td>20.254</td>
<td>20.599</td>
<td>20.014</td>
<td>21.289</td>
<td>0.2</td>
</tr>
<tr>
<td>Nizhnekamskneftekhim, pr.</td>
<td>NKNC.P</td>
<td>14.145</td>
<td>14.1</td>
<td>14.001</td>
<td>14.253</td>
<td>1.6</td>
</tr>
<tr>
<td>Bank FK Otkritie</td>
<td>NMOS</td>
<td>932.5</td>
<td>937.9</td>
<td>880.3</td>
<td>937</td>
<td>32.1</td>
</tr>
<tr>
<td>NOVATEK</td>
<td>NVTK</td>
<td>410</td>
<td>405</td>
<td>364.5</td>
<td>407.7</td>
<td>3652.7</td>
</tr>
<tr>
<td>ENEL Russia</td>
<td>OGKE</td>
<td>1.0252</td>
<td>1.037</td>
<td>1.0001</td>
<td>1.086</td>
<td>2</td>
</tr>
<tr>
<td>PhosAgro</td>
<td>PHOR</td>
<td>1263.1</td>
<td>1264.6</td>
<td>1200</td>
<td>1300</td>
<td>54</td>
</tr>
<tr>
<td>PIK Group</td>
<td>PIK</td>
<td>107.32</td>
<td>107.3</td>
<td>94.27</td>
<td>112.47</td>
<td>498.6</td>
</tr>
<tr>
<td>Polyimetal International</td>
<td>POLY</td>
<td>317</td>
<td>316</td>
<td>314.02</td>
<td>340.86</td>
<td>70.2</td>
</tr>
<tr>
<td>Rosgosstrah</td>
<td>RSST</td>
<td>4.1726</td>
<td>4.2725</td>
<td>226.26</td>
<td>239.09</td>
<td>5810.5</td>
</tr>
<tr>
<td>Rosneft</td>
<td>RO.SN</td>
<td>239.06</td>
<td>238</td>
<td>226.25</td>
<td>239.09</td>
<td>5810.5</td>
</tr>
<tr>
<td>Rossety, pr.</td>
<td>RSTP</td>
<td>0.5213</td>
<td>0.5287</td>
<td>0.4885</td>
<td>0.53</td>
<td>68.8</td>
</tr>
<tr>
<td>Rosneftegaz</td>
<td>RTKM</td>
<td>102</td>
<td>101.49</td>
<td>101.9</td>
<td>9342.2</td>
<td>9390</td>
</tr>
<tr>
<td>Rosneftegaz, pr.</td>
<td>RTKMP</td>
<td>66.97</td>
<td>66.48</td>
<td>63.76</td>
<td>67.39</td>
<td>104.5</td>
</tr>
<tr>
<td>Sberbank</td>
<td>SBER</td>
<td>80.61</td>
<td>78.23</td>
<td>72.52</td>
<td>81.3</td>
<td>66289.6</td>
</tr>
<tr>
<td>Sberbank, pr.</td>
<td>SBERP</td>
<td>61</td>
<td>60.18</td>
<td>54.17</td>
<td>61.23</td>
<td>8406.8</td>
</tr>
<tr>
<td>Selgorsk, dr.</td>
<td>SELG</td>
<td>4.551</td>
<td>4.649</td>
<td>4.414</td>
<td>4.788</td>
<td>1.1</td>
</tr>
<tr>
<td>Selgorsk, pr.</td>
<td>SELG.P</td>
<td>27.001</td>
<td>32</td>
<td>27</td>
<td>27</td>
<td>33.8%</td>
</tr>
<tr>
<td>Soller</td>
<td>SVA</td>
<td>530.4</td>
<td>534.4</td>
<td>529</td>
<td>559.9</td>
<td>34.5</td>
</tr>
<tr>
<td>Synergy</td>
<td>SYNG</td>
<td>497.6</td>
<td>509.5</td>
<td>501.3</td>
<td>530.9</td>
<td>0.3</td>
</tr>
<tr>
<td>Transaero</td>
<td>TAER</td>
<td>202</td>
<td>203</td>
<td>202</td>
<td>205</td>
<td>1.8</td>
</tr>
<tr>
<td>Tatneft</td>
<td>TATN</td>
<td>243.29</td>
<td>242.51</td>
<td>224.95</td>
<td>247.37</td>
<td>2670.3</td>
</tr>
<tr>
<td>Tatneft, pr.</td>
<td>TATNP</td>
<td>143.44</td>
<td>143.15</td>
<td>134.11</td>
<td>143.13</td>
<td>47.3</td>
</tr>
<tr>
<td>TGK-1</td>
<td>TKGK</td>
<td>0.0006431</td>
<td>0.006445</td>
<td>0.006223</td>
<td>0.00659</td>
<td>6.9</td>
</tr>
<tr>
<td>Kvastrika</td>
<td>TGKD</td>
<td>0.00254</td>
<td>0.0026</td>
<td>0.002259</td>
<td>0.0026</td>
<td>3.6</td>
</tr>
<tr>
<td>Transkonteyner</td>
<td>TRCN</td>
<td>2400</td>
<td>2424.8</td>
<td>2399.9</td>
<td>2550</td>
<td>3.1</td>
</tr>
<tr>
<td>TMK</td>
<td>TRMK</td>
<td>90.93</td>
<td>91.49</td>
<td>86.41</td>
<td>92.5</td>
<td>41.2</td>
</tr>
<tr>
<td>Transneftegaz, pr.</td>
<td>TRNF</td>
<td>888000</td>
<td>84002</td>
<td>80892</td>
<td>87599</td>
<td>1686.6</td>
</tr>
<tr>
<td>Uralkali</td>
<td>URKA</td>
<td>144.69</td>
<td>141.64</td>
<td>133.07</td>
<td>142.1</td>
<td>2428.9</td>
</tr>
<tr>
<td>VTB</td>
<td>VTB</td>
<td>0.04153</td>
<td>0.0405</td>
<td>0.03803</td>
<td>0.04153</td>
<td>7211.5</td>
</tr>
<tr>
<td>Volga TK</td>
<td>VTGK</td>
<td>1.5</td>
<td>1.527</td>
<td>1.4501</td>
<td>1.5397</td>
<td>3.5</td>
</tr>
<tr>
<td>Bank Vozrozhdenie</td>
<td>VZRR</td>
<td>395</td>
<td>397</td>
<td>384.8</td>
<td>401.7</td>
<td>2.6</td>
</tr>
<tr>
<td>World Trade Center</td>
<td>WTCM</td>
<td>11.65</td>
<td>12.2</td>
<td>11.6</td>
<td>13.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Yandex N.V.</td>
<td>YNDX</td>
<td>1159.16</td>
<td>1159.6</td>
<td>1050.5</td>
<td>1160</td>
<td>89.6</td>
</tr>
<tr>
<td>Gazprom</td>
<td>GAZP</td>
<td>140</td>
<td>135.67</td>
<td>131</td>
<td>140.13</td>
<td>28885.4</td>
</tr>
</tbody>
</table>

**2-Level Quotation List**

<table>
<thead>
<tr>
<th>Company</th>
<th>MOEX Ticker</th>
<th>Prices on 05.09.2014, Rub</th>
<th>Min Prices, Rub</th>
<th>Max Prices, Rub</th>
<th>Trade Volume, September 1 - 5</th>
<th>Return on Rub investment for 1 month</th>
<th>3 months</th>
<th>6 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ashinsky Metallurg Plant</td>
<td>AMEZ</td>
<td>6</td>
<td>6.08</td>
<td>5.999</td>
<td>6.324</td>
<td>0.8</td>
<td>137</td>
<td>1.5%</td>
</tr>
<tr>
<td>Pharmacy Chain 36.6</td>
<td>APRK</td>
<td>14.07</td>
<td>14.06</td>
<td>11.93</td>
<td>14.23</td>
<td>22.3</td>
<td>1615</td>
<td>16.9%</td>
</tr>
<tr>
<td>ARMADA</td>
<td>ARMD</td>
<td>68.93</td>
<td>68.93</td>
<td>62.23</td>
<td>69.5</td>
<td>13.7</td>
<td>206</td>
<td>-46.2%</td>
</tr>
<tr>
<td>AVTOVAZ</td>
<td>AVAZ</td>
<td>9.881</td>
<td>9.938</td>
<td>6.3</td>
<td>10.289</td>
<td>10.4</td>
<td>1077</td>
<td>6.6%</td>
</tr>
<tr>
<td>AVTOVAZ PR</td>
<td>AVAZPR</td>
<td>3.28</td>
<td>3.29</td>
<td>3.153</td>
<td>3.396</td>
<td>6.1</td>
<td>1883</td>
<td>8.2%</td>
</tr>
<tr>
<td>St.Petersburg Bank</td>
<td>BSPB</td>
<td>34.15</td>
<td>34.43</td>
<td>32.86</td>
<td>35.3</td>
<td>4.3</td>
<td>126</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Company</td>
<td>MOEX Ticker</td>
<td>Prices on 05.09.2014, Rub</td>
<td>Min, Prices, Rub</td>
<td>Max, Prices, Rub</td>
<td>Trade Volume, September 1 - 5, '000</td>
<td>1 month</td>
<td>3 months</td>
<td>6 months</td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>-------------</td>
<td>---------------------------</td>
<td>------------------</td>
<td>------------------</td>
<td>--------------------------------------</td>
<td>---------</td>
<td>----------</td>
<td>----------</td>
</tr>
<tr>
<td>Chelyabinsk Zinc Factory</td>
<td>CHZN</td>
<td>143.9</td>
<td>144.9</td>
<td>137.13</td>
<td>150</td>
<td>0.5</td>
<td>4</td>
<td>3%</td>
</tr>
<tr>
<td>Far East Energy Company</td>
<td>DVEC</td>
<td>0.9601</td>
<td>0.9998</td>
<td>0.95</td>
<td>0.98</td>
<td>0.5</td>
<td>472</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Fesco</td>
<td>FESH</td>
<td>3.062</td>
<td>3.12</td>
<td>2.97</td>
<td>3.15</td>
<td>3.1</td>
<td>1019</td>
<td>-3.9%</td>
</tr>
<tr>
<td>HALS Development</td>
<td>HALS</td>
<td>1282.3</td>
<td>1307.9</td>
<td>1270</td>
<td>1326</td>
<td>2.9</td>
<td>2</td>
<td>-8.3%</td>
</tr>
<tr>
<td>KUZBASSKAYA TK</td>
<td>KBTK</td>
<td>62</td>
<td>63</td>
<td>56.98</td>
<td>67.18</td>
<td>19</td>
<td>311</td>
<td>-14.5%</td>
</tr>
<tr>
<td>Lenenergo</td>
<td>LSGN</td>
<td>2.68</td>
<td>2.699</td>
<td>2.575</td>
<td>2.8</td>
<td>4.3</td>
<td>1581</td>
<td>1.3%</td>
</tr>
<tr>
<td>Lenenergo, pr.</td>
<td>LSGNP</td>
<td>15.402</td>
<td>15.5</td>
<td>15.2</td>
<td>15.5</td>
<td>3.3</td>
<td>218</td>
<td>1.7%</td>
</tr>
<tr>
<td>MMK</td>
<td>MAGN</td>
<td>7.479</td>
<td>7.477</td>
<td>7.101</td>
<td>7.555</td>
<td>368.8</td>
<td>49920</td>
<td>10.4%</td>
</tr>
<tr>
<td>MRSK of Siberia</td>
<td>MRKS</td>
<td>0.0853</td>
<td>0.088</td>
<td>0.087</td>
<td>0.08901</td>
<td>0.2</td>
<td>2720</td>
<td>-3.2%</td>
</tr>
<tr>
<td>MRSK of South</td>
<td>MRKY</td>
<td>0.039</td>
<td>0.0392</td>
<td>0.03552</td>
<td>0.04338</td>
<td>3.7</td>
<td>94480</td>
<td>-4.2%</td>
</tr>
<tr>
<td>Mosenergosbyt</td>
<td>MSBB</td>
<td>0.2537</td>
<td>0.2573</td>
<td>0.2503</td>
<td>0.26</td>
<td>3.2</td>
<td>12500</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Novolipets Steel</td>
<td>NLMK</td>
<td>54.57</td>
<td>54.51</td>
<td>52</td>
<td>55.66</td>
<td>594.8</td>
<td>11040</td>
<td>14.4%</td>
</tr>
<tr>
<td>Novorossysk Commercial Sea Port</td>
<td>NMTP</td>
<td>2.065</td>
<td>2.0375</td>
<td>1.9953</td>
<td>2.0729</td>
<td>2.2</td>
<td>1070</td>
<td>-1%</td>
</tr>
<tr>
<td>O GK-2</td>
<td>OGB</td>
<td>0.1996</td>
<td>0.1967</td>
<td>0.1933</td>
<td>0.2003</td>
<td>94.4</td>
<td>478949</td>
<td>2.9%</td>
</tr>
<tr>
<td>Open Investments</td>
<td>OPIN</td>
<td>270</td>
<td>270</td>
<td>252.1</td>
<td>282</td>
<td>0.5</td>
<td>2</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Pharmstandard</td>
<td>PHST</td>
<td>1220.1</td>
<td>1242.7</td>
<td>1144</td>
<td>1300</td>
<td>9.4</td>
<td>8</td>
<td>7.3%</td>
</tr>
<tr>
<td>PROTEK</td>
<td>PRTK</td>
<td>37</td>
<td>37</td>
<td>35</td>
<td>37.24</td>
<td>6.9</td>
<td>193</td>
<td>-5.5%</td>
</tr>
<tr>
<td>Raspadskaya</td>
<td>RASP</td>
<td>19.02</td>
<td>19</td>
<td>17.74</td>
<td>19.22</td>
<td>116.3</td>
<td>6268</td>
<td>6.2%</td>
</tr>
<tr>
<td>RBK</td>
<td>RBCM</td>
<td>4.284</td>
<td>4.31</td>
<td>4.135</td>
<td>4.568</td>
<td>9.5</td>
<td>2214</td>
<td>4.7%</td>
</tr>
<tr>
<td>Russkoe more GK</td>
<td>RSEA</td>
<td>44.2</td>
<td>45.11</td>
<td>44.2</td>
<td>46.72</td>
<td>0.8</td>
<td>17</td>
<td>-8.2%</td>
</tr>
<tr>
<td>Rosetey</td>
<td>RSTI</td>
<td>0.533</td>
<td>0.531</td>
<td>0.503</td>
<td>0.541</td>
<td>679.9</td>
<td>1300918</td>
<td>6.2%</td>
</tr>
<tr>
<td>SEMZ</td>
<td>SEMZ</td>
<td>5.08</td>
<td>4.94</td>
<td>3.3</td>
<td>6.29</td>
<td>10.1</td>
<td>2363</td>
<td>-37.7%</td>
</tr>
<tr>
<td>Surgutneftegaz</td>
<td>SNGS</td>
<td>27.592</td>
<td>27.561</td>
<td>26.148</td>
<td>27.832</td>
<td>3325.8</td>
<td>122709</td>
<td>4.9%</td>
</tr>
<tr>
<td>Surgutneftegaz, pr.</td>
<td>SNGP</td>
<td>27.592</td>
<td>27.567</td>
<td>26.148</td>
<td>27.832</td>
<td>3325.8</td>
<td>122709</td>
<td>4.9%</td>
</tr>
<tr>
<td>TG-K-2</td>
<td>TGB</td>
<td>0.00088</td>
<td>0.000898</td>
<td>0.000893</td>
<td>0.000899</td>
<td>0.3</td>
<td>343000</td>
<td>-3.1%</td>
</tr>
<tr>
<td>TG-K-5</td>
<td>TGKE</td>
<td>0.00148</td>
<td>0.001515</td>
<td>0.001453</td>
<td>0.001516</td>
<td>0.4</td>
<td>240500</td>
<td>-7.6%</td>
</tr>
<tr>
<td>TG-K-6</td>
<td>TGKF</td>
<td>0.001412</td>
<td>0.001423</td>
<td>0.001435</td>
<td>0.001484</td>
<td>0.5</td>
<td>381500</td>
<td>-5.9%</td>
</tr>
<tr>
<td>TG-K-9</td>
<td>TGKI</td>
<td>0.002411</td>
<td>0.002419</td>
<td>0.002359</td>
<td>0.002467</td>
<td>0.7</td>
<td>295000</td>
<td>-19%</td>
</tr>
<tr>
<td>TG-K-14</td>
<td>TGNK</td>
<td>0.00143</td>
<td>0.001532</td>
<td>0.001415</td>
<td>0.001515</td>
<td>0.3</td>
<td>175000</td>
<td>-3.6%</td>
</tr>
<tr>
<td>United Aircraft Corporation</td>
<td>UNAC</td>
<td>0.10185</td>
<td>0.10264</td>
<td>0.0999</td>
<td>0.10559</td>
<td>4.6</td>
<td>45490</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Energy System of East</td>
<td>VRAO</td>
<td>0.16308</td>
<td>0.167</td>
<td>0.16262</td>
<td>0.16999</td>
<td>2.7</td>
<td>16440</td>
<td>0.2%</td>
</tr>
<tr>
<td>VEROFARM</td>
<td>VPH</td>
<td>1450</td>
<td>1455</td>
<td>1226.5</td>
<td>1575</td>
<td>13.4</td>
<td>9</td>
<td>17.4%</td>
</tr>
<tr>
<td>VSMPO-AVISMA</td>
<td>VSMO</td>
<td>7430.2</td>
<td>7498.8</td>
<td>7214</td>
<td>7588.2</td>
<td>1.8</td>
<td>-0.9%</td>
<td></td>
</tr>
<tr>
<td>World Trade Center, pr.</td>
<td>WTCMP</td>
<td>5.8</td>
<td>5.8</td>
<td>5.5</td>
<td>6.5</td>
<td>0.4</td>
<td>69</td>
<td>-3.3%</td>
</tr>
<tr>
<td>Zhivoi ofis</td>
<td>ZHV</td>
<td>66.5</td>
<td>66.7</td>
<td>66.15</td>
<td>73</td>
<td>10.1</td>
<td>149</td>
<td>-17.2%</td>
</tr>
</tbody>
</table>
BEST PERFORMERS

MRSK OF CENTER

VEROFARM

WORST PERFORMERS

SISTEMA

SEMZ

Stock Indexes

RTS Index

RTS - Oil & Gas

RTS - Telecom

RTS - Metals & Mining
Press Review

Russian press on the Banking & Finance sector for September 1

*** Following a cabinet discussion of the Economic Development Ministry's new macroeconomic forecasts to 2017 on Friday, the ministry was told to reduce its inflation forecast of up to 7% for 2015. This will help eliminate the previously anticipated zero growth of household incomes. The version of the forecast that assumed an increase in state investment, which the ministry promoted as a solution to stagnation, was not given serious consideration (Kommersant, p. 2).

*** Members of Russia's Federation Council have drafted a bill to impose harsher criminal penalties for evading taxes using offshore tax havens, fly-by-night firms and transfer pricing. By 'offshore schemes' the authors of the bill mean failure to provide or distortion of information about controlled foreign companies. Violators could face up to six years in prison, the same as for very large scale tax evasion (Vedomosti, p. 4).

*** The Russian government is drafting a bill that would exempt corporate pensions from personal income tax, Deputy Prime Minister Olga Golodets said. If the Finance Ministry is persuaded to agree to the new tax break, recipients of nongovernmental pensions could save 6,000-8,000 rubles per year on taxes, while regional budgets would lose about 10 billion rubles in revenue (Kommersant, p. 2).

*** Russian retail banks are suffering losses and scaling back lending as the growing share of nonperforming loans is forcing them to increase provisions and toughen their lending policies. The only hope seems to be credit cards. Top-10 retail lenders HCF and TCS reported that their card portfolios grew by 10.5% and 9.5% respectively in the first half (Vedomosti, p. 11; Kommersant, p. 8).

Russian press on the Banking & Finance sector for September 2

*** Leading economic indicators unexpectedly show an upturn in Russian industry in August. HSBC's PMI and the Gaidar Institute's Industrial Optimism Index indicate growth and improved forecasts in manufacturing, where the food industry is leading. This could be due to import substitution. The short-term effect of the growth of domestic products on the Russian market and growth in the defense sector could even accelerate production growth to 2% in 2014. But the overall result for the economy will be negative, analysts believe (Kommersant, p. 1).

*** The ruble fell to an all-time low of 37.51 rubles against the dollar Monday, while the euro rose as high as 49.27 rubles amid expectations of new sanctions against Russia. Investors on the forex market have recently been sensitive to any official statements about the Ukrainian conflict and even a hint of good news can slow the ruble's slide, as happened later in the day Monday. But analysts note there are also fundamental reasons for the weakening of the ruble (Kommersant, p. 1).
*** New European Union sanctions could deprive Russia of European investors in new issues of sovereign bonds. Such a measure, reportedly being discussed by the EU, could not only negatively impact the whole Russian debt market, but also fiscal policy and the economic situation, analysts fear. Foreign investors, largely Europeans, held over a quarter of outstanding OFZ federal bonds two months ago. Yields on some OFZ issues have topped 10% (Kommersant, p. 7; Vedomosti, p. 10).

*** Russian Standard Bank, one of the country's leading retail lenders, has been hit hard by the indebtedness of borrowers and the economic downturn. The bank has posted a net loss of 4.75 billion rubles in the first half, written off a record amount of loans, suffered a 15% decline in deposits and pledged almost all securities as collateral in repo deals. The bank has essentially suspended lending and is reportedly considering seeking an equity investor (Vedomosti, p. 11; Kommersant, p. 7).

**Russian press on the Banking & Finance sector for September 3**

*** Russia's Finance Ministry has unveiled a new bill on controlled foreign companies aimed against the use of offshore tax havens. The bill, which will force owners of such companies to pay taxes in Russia on the profits of foreign entities, does not make any concessions to businesses, except for oil companies (Vedomosti, p. 5).

*** The European Union has for the time being rejected the idea of cutting Russia off from the SWIFT international payment system, a prospect that had caused serious concerns in the banking community. The new round of sanctions, according to unofficial reports, only expands on already imposed restrictions and does not appear to be very threatening for banks or companies (Kommersant, p. 1).

*** Alfa Bank, which is handling the financial recovery of Baltiysky Bank, said the estimated hole in the latter's balance sheet amounts to 33 billion rubles, 10% more than the Central Bank's initial estimates. Alfa Bank said it might seek additional financing for Baltiysky's bailout (Kommersant, p. 7).

*** Russian employers are not rushing to develop corporate pension programs amid the slowdown of the economy. As a result, the number of participants in nongovernmental pension programs has fallen by nearly 400,000 since the start of the year. However, nongovernmental pension funds reported fairly good results for the first half, with 103 of 115 funds earning a positive return (Kommersant, p. 8).

*** The number of hazardous industrial sites and facilities in Russia has dropped by a third to 190,000 this year, according to a presentation from the National Union of Liability Insurers. This has nothing to do with increased safety, but is rather due to reregistration and reclassification. The changes could negatively impact insurance payments to victims of accidents, one insurer said (Vedomosti, p. 11).
Russian press on the Banking & Finance sector for September 4

*** Medium-sized businesses that do not have direct access to capital markets, rather than state banks and companies, will suffer first of all as a result of the U.S. and EU sanctions against Russia, Standard & Poor's said in a report. Even without the imposition of tougher EU sanctions, which is expected Friday, higher bond yields and interest rates on ruble loans have already increased the cost of financing for Russian companies, analysts said (Kommersant, p. 4).

*** Russian companies hit by sanctions are looking for ways to get them lifted. Gazprombank has hired Squire Patton Boggs to lobby its interests in the area of banking legislation and regulation, including rules concerning sanctions. The Russian bank's interests will be represented by two former senators. In August, gas producer Novatek hired Qorvis MSL to tackle issues concerning sanctions (Vedomosti, p. 11).

Russian press on the Banking & Finance sector for September 5

*** Russia's Central Bank is continuing its crackdown on the questionable transactions of banks, the scale of which has decreased in the past three quarters. The regulator has established a system to monitor such transactions on a day-to-day basis, rather than just quarterly, enabling it to respond even to one-off suspicious transactions, a senior central banker said. Oversight is likely to be tightened further (Kommersant, p. 1).

*** Bank Rossiya and SMP Bank, whose international payment cards stopped being accepted throughout the world in April after the banks' owners were hit by U.S. sanctions, announced that their Visa and MasterCard cards will now be accepted within Russia through Sberbank's Universal Electronic Card system. This gives the banks access to all the card infrastructure of the country's largest bank (Vedomosti, p. 1).

*** The postponement of the introduction of higher contributions to Russia's Deposit Insurance Fund by banks that offer deposit interest rates that are higher than Central Bank recommendations has led to an increase in abuses by banks. The number of banks attracting deposits with interest rates above the recommended level has grown by almost 15% to 147 since mid-June (Kommersant, p. 7).
CIS AND THE BALTIC

UKRAINE

Ukraine receives second tranche of IMF stand-by program

KYIV. Sept 5 (Interfax) – Ukraine this week received the second tranche of a loan from the International Monetary Fund (IMF) in the stand-by program. The interest rate on the issued credit funds is 3% per annum and the repayment of each tranche foresees a grace period of three years. Ukraine may borrow on the international market to finance its budget deficit, which is estimated at about $1.1 billion in the next 12 months, the IMF said, adding under its revised program scenario, Ukraine's debt will grow to 68% of GDP in 2014 and reach a peak of 73% of GDP in 2015, which is 12 percentage points higher than initially planned. In other news, during its summit in Wales, NATO announced the creation of four trust funds for providing assistance to Ukraine. NATO member states will now provide EUR 15 million in assistance to Ukraine.

Second tranche

Ukraine on Thursday received the second tranche of a loan from the IMF in the stand-by program, the Ukrainian Finance Ministry said on its website.

"Ukraine received the second tranche from the IMF in the stand-by program amounting to 914.7 million SDR [approximately $1.39 billion] on September 4. About $1 billion of the tranche will be used to support the state budget," the statement said.

The report notes that the interest rate on the issued credit funds is 3% per annum, and the rate of one-time commission (for reservation of funds) - 0.15% (returned in proportion to the funds received).

In addition, the rate of service charge is set at 0.5% of the tranche amount.

The ministry also noted that the repayment of each tranche foresees a grace period of three years (interest is repaid quarterly), and the repayment of the loan principal is made in equal installments on a quarterly basis during two years.

International borrowing

Ukraine may borrow on the international market to finance its budget deficit, which is estimated at about $1.1 billion in the next 12 months, the IMF said in materials prepared for the first review of the stand-by program.

"The authorities are planning to use the sovereign debt market later in 2014 to cover shortfalls in the next 12 months," IMF specialists said.

According to the materials, work is continuing on providing an additional $0.9 billion in bilateral support from donors. Prospects for additional financing are quite good.
The materials of the technical memorandum contain a revised table for external financing, according to which the issue of Eurobonds in the amount of $2 billion may be carried out before the end of September this year. According to the table, shortfalls this year in comparison with preliminary calculations arose due to problems with financing from the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), the proceeds of which were estimated at $683 million and $546 million, respectively, and also from other donor countries - $100 million instead of the originally expected $300 million.

The forecast for financing from the World Bank this year fell from $1.85 billion to $1.51 billion, while that from the EU rose from $1.91 billion to $2.22 billion.

In general, the IMF is concluding that the stand-by program remains adequately funded in the next year.

**Debt predictions**

The IMF is forecasting in its revised stand-by arrangement for Ukraine that the country's gross state debt will grow from 40.9% of GDP to 67.6% of GDP this year due to the devaluation of the national currency and the need for the government to provide additional support for oil and gas company Naftogaz and banks.

The government and government-guaranteed debt of Ukraine remains stable, although its peak level and associated risks have grown, IMF materials state. According to the revised program scenario, the debt will grow to 68% of GDP in 2014 and reach a peak of 73% of GDP in 2015, which is 12 percentage points higher than initially planned.

The state debt is expected to fall to 71.1% of GDP in 2016, 66.6% of GDP in 2017, 59.3% of GDP in 2018 and 51.5% of GDP in 2019.

The IMF reckons that financing needs will concurrently decrease from 23.1% of GDP this year to 18% of GDP in 2015 and 11.7% of GDP in 2016, and remain in the range of 12.2-14% of GDP in the subsequent three years.

These projections are based on expectations that the Ukrainian economy will grow by 4-4.5% annually in 2016-2019, the IMF materials state.

The IMF said the growing debt risks will be offset somewhat by the growth of the share of the hryvnia debt to 31% this year and to 37% in 2015, as well as by the fact that a quarter of the gross debt falls on the National Bank, which services it without using budget resources.

Ukraine's total state (direct and guaranteed) debt stood at $69.23 billion at the end of July 2014, down by 5.3% or $3.88 billion from the start of the year, according to the country's Finance Ministry. The total domestic state debt shrank by 19.9% in January-July to $28.482 billion, while the total foreign debt grew 8.5% to $40.743 billion.

Ukraine's state debt in the dollar equivalent grew by 13% or $8.434 billion in 2013 and rose from 37.4% to 40.9% of GDP.

Ukraine hopes that at the NATO summit in Wales the member states will also announce intention to make contributions into trust funds for assistance to Kyiv, said Ihor Dolgov, Ukraine's representative to NATO.

"The trust funds were set up in June. This is an illustration of how our special partnership with NATO is working. The decision about them was made fairly quickly. The first trust fund, the brightest one, is 'social protection', i.e. treatment and prosthetics for injured Ukrainian soldiers. The second one: command, communication and control; the third one: logistics and supplies; and the fourth is cyber protection," Dolgov said.
Drop in GDP

The fall in Ukrainian GDP in 2014 is expected to be 7%, but in 2015 this will be replaced by 3% growth, the International Centre for Policy Studies forecasts.

According to the August study, inflation this year is expected to be 17%, and in 2015 - 8.3%.

"GDP will shrink by 7% due to the reduction of internal and external (from Russia) demand. We expect that in 2014 for the first time since the crisis year of 2009 there will be a substantial reduction in private consumption (by 9% year on year) due to lower real income, the growth in the value of imported goods as a result of the hryvnia devaluation, the increase in administratively regulated tariffs and the deterioration of crediting conditions," the center said.

The experts expect the hryvnia to U.S. dollar exchange rate at the end of 2014 to stand at UAH 12.50 per $1. "In recent years, political factors have an important influence on the exchange rate, therefore the predictability of the exchange rate is very complicated. The evaluation of the exchange rate equilibrium is based on economic factors - about UAH 11 per $1," it said.

When presenting the report, senior analyst of the center Oleksandr Zholud said that the forecast was calculated without taking into account the direct intervention of Russia in the conflict in the east of the country.

The National Bank of Ukraine has banned the issuing of foreign currency using payment cards starting September 2, introduced the mandatory conversion of money transfers to hryvnia and slowed the procedure for buying foreign currency on the interbank forex market.

The bank's corresponding resolution of August 29 2014 is available to Interfax.

"The issuance of cash inside Ukraine by electronic payment cards, issued by both residents and non-residents, will be conducted in hryvnia," the resolution says.

The curbs reflect the current political tensions and uncertainty, and elements of risk, given the current economic problems connected with the ongoing law enforcement operation in Ukraine, the resolution says.

The National Bank is convinced that the application of the new mechanisms will help prevent the use of the Ukrainian financial system for money-laundering and for financing terrorism, and will help settle the situation on the forex market.

EU agreement

Elsewhere, the Ukrainian government will endorse a plan to implement the association agreement with the European Union in September, Prime Minister Arseniy Yatsenyuk said.

"We will endorse a national plan of the agreement's implementation in September. This is a step-by-step plan, [stipulating] when this or that regulation or law should be adopted. This is a concrete action plan to implement a strategic reform plan," Yatsenyuk said at a government meeting in Kyiv on Wednesday.

Ukraine should also set up joint cooperation bodies with the EU at the government and ministry levels by the end of the year, he said.

To implement the association agreement with the EU, Ukraine should reform its entire governance apparatus, Yatsenyuk said.

The Ukrainian Cabinet of Ministers is hoping to fully re-orient its state administration to fulfil the association agreement with the EU as the main goal before the end of September.
This goal is stated in the European Integration section of the Ukrainian government's action plan Rebuilding the Country posted on the government website on Wednesday.

The government also expects the association agreement with the EU to be ratified before the end of September. The national plan to implement the agreement is also expected to be approved before the end of September.

The government is hoping to create bilateral working bodies of Ukrainian ministries with appropriate European Commission agencies for the purpose of implementing the agreement.

The Ukrainian government also plans to produce biometric passports for visa-free travel by Ukrainian citizens to the EU before the end of the year.

**NATO trust fund**

During its summit in Wales on Thursday, NATO announced the creation of four trust funds for providing assistance to Ukraine, President of Ukraine Petro Poroshenko said.

NATO Secretary General Anders Fogh Rasmussen has said that NATO member countries will provide EUR 15 million in assistance to Ukraine.

The Alliance will help Ukraine, about EUR 15 million will be provided through NATO, and more assistance has already been announced, he said.

**Rebuilding Donbas**

Ukrainian Prime Minister Arseniy Yatsenyuk said he believes it will cost billions of dollars to rebuild Donbas infrastructure.

"Two months ago, when we liberated Slovyansk, we estimated it at 8 billion hryvni, but now I can say it's not hryvni, but dollars, it's billions of dollars in destroyed infrastructure," Yatsenyuk said opening a government session in Kyiv on Wednesday.

Yatsenyuk said the EU will send a special mission to Ukraine to assess the damage and a large conference will be conducted in November 2014 to raise funding for the rebuilding of Donbas.

Yatsenyuk also said the government intends to introduce target state assistance to residents of eastern Ukraine who will return to their homes after the military conflict.

**BELARUS**

**Belarus to allocate $4 bln to external state debt repayment in 2015**

MINSK. Sept 3 (Interfax) - Belarus will allocate about $4 billion to service and pay down external state debt in 2015, the Finance Ministry told Interfax.

First Deputy Finance Minister Vladimir Amarin presented the figures at a Cabinet meeting on Tuesday devoted to the draft budget for 2015.

Of the total, $3 billion will go to pay principal and $1 billion to pay interest.
"Separate external loans, including interstate loans totaling about $1 billion, will be raised for the repayment. This volume reckons with the actual situation and with opportunities for raising resources on international financial markets," a Finance Ministry representative said, citing Amarin.

The repayment will also be financed with revenue from duties on export of oil products totaling $1.5 billion and duties on export of domestically produced crude oil totaling $582 million.

Alongside the debt repayment, the government must put together a state budget with a primary surplus of 23.5 trillion Belarusian rubles, he said.

Prime Minister Mikhail Myasnikovich said Belarus must fully meet its external state debt servicing obligations in 2015.

"In the first place, looking at the 2015 budget balance, we must understand that we need to settle up on all external debts. This is sacred. We took these resources to modernize the economy. We must uphold the obligations we have assumed," the BelTA state information agency quoted Myasnikovich as saying.

Particular attention must be paid to the foreign currency balance in 2015 and preserving the nation's gold and forex reserves, he said.

The official exchange rate on September 3 was 10,440 Belarusian rubles/$1.

**Belarusian foreign debt grows 5.6% in 7M**

MINSK. Sept 1 (Interfax) - Belarus had state foreign debt of $13.2 billion as of August 1, 2014, having risen by $739.7 million, or by 5.6% more than at the beginning of the year (including exchange rate differences), the Finance Ministry told Interfax.

The ministry said that Belarus had raised $2.952 billion in foreign government debt in January-July 2014. It raised $2 billion in a loan from Russian VTB, $450 million in a loan from the Russian government, $284.1 million in a government export loan from Russia and a loan from Vnesheconombank (VEB) for nuclear power plant construction, $187 million from Chinese banks, $30.9 million in International Bank for Reconstruction and Development loans and $0.3 million from the European Bank for Reconstruction and Development.

Foreign debt payments and repayments in the seven months amounted to $2.199 billion, including $1.04 billion to Russia and VTB, $859.9 million to the IMF in standby loan repayments, $150.2 million to Chinese banks, $88.3 million on loans from EurAsEC anti-crisis fund, $52.6 million to Venezuela, $6.9 million to the IBRD, $0.7 million to the U.S. and $0.1 million to Germany.

Domestic government debt was 40 trillion Belarusian rubles as of August 1, 2014, up 11.9%, or 4.3 trillion Bel. rubles, taking into account exchange rate differences.

Belarus placed $35.5 million in foreign currency bonds for individuals and $223.9 million, 43.7 million euro and 641.5 billion Bel. rubles in government and corporate bonds. And it redeemed $0.4 million in government bonds for individuals and $112.5 million and 190.3 billion Bel. rubles for legal entities.

Overall state debt on July 1, 2014 totaled 175.8 trillion Bel. rubles, up 14.2% or 21.8 trillion Bel. rubles, since the start of the year.

Earlier the country's Finance Ministry said that next year Belarus needs to pay back $3 billion of its foreign debt, of which $1 billion is planned to be refinanced using both domestic and foreign sources of debt.

The official exchange rate on September 1 stood at 10,430 Bel. rubles/$1.
Belarus current account deficit down to 7.2% of GDP in H1

MINSK. Sept 4 (Interfax) - Belarus had a current account deficit of $2.49 billion, or 7.2% of GDP, in January-June 2014, the National Bank of Belarus reported.

The current account balance of payments deficit in January-June 2013 was $3.628 billion, or 11.1% of GDP.

Direct investment in the economy of the country was $1.312 billion, down 16.8% year-on-year. The reinvestment of companies' profit accounted for 63.7% of total investments.

There was a negative balance of payments of $266.8 million, or 0.8% of GDP, in January-June 2014 versus $278.8 million, or 0.9% of GDP, in the same period of last year.

KAZAKHSTAN

Inflation in Kazakhstan at 0.4% in Aug, 5.4% year to date

ALMATY. Sept 2 (Interfax) - August inflation in Kazakhstan stood at 0.4%, the Kazakh State Agency for Statistics said.

In August 2014, the prices for food products decreased by 0.1%, for non-food items rose by 1.1% and for services by 0.4%.

The annual inflation rate in the eight months ended August 31, 2014, is at 5.4%, with prices for food stuffs climbing 5.3%, non-food products by 6.2% and services by 4.7%.

ARMENIA

Russia accounts for half of foreign investment in Armenian economy in H1

YEREVAN. Sept 2 (Interfax) - Foreign investments in the real sector of the Armenian economy totaled 446.3 billion dram in the first half of 2014, and Russia accounted for 213.2 billion dram, or 48%, of all investments, the republic's National Statistics Service said in a statement.

Direct foreign investments totaled 249.9 billion dram in the reporting period, including 196.8 billion dram from Russia.

Because of changes made to how investments are accounted for, the statistics service stopped reporting percentage changes in early 2014. The service told Interfax that these data were not comparable.

Net inflow of total investments was 78.8 billion dram, and direct foreign investments were 75 billion dram.
Following Russia with the most foreign investments in the real sector of the Armenian economy were Cyprus with around 67 billion dram and Germany with 48.1 billion dram.

In 2013, Argentina invested the most in the Armenian economy. Second place was France and third - Russia.

LATVIA

**Latvian MinFin lowers GDP growth forecast to 2.9% in 2014, 2.8% in 2015**

MOSCOW. Sept 4 (Interfax/BNS) - Latvia's Finance Ministry has lowered its growth forecast for GDP to 2.9% in 2014 and 2.8% in 2015, the head of the Finance Ministry's Communication Unit, Aleksis Jarockis, told BNS.

The ministry has also forecast that Latvian GDP will grow 3.3% in 2016 and 3.6% in 2017.

The Finance Ministry had previously projected the country's GDP to grow 4% in 2014 and 2015.

In addition, the ministry is forecasting inflation of 0.8% this year, 2.4% in 2015 and 2.5% in 2016 and 2017. These figures were previously projected at 1.1% in 2014 and then 3% in 2015.

The Finance Ministry changed its forecast to factor in the current geopolitical situation, as well as the latest data on how the country's economy was performing. The state budget is developed based on the new forecasts. The government is planning to review the budget on October 14, and by October 15 Latvia must present the budget to the European Commission and the Eurogroup.

"Latvia will be submitting a draft of the budget, which includes main figures that will determine the government's fiscal policy, for the first time as a member of the euro zone. The altered forecasts have been agreed upon by experts from the European Commission and the IMF," Jarockis said, adding that macroeconomic performance forecasts may be adjusted if the geopolitical situation changes.

###